

DIRECTORS' REPORT AND ACCOUNTS
BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

MARCH 31, 2001

Company Number 590083



BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
DIRECTORS' REPORT

Directors: D M Stevens (resigned August 31, 2001)
A K Buchanan
J Rishton (appointed September 1, 2001)

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 March 31, 2001.

DIRECTORS

The Directors of the Company during the year were D M Stevens and A K Buchanan.

RESULTS

The profit after tax amounted to £5,272,967 (2000: loss £11,871,585).

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 its principal activities were controlling and managing investments in other airlines and hotel companies. On May 4, 2000 the Company sold its 85.83% stake in Participations Aeronautiques to Taitbout Antibes BV which resulted in a profit on disposal of £4,549,611.

DIRECTORS' INTERESTS

None of the Directors had any beneficial interest in the shares of the Company either at March 31, 2001 or March 31, 2000.

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:

	British Airways Plc				British Airways Capital Limited	
	Ordinary shares subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
<u>Directors' Names</u>	<u>March 31, 2001</u>	<u>April 1, 2000</u>	<u>March 31, 2001</u>	<u>April 1, 2000</u>	<u>March 31, 2001</u>	<u>April 1, 2000</u>
A K Buchanan	3,312	1,992	226	1,399	-	-
			Share options			
			<u>March 31, 2001</u>	<u>April 1, 2000</u>		
A K Buchanan			70,817	30,610		

The interests of 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 £1.96 to £4.18.

POLITICAL AND CHARITABLE CONTRIBUTIONS

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

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT

(Continued)

LIABILITY INSURANCE

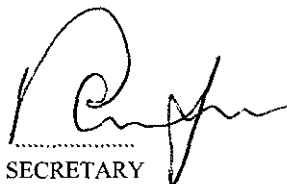
The ultimate parent undertaking, British Airways Plc, holds a Directors' and Officers' liability insurance policy covering the Directors and Officers of its subsidiary undertakings.

AUDITORS

On June 28, 2001 Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from June 28, 2001.

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.

BY ORDER OF THE BOARD


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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
- prepare the accounts on a 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 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 Company's directors are responsible for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

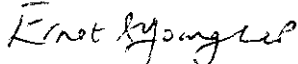
Basis of opinion

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 affairs of the Company as at March 31, 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
LONDON

14 November 2001
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BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2001

	Note	2001 £	2000 £
Exchange gain/(loss)		18,113	(51,579)
Operating profit/(loss)	2	18,113	(51,579)
Provision against shares in subsidiary undertaking		-	(11,230,488)
Income from interests in trade investments and other income	4	440,968	218,888
Net interest receivable from parent undertaking		264,275	210,779
Exchange loss on loan to Participations Aeronautiques		-	(1,019,185)
Profit on disposal of investment in subsidiary undertaking	5	4,549,611	-
Profit/(loss) on ordinary activities before taxation		5,272,967	(11,871,585)
Taxation	6	-	-
Retained profit/(loss) for the financial year	12	5,272,967	(11,871,585)

There are no recognised gains or losses other than the profits amounting to £5,272,967 in the year ended March 31, 2001 and losses of £11,871,585 in the year ended March 31, 2000.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

BALANCE SHEET

As At March 31, 2001

	Note	2001 £	2000 £
FIXED ASSETS			
Investments	7	1,093,351	14,467,163
CURRENT ASSETS			
Debtors	8	34,639,723	15,995,794
Creditors: Amounts falling due within one year	9	(9,089)	(8,568)
NET CURRENT ASSETS		<u>34,630,634</u>	<u>15,987,226</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>35,723,985</u>	<u>30,454,389</u>
Creditors: Amounts falling due after more than one year	10	(202,262)	(205,633)
		<u>35,521,723</u>	<u>30,248,756</u>
CAPITAL AND RESERVES			
Called up share capital	11	173,425,273	173,425,273
Profit and loss account	12	(137,903,550)	(143,176,517)
	12	<u>35,521,723</u>	<u>30,248,756</u>

The financial statements were approved by the Board of Directors on 14/11/01 and signed on behalf of the Board:

Director 

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED MARCH 31, 2001

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/(LOSS)

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 (2000: £Nil). The Directors qualify for a defined benefit pension scheme funded by the Company's parent undertaking.

D M Stevens was a Director of the Company's ultimate parent undertaking, British Airways Plc. The emoluments for his services to the British Airways Group are disclosed in the Group's accounts.

4 INCOME FROM TRADE INVESTMENTS AND OTHER INCOME

	2001	2000
	£	£
Dividends	432,135	211,797
Other income	8,833	7,091
	<u>440,968</u>	<u>218,888</u>

5 PROFIT ON DISPOSAL OF INVESTMENT IN SUBSIDIARY UNDERTAKING

On May 4, 2000 the Company completed the disposal of its 85.83 per cent holding in Participations Aeronautiques S.A., the holding company of Air Liberte S.A. and TAT European Airlines S.A., to Taitbout Antibes B.V. The profit arising from the disposal was as follows:

	£
Cost of shares in Participations Aeronautiques	160,287,659
Provision against cost of shares in Participations Aeronautiques	(146,913,847)
Sale proceeds (net of disposal costs)	(17,923,423)
Profit on disposal	<u>4,549,611</u>

In addition to the proceeds of £17,923,423, a loan of £11,443,428 made by the Company to Participations Aeronautiques was repaid at the date of disposal.

6 TAXATION

There is no tax charge for the current year. Taxable profits will be sheltered in full by Group relief from other group companies, 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, 2001

7 INVESTMENTS

a)	Subsidiary Undertakings £	Associated Undertakings £	Trade Investments £	Total Investments £
Cost				
At April 1, 2000	160,577,672	160,376	941,295	161,679,343
Disposals	(160,287,659)	-	-	(160,287,659)
At March 31, 2001	<u>290,013</u>	<u>160,376</u>	<u>941,295</u>	<u>1,391,684</u>
Amounts provided/written off				
At April 1, 2000	(147,203,860)	-	(8,320)	(147,212,180)
Disposals	146,913,847	-	-	146,913,847
At March 31, 2001	<u>(290,013)</u>	<u>-</u>	<u>(8,320)</u>	<u>(298,333)</u>
Net book value				
March 31, 2001	<u>-</u>	<u>160,376</u>	<u>932,975</u>	<u>1,093,351</u>
<i>March 31, 2000</i>	<i>13,373,812</i>	<i>160,376</i>	<i>932,975</i>	<i>14,467,163</i>

b) Subsidiary undertakings at March 31, 2001 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%

c) Associated undertakings at March 31, 2001 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, 2001 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.

	2001 £	2000 £
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>4,013,599</u>	<u>4,091,769</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED MARCH 31, 2001

8 DEBTORS

	<u>2001</u>	<u>2000</u>
	£	£
Amounts owed by parent undertaking	33,826,762	3,728,394
Other non-trade debtors	812,733	12,267,172
Taxation	228	228
	<u>34,639,723</u>	<u>15,995,794</u>

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>2001</u>	<u>2000</u>
	£	£
Accruals and deferred income	9,089	8,568
	<u>9,089</u>	<u>8,568</u>

10 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>2001</u>	<u>2000</u>
	£	£
Accruals and deferred income	202,262	205,633
	<u>202,262</u>	<u>205,633</u>

11 SHARE CAPITAL

	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>2000</u>
	No.	£	No.	£
Authorised:				
Ordinary shares of £1 each	200,000,000	200,000,000	140,000,000	140,000,000
Increase approved by shareholders	-	-	60,000,000	60,000,000
	<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, 2000	173,425,273	173,425,273	136,358,361	136,358,361
Issued during the year	-	-	37,066,912	37,066,912
Balance at March 31, 2001	<u>173,425,273</u>	<u>173,425,273</u>	<u>173,425,273</u>	<u>173,425,273</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED MARCH 31, 2001

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

	Share Capital	Profit & Loss	Total
	£	£	£
At April 1, 1999	136,358,361	(131,304,932)	5,053,429
Additions	37,066,912	-	37,066,912
Loss for the Year	-	(11,871,585)	(11,871,585)
At March 31, 2000	173,425,273	(143,176,517)	30,248,756
Additions	-	-	0
Profit for the Year	-	5,272,967	5,272,967
At March 31, 2001	173,425,273	(137,903,550)	35,521,723

13 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.

14 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.

15 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.