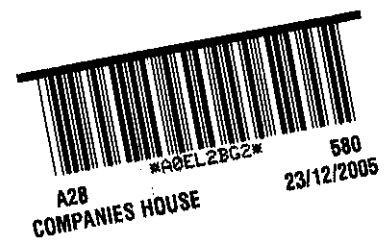


DIRECTORS' REPORT AND ACCOUNTS
BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
MARCH 31, 2005
Company Number 590083



BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
DIRECTORS' REPORT

Directors: J F Rishton (resigned September 1, 2004)
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, 2005.

DIRECTORS

The Directors of the Company during the year were J F Rishton (resigned September 1, 2004) , A K Buchanan and K Williams.

RESULTS

The profit after tax amounted to £1,878,890 (2004: profit £701,858).

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

POST BALANCE SHEET EVENTS

Subsequent to March 31, 2005 a contract for the sale of the Company's 35% stake in Beau Vallon Properties Limited was entered into. The sale realised proceeds of SR1,000,000, however, as it is unlikely that the proceeds can be repatriated from the Seychelles in the foreseeable future, no gain on disposal will be recognised.

DIRECTORS' INTERESTS

None of the Directors had any beneficial interest in the shares of the Company either at March 31, 2005 or March 31, 2004.

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		Share Options		Convertible Capital Bonds	
	March 31, 2005	April 1, 2004	March 31, 2005	April 1, 2004	March 31, 2005	April 1, 2004
<u>Directors' Names</u>						
A K Buchanan	3,728	3,728	368,981	305,915	-	-
K Williams	-	-	374,000	301,520	-	-
			Conditional Share Options			
			Long Term Incentive Plan 1996			
			March 31, 2005	April 1, 2004		
<u>Directors' Names</u>						
A K Buchanan			226,743	196,668		
K Williams			112,349	82,561		

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.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

DIRECTORS' REPORT

(Continued)

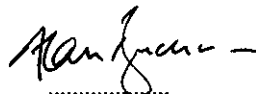
LIABILITY INSURANCE

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

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'Alan Ingram', followed by a horizontal line.

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.

INDEPENDENT AUDITORS' REPORT

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

We have audited the Company's financial statements for the year ended March 31, 2005, which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 13. These financial statements have been prepared on the basis of 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

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

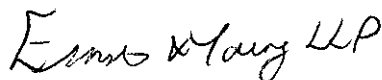
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements 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 of the state of affairs of the Company as at March 31, 2005 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

21 November 2005

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED MARCH 31, 2005

	Note	2005 £	2004 £
Operating profit	2	-	-
Income from interests in trade investments and other income	4	322,813	466,357
Interest receivable from parent undertaking		1,716,453	235,501
Provision against investment in associated undertakings		(160,376)	0
Profit on ordinary activities before taxation		1,878,890	701,858
Taxation	5	-	-
Retained profit for the financial year	9	1,878,890	701,858

There are no recognised gains or losses other than the profits amounting to £1,878,890 in the year ended March 31, 2005 and £701,858 in the year ended March 31, 2004.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

BALANCE SHEET

As At March 31, 2005

	Note	2005 £	2004 £
FIXED ASSETS			
Investments	6	932,975	1,093,351
CURRENT ASSETS			
Debtors	7	37,677,212	35,637,946
TOTAL ASSETS LESS CURRENT LIABILITIES		38,610,187	36,731,297
CAPITAL AND RESERVES			
Called up share capital	8	173,425,273	173,425,273
Profit and loss account	9	(134,815,086)	(136,693,976)
	9	38,610,187	36,731,297

The financial statements were approved by the Board of Directors on 21 November 2005 and signed on behalf of the Board:

Director 

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED MARCH 31, 2005

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:

Full provision is made for deferred taxation on all 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 1 (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 (2004: £Nil). The Directors qualify for a defined benefit pension scheme funded by the Company's parent undertaking.

J F Rishton 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

	<u>2005</u>	<u>2004</u>
	£	£
Dividends	<u>322,813</u>	<u>466,357</u>
	<u>322,813</u>	<u>466,357</u>

5 TAXATION

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

	<u>2005</u>	<u>2004</u>
	£	£
Current Tax:		
Tax Charge for the year	-	-
	<u>-</u>	<u>-</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>2005</u>	<u>2004</u>
	£	£
Profit on ordinary activities before tax	<u>1,878,890</u>	<u>701,858</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004 30%)	563,667	210,557
Expenses not deductible for tax purposes	48,113	-
Free Group relief (from) / to group members	<u>(611,780)</u>	<u>(210,557)</u>
Current tax charge for the year as above	<u>-</u>	<u>-</u>

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED MARCH 31, 2005

6 INVESTMENTS

a)	Subsidiary Undertakings £	Associated Undertakings £	Trade Investments £	Total Investments £
Cost				
At April 1, 2004	290,013	160,376	941,295	1,391,684
Disposed of in the period	(290,013)	-	-	(290,013)
At March 31, 2005	-	160,376	941,295	1,101,671
Amounts provided/written off				
At April 1, 2004	(290,013)	-	(8,320)	(298,333)
Amounts provided in the period	-	(160,376)	-	(160,376)
Disposed of in the period	290,013	-	-	290,013
At March 31, 2005	-	(160,376)	(8,320)	(168,696)
Net book value				
At March 31, 2005	-	-	932,975	932,975
At March 31, 2004	-	160,376	932,975	1,093,351

b) During the year to March 31, 2005 the following dormant subsidiary undertakings were struck off from the Register of 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, 2005 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, 2005 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 10.6%, 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.

BRITISH AIRWAYS ASSOCIATED COMPANIES LIMITED
NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED MARCH 31, 2005

6 INVESTMENTS (continued)

	2005 £	2004 £
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>4,289,952</u>	<u>5,050,670</u>

7 DEBTORS

	2005 £	2004 £
Amounts owed by parent undertaking	37,676,984	35,637,718
Taxation	228	228
	<u>37,677,212</u>	<u>35,637,946</u>

8 SHARE CAPITAL

	2005 No.	2005 £	2004 No.	2004 £
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, 2004	173,425,273	173,425,273	173,425,273	173,425,273
Balance at March 31, 2005	<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

	Share Capital £	Profit & Loss £	Total £
At April 1, 2003	173,425,273	(137,395,834)	36,029,439
Profit for the Year	-	701,858	701,858
At March 31, 2004	<u>173,425,273</u>	<u>(136,693,976)</u>	<u>36,731,297</u>
Profit for the Year	-	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>

10 POST BALANCE SHEET EVENT

Subsequent to March 31, 2005 a contract for the sale of the Company's 35% stake in Beau Vallon Properties Limited was entered into. The sale realised proceeds of SR1,000,000, however, as it is unlikely that the proceeds can be repatriated from the Seychelles in the foreseeable future, no gain on disposal will be recognised.

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.