

**DIRECTORS' REPORT AND ACCOUNTS**

**TELEFLIGHT LTD**

**MARCH 31, 2002**

**Company Number 3918190**



**TELEFLIGHT LTD**  
**DIRECTORS' REPORT**

Directors: Barbara E Cohen  
David M Noyes (appointed November 16th 2001)  
Paul A Kemp  
Dale A Moss  
Daniel R Brewin (resigned August 31st 2001)  
Tina M Oakley

Secretary: Alan 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, 2002.

**RESULTS**

The loss after tax amounted to £70,347 (2001: restated loss £136,000).

The Directors did not propose or pay a dividend for the year.

**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 handling BA customer reservation and servicing telephone calls in North America.

**DIRECTORS' INTERESTS**

None of the Directors had any beneficial interest in the shares of the Company either at March 31, 2002 or March 31, 2001.

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 subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
	March 31, 2002	April 1, 2001*	March 31, 2002	April 1, 2001*	March 31, 2002	April 1, 2001*
Dale A Moss	0	0	0	0	0	0
Barbara E Cohen	0	0	58 ADR's	58 ADR's	0	0
Tina M Oakley	1,390	1,273	0	117	0	0
Paul A Kemp	1,317	1,200	0	117	0	0
David M Noyes	3,878	0	0	0	126	0

	Options Executive and SAYE Share Schemes	
	March 31, 2002	April 1, 2001*
Dale A Moss	187,125	120,147
Barbara E Cohen	180 ADR SAYE 30,863 options in UK shares	180 ADR SAYE 23,075 options in UK shares
Tina M Oakley	71,435	46,513
Paul A Kemp	55,886	34,080
David M Noyes	129,361	76,402

\* or date of appointment if later

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 £2.61 to £4.19. No options were exercised during the period.

**POLITICAL AND CHARITABLE CONTRIBUTIONS**

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

**TELEFLIGHT LTD**  
**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.

**EMPLOYMENT POLICY**

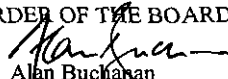
The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

The Company seeks to keep its employees informed on all matters affecting them and on the progress of the Company. It encourages the active support of the Trades Unions in representing the Company's employees and in the building of a relationship between the Company, its employees and the Trades Unions based on openness and mutual trust. Employees participate directly in the success of the business through the profit sharing schemes of British Airways plc and are encouraged to invest in shares of British Airways plc.

**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

  
Alan Buchanan  
SECRETARY

## **TELEFLIGHT LTD**

### **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 5, 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 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 TELEFLIGHT LTD

We have audited the company's accounts for the year ended March 31, 2002 which comprise the Profit and Loss Account, Company Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholder Funds and the related notes 1 to 18. These accounts 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 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 accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Accounting Standards.

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 1985. 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 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.

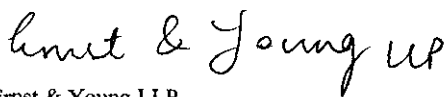
### Basis of audit opinion

We conducted our audit in accordance with 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, 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
LONDON

51 March 2003

**TELEFLIGHT LTD**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED MARCH 31, 2002**

	Note	2002 £	Restated 2001 £
Turnover		10,675,768	-
Cost of sales		(10,462,134)	-
<b>Gross profit</b>		<b>213,634</b>	<b>-</b>
Administrative expenses		-	(194,000)
<b>Operating profit / (loss)</b>		<b>213,634</b>	<b>(194,000)</b>
Net interest payable	5	(137,981)	-
<b>Profit / (Loss) on ordinary activities before taxation</b>		<b>75,653</b>	<b>(194,000)</b>
Taxation	6	(146,000)	58,000
<b>Loss after taxation</b>		<b>(70,347)</b>	<b>(136,000)</b>
<b>Loss for the financial year</b>	12	<b>(70,347)</b>	<b>(136,000)</b>

TELEFLIGHT LTD

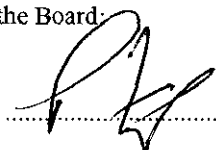
BALANCE SHEET

As at March 31, 2002

	Note	2002 £	Restated 2001 £
<b>FIXED ASSETS</b>			
Tangible assets	7	7,133,935	-
		<u>7,133,935</u>	<u>-</u>
<b>CURRENT ASSETS</b>			
Debtors	8	17,949	58,001
		<u>17,949</u>	<u>58,001</u>
Creditors: Amounts falling due within one year	9	(309,704)	(194,000)
		<u>(309,704)</u>	<u>(194,000)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(291,755)</u>	<u>(135,999)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>6,842,180</b>	<b>(135,999)</b>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	10	<b>(2,810,526)</b>	<b>-</b>
<b>PROVISION FOR DEFERRED TAX</b>	6	<b>(88,000)</b>	<b>-</b>
		<u>3,943,654</u>	<u>(135,999)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	12	4,150,001	1
Profit and loss account	12	(206,347)	(136,000)
		<u>3,943,654</u>	<u>(135,999)</u>

The financial statements were approved by the Board of Directors on March 31, 2003 and signed on behalf of the Board:

Director



**TELEFLIGHT LTD**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**FOR THE YEAR ENDED MARCH 31, 2002**

	2002	<i>Restated</i> 2001
	£	£
Profit / (Loss) for the year	(70,347)	(136,000)
Prior year adjustment	<u>58,000</u>	
Total losses recognised since last annual report	<u>(12,347)</u>	

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS**  
**FOR THE YEAR ENDED MARCH 31, 2002**

	2002	<i>Restated</i> 2001
	£	£
Retained loss for the year	(70,347)	(136,000)
Issue of ordinary share capital	4,150,000	1
Net increase/(reduction) in shareholders funds	<u>4,079,653</u>	<u>(135,999)</u>
Equity shareholders funds at April 1, as restated	(135,999)	-
Equity shareholders funds at March 31	<u>3,943,654</u>	<u>(135,999)</u>



TELEFLIGHT LIMITED

NOTES TO THE ACCOUNTS

FOR THE PERIOD ENDED 31 MARCH 2002

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.

Basis of preparation

The accounts have been prepared on a going concern basis on the grounds that the company's parent undertaking will provide continuing financial support as they have confirmed that they have no current intention of seeking repayment of all or part of the amounts owed by the company as at March 31, 2002.

Tangible fixed assets:

Tangible fixed assets are stated at cost. Depreciation is calculated to write off the cost, less estimated residual value, on the straight line basis.

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from three to 20 years, according to the type of equipment.

Deferred taxation:

During the year, in line with the rest of the BA Group, the company implemented accounting standard FRS19 - Deferred Tax, to change its accounting policy with the result that the comparatives have been restated. This has resulted in a prior year adjustment of £58,000 as a deferred tax asset (see Note 6) and a reduction in the tax charge reported for the year to 31 March 2001 of £58,000.

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.

Turnover:

Turnover represents the invoiced value, net of Value Added Tax, of goods sold and services provided to customers.

Pensions:

The company operates a defined contribution scheme which require contribution to be made to separately administered funds. Contributions are charged to the profit and loss account as they become payable.

2 OPERATING PROFIT

Operating profit is arrived after charging:

	2002	2001
	£	£
Depreciation of tangible fixed assets:		
Owned assets	860,469	0
Leased assets	265,979	0
	<u>1,126,448</u>	<u>0</u>

The cost of the auditor's remuneration is borne by the parent company, British Airways Plc.

Auditors' remuneration:

3 DIRECTORS' REMUNERATION

The Directors received no remuneration or other emoluments from the Company during the year ended March 31, 2002 (2001: £nil).

4 EMPLOYEE COSTS AND NUMBERS

	2002	2001
	£	£
Wages and salaries	5,177,387	12,000
Social security costs	1,281,436	2,000
Other pension costs	70,475	0
	<u>6,529,298</u>	<u>14,000</u>
	<u>2002</u>	<u>2001</u>
The monthly average number of employees during the year was as follows:	<u>291</u>	<u>2</u>

5 NET INTEREST PAYABLE

	2002	2001
	£	£
Loans from parent undertaking	137,981	0

## TELEFLIGHT LIMITED

## NOTES TO THE ACCOUNTS

FOR THE PERIOD ENDED 31 MARCH 2002

## 6 TAXATION

	<u>2002</u> £	<i>Restated</i> <u>2001</u> £
Tax Charge for the year	-	-
Deferred Tax:		
Accelerated Capital Allowances	88,000	-
Other Timings Differences	58,000	(58,000)
	<u>146,000</u>	<u>(58,000)</u>

During the year the company implemented FRS19 Deferred Tax (see Accounting Policy note) which resulted in the recognition of deferred tax assets.

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>2002</u> £	<i>Restated</i> <u>2001</u> £
Profit / (Loss) on ordinary activities before tax	<u>75,653</u>	<u>(194,000)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	22,696	(58,000)
Effects of:		
Expenses not deductible for tax purposes	80,000	-
Timing Differences:		
Depreciation less than capital allowances	(88,000)	-
Other differences	(58,000)	58,000
Free Group relief to group members	43,304	-
Current tax Charge for the year as above	<u>0</u>	<u>0</u>
Provision for Deferred Taxation:		
	<u>2002</u> £	<i>Restated</i> <u>2001</u> £
Accelerated Capital Allowances	88,000	-
Other Timing Differences	-	(58,000)
	<u>88,000</u>	<u>(58,000)</u>
Deferred tax liability / (asset)		
Asset at start of period	(58,000)	
P&L charge for the period	146,000	
Provision at end of period	<u>88,000</u>	

## TELEFLIGHT LIMITED

## NOTES TO THE ACCOUNTS

FOR THE PERIOD ENDED 31 MARCH 2002

## 7 TANGIBLE FIXED ASSETS

	Land and Buildings	Equipment	Total 2002	Total 2001
	£	£	£	£
Additions	3,655,121	4,611,465	8,266,586	-
Balance at March 31	3,655,121	4,611,465	8,266,586	-
Depreciation				
Exchange adjustments	661	5,542	6,203	-
Charge for the year	265,979	860,469	1,126,448	-
Balance at March 31	266,640	866,011	1,132,651	-
Net book amounts				
<b>March 31, 2002</b>	3,388,481	3,745,454	7,133,935	-
March 31, 2001	-	-	-	-
Utilisation at March 31				
Owned assets	-	3,745,454	3,745,454	-
Leased assets	3,388,481	-	3,388,481	-
	3,388,481	3,745,454	7,133,935	-

The net book amount of land and buildings comprises:

Short leasehold	3,388,481	-
	3,388,481	-

## 8 DEBTORS

	2002	Restated 2001
	£	£
Amounts owed by parent undertaking	1	1
Other debtors	2,754	-
Prepayments and accrued income	15,194	-
Deferred tax asset	-	58,000
	17,949	58,001

## 9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£	£
Bank overdrafts	78,195	-
Amount owed to parent undertaking	194,000	194,000
Accruals and deferred income	37,509	-
	309,704	194,000

## 10 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2002	2001
	£	£
Loans, finance leases and hire purchase arrangements		
Loans from parent undertaking	2,810,526	-

## TELEFLIGHT LIMITED

## NOTES TO THE ACCOUNTS

FOR THE PERIOD ENDED 31 MARCH 2002

## 11 SHARE CAPITAL

	2002 No.	2002 £	2001 No.	2001 £
Authorised:				
Ordinary shares of £1 each	1,000	1,000	1,000	1,000
Increase approved by shareholders.	4,999,000	4,999,000	-	-
	<u>5,000,000</u>	<u>5,000,000</u>	<u>1,000</u>	<u>1,000</u>
Allotted, called up and fully paid:				
At April 1, 2001	1	1	1	1
Issued during the year	4,150,000	4,150,000	-	-
Balance at March 31, 2002	<u>4,150,001</u>	<u>4,150,001</u>	<u>1</u>	<u>1</u>

12 RECONCILIATION OF SHAREHOLDERS' FUNDS  
AND MOVEMENTS ON RESERVES

	Share capital £	Profit & Loss £	Total £
Balance at April 1, 2001 as previously reported	1	(194,000)	(193,999)
Prior year adjustment	-	58,000	58,000
At March 31, 2001	1	(136,000)	(135,999)
Increase in share capital	4,150,000	-	4,150,000
(Loss) for the year	-	(70,347)	(70,347)
At March 31, 2002	<u>4,150,001</u>	<u>(206,347)</u>	<u>3,943,654</u>

## 13 PENSION COMMITMENTS

Employer's contributions charged in the accounts were £70,475.

## 14 OTHER FINANCIAL COMMITMENTS

Capital Commitments:

Amounts contracted for but not provided in the accounts amounted to £nil (2001: £7,584,054).

## 15 LITIGATION

No legal and other claims have been made against the Company.

## 16 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.

## 17 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.

## 18 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.