

DIRECTORS' REPORT AND ACCOUNTS

TELEFLIGHT LTD

31 MARCH 2006

Company Number 3918190

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TELEFLIGHT LTD
DIRECTORS' REPORT

Directors: Steve J Priest
Barbara E Cohen
Heath Drewett (resigned 2 August 2005)
Tiffany Hall (resigned 20 July 2006)
Mary Waldner (appointed 2 August 2005)
Robert Hall (appointed 27 April 2006)
Eben Sermon (appointed 20 July 2006)

Secretary: Kulbinder Dosanjh

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.

RESULTS

The profit after tax amounted to \$2,635,309 (2005: Profit \$1,257,764).

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

BUSINESS REVIEW AND PRINCIPLE 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 for North America.

In the financial year to 31 March 2006, British Airways consolidated its North American call centre activities and as a result Teleflight became the primary call centre for the Americas. The closure of the Toronto facility led to a major restructure of the Teleflight team and its operations. A large recruitment drive was undertaken to recruit over 110 people to handle the additional call volumes. This recruitment and training exercise was completed with a high level of success and the transition only saw minor operational impact.

Teleflight takes pride in working with the local community. Within the year we worked with the International Business Academy providing expertise advice to high school students who are contemplating a career in the Travel and Tourism industry. We have also received a training grant from the local authority to continue our recruitment and training drive in the area.

The Jacksonville area has a high concentration of call centres, leading to fierce competition for employees. In order to attract and retain the right people in our business we maintain a key commitment to our employees. This year we have seen the passing of a new union working agreement, which resulted in improved benefits for our people. In addition, all our employees receive significant training opportunities and the Company runs regular benefit fares and have regular briefings so that employees understand key business issues.

In order to safeguard the business, a new attendance policy was launched and a new Profit Related Pay scheme was implemented with a focus on quality and customer satisfaction. In terms of customer satisfaction, we saw the percentage of staff describing themselves as 'satisfied' or 'very satisfied' increase from 51% to 63% which was above target of 60%.

There were no significant Health, Safety or Security issues in the period.

FUTURE OUTLOOK

In financial year 2007 British Airways will further consolidate the Americas call centre activity. As a result of this consolidation, Teleflight has agreed to handle BA Executive Club servicing calls, currently handled by a third party, and also Caribbean calls following the closure of the British Airways Caribbean contact centres. We have also embarked on a restructure of front line agent support activities to ensure a greater focus on quality.

Although certain challenges lie ahead we remain confident that we can achieve an improved level of performance in the future.

PRINCIPLE RISKS AND UNCERTAINTIES

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks affecting the company are employee retention and quality. This is due to the competition for resource in the Jacksonville area and the large number of new starters in the business.

A key emphasis will be on reducing call handling times whilst maintaining focus on customer service.

The Teleflight operation, based in Florida, is susceptible to hurricane activity. A robust business continuity plan is in place which covers the building, employees and loss of systems.

ENVIRONMENTAL POLICY

British Airways environmental management system commits the Group to working constructively with those concerned for the environment and to observing rules and regulations aimed at the protection of the environment. Full details of these commitments can be found on Page 36 of British Airways 05/06 Annual Report.

In addition to British Airways commitment to the environment, Teleflight also operates its own environmental policy, which includes the successful recycling of all paper and plastic goods, low energy light bulbs and monitoring air pollution levels in the building to ensure a safe working environment for all employees.

TELEFLIGHT LTD
DIRECTORS' REPORT
(Continued)

None of the Directors had any beneficial interest in the shares of the Company either at 31 March, 2006 or 31 March, 2005. According to the register maintained as required under the Companies Act 1985, the Directors' interests in the share capital of British Airways Plc which require disclosure in these accounts were as follows:

Directors' Names	British Airways Plc		British Airways Capital Limited			
	Ordinary shares subject to no restrictions		Conditional Share Options - Performance Share Plan			
	31 March 2006	1 April 2005	31 March 2006	1 April 2005		
Barbara E Cohen	58 ADRs	58 ADRs	-	-	-	-
Tiffany Hall*	7,886	7,886	31,028	-	-	-
Stephen Priest	155	155	-	-	-	-

	British Airways Plc		British Airways Plc			
	Share Options		Long Term Incentive Plan			
	31 March 2006	1 April 2005	Options Exercised	Date Exercised	31 March 2006	1 April 2005
Barbara E Cohen	71,556	63,948	-	-	-	-
Tiffany Hall*	329,899	357,360	88,397	16-Sep-05	72,982	103,171
				9 Aug 05 & 4 Jan 06		
Mary Waldner*	112,217	128,866	33,149	Jan 06	-	-
Stephen Priest	60,473	54,304	10,497	11-Jan-06	-	-

* or date of appointment if later

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. Options were exercised during the period as detailed above.

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.

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.

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 2. 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
- each director has taken all steps a director might reasonably be expected to have taken in order to make himself aware of any

BY ORDER OF THE BOARD


Kulbinder Dosanjh
SECRETARY

TELEFLIGHT LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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.

REPORT OF THE AUDITORS
to the members of **TELEFLIGHT LTD**

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 17. 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

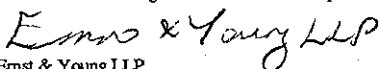
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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
Registered Auditor
LONDON

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31 January 2007

TELEFLIGHT LTD
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 \$	2005 \$
Turnover	1	17,977,804	14,802,711
Cost of sales		<u>(15,125,166)</u>	<u>(13,615,900)</u>
Operating Profit		2,852,638	1,186,811
Net interest payable	5	<u>(11,876)</u>	<u>(96,900)</u>
Profit on ordinary activities before taxation		2,840,762	1,089,911
Taxation	6	<u>(205,453)</u>	<u>167,853</u>
Profit after taxation		<u>2,635,309</u>	<u>1,257,764</u>
Profit for the financial year	11	<u>2,635,309</u>	<u>1,257,764</u>

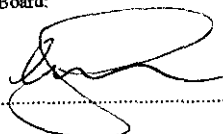
There are no recognised gains or losses other than the profit amounting to \$2,635,309 in the year ended 31 March 2006 and profit amounting to \$1,257,764 in the year ended 31 March 2005.

TELEFLIGHT LTD
BALANCE SHEET
As At 31 March 2006

	Note	2006 \$	2005 \$
FIXED ASSETS			
Tangible Assets	7	<u>2,736,537</u>	<u>3,685,037</u>
		<u>2,736,537</u>	<u>3,685,037</u>
CURRENT ASSETS			
Debtors	8	3,067,838	1,101,112
Creditors: Amounts falling due within one year	9	<u>(203,443)</u>	<u>(1,820,526)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>2,864,395</u>	<u>(719,414)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,600,932</u>	<u>2,965,623</u>
		<u>5,600,932</u>	<u>2,965,623</u>
CAPITAL AND RESERVES			
Called up share capital	10	6,000,000	6,000,000
Profit and loss account	11	<u>(399,068)</u>	<u>(3,034,377)</u>
		<u>5,600,932</u>	<u>2,965,623</u>

The financial statements were approved by the Board of Directors on 31 January 2007 and signed on behalf of the Board:

Director



31 January 2007

1 ACCOUNTING POLICIES

Accounting convention:

The accounts are prepared under the historical cost convention and in accordance with all applicable United Kingdom accounting standards.

The accounting policies adopted by the Company are set out below and are consistent with those of the previous year, exception for the adoption of FRS 21 'Events after the balance sheet date', the presentation requirements of FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 28 'Corresponding amounts'.

In accordance with FRS 21 'Events after the balance sheet date', dividends payable by the Company are only recognised in the profit and loss account when declared, rather than in the year in relation to which they were declared. Similarly, dividends receivables are only recognised in the profit and loss account when declared, rather than in the year in relation to which they were declared.

No restatement has resulted from the adoption of FRS 21, FRS 25 or FRS 28.

Cash flow Statement

Under the provisions of FRS1 (revised), the Company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking.

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.

Foreign currencies:

The financial statements are denominated in US dollars (\$) as this is considered to be the functional currency of the Company.

Turnover:

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

Turnover is attributable to one continuing activity, the handling of British Airways customer reservation and servicing calls and relates solely to the North American geographical market.

Deferred Tax:

Full provision is made for deferred tax 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 taxable profits from which the future reversal of underlying timing differences can be deducted. Deferred tax 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 substantially enacted at the balance sheet date.

2 OPERATING PROFIT / (LOSS)

Operating profit / (Loss) is arrived after charging:

	2006	2005
	\$	\$
Depreciation of tangible fixed assets:		
Owned assets	444,478	1,409,371
Leased assets	520,270	524,146
Operating lease rentals:		
Land and Buildings	1,240,662	1,264,052
Equipment	-	63,983

3 DIRECTORS' REMUNERATION

The Directors received no remuneration or other emoluments from the Company during the year ended 31 March 2006 (2005: £nil).

4 EMPLOYEE COSTS AND NUMBERS

	2006	2005
	\$	\$
Wages and salaries	8,650,957	6,483,040
Social security costs	2,106,734	1,905,385
Other pension costs	192,769	163,124
	<u>10,950,460</u>	<u>8,551,549</u>
	2006	2005
The monthly average number of employees during the year was as follows:	<u>266</u>	<u>220</u>

5 NET INTEREST PAYABLE

	2006	2005
	\$	\$
Loans from parent or subsidiary undertakings	11,876	96,900

6 TAXATION

	2006	2005
	\$	\$
Tax charge / (credit) for the year		
Deferred Tax:		
Current Year	205,453	44,072
Amounts in respect of prior year	-	(211,925)
	205,453	(167,853)

Factors affecting tax for the year

The current tax for the period is less than the profit at the standard rate of corporation tax in the UK (30%).
The differences are explained below.

	2006	2005
	\$	\$
Profit on ordinary activities before tax	2,840,762	1,089,911
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005: 30%)	852,229	326,973
Effects of:		
Expenses not deductible for tax purposes	104,574	105,348
Timing Differences:		
Depreciation (less) / greater than capital allowances	(205,453)	(44,072)
Free Group relief from group members	(751,350)	(388,249)
Current tax Charge for the year as above	-	-

Deferred Taxation Asset:

	2006	2005
	\$	\$
Accelerated Capital Allowances	(895,659)	(1,101,112)
	(895,659)	(1,101,112)
Asset at start of period	(1,101,112)	(933,259)
P&L charge / (credit) for the period - current	205,453	44,072
P&L credit for the period - prior	-	(211,925)
Asset at end of period	(895,659)	(1,101,112)

7 TANGIBLE FIXED ASSETS

	Land and Buildings	Equipment	Total 2006	Total 2005
	\$	\$	\$	\$
Cost:				
Balance at 1 April	5,202,700	6,563,960	11,766,660	11,766,660
Additions:	-	16,249	16,249	-
Balance at 31 March	5,202,700	6,580,209	11,782,909	11,766,660
Depreciation:				
Balance at 1 April	1,967,475	6,114,149	8,081,624	6,148,106
Charge for the year	520,270	444,478	964,748	1,933,517
Balance at 31 March	2,487,745	6,558,627	9,046,372	8,081,623
Net book amounts:				
31 March 2006	2,714,955	21,582	2,736,537	
31 March 2005	3,235,225	449,812		3,685,037
Owned assets	-	21,582	21,582	449,812
Leased assets	2,714,955	-	2,714,955	3,235,225
	2,714,955	21,582	2,736,537	3,685,037

The net book amount of land and buildings comprises:

Short leasehold	2,714,955	3,235,225
	2,714,955	3,235,225

8 DEBTORS

	2006	2005
	\$	\$
Amount owed by parent undertaking	2,172,179	-
Deferred tax asset (Note 6)	895,659	1,101,112
	3,067,838	1,101,112

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
	\$	\$
Bank Overdraft	1,208	44,790
Amount owed to parent undertaking	-	1,576,856
Other creditors	202,235	198,880
	203,443	1,820,526

10 SHARE CAPITAL

	2006	2006	2005	2005
	No.	\$	No.	\$
Authorised:				
At 31 March	6,000,000	6,000,000	6,000,000	6,000,000
Allotted, called up and fully paid:				
At 31 March	6,000,000	6,000,000	6,000,000	6,000,000

11 RECONCILIATION OF SHAREHOLDERS' FUNDS
AND MOVEMENTS ON RESERVES

	Share capital \$	Profit & Loss \$	Total \$
At 31 March 2004	6,000,000	(4,292,141)	1,707,859
Profit for the year	-	1,257,764	1,257,764
At 31 March 2005	6,000,000	(3,034,377)	2,965,623
Profit for the year	-	2,635,309	2,635,309
At 31 March 2006	6,000,000	(399,068)	5,600,932

12 PENSION COMMITMENTS

Employees are members of the IAM defined contribution pension scheme the assets and liabilities of which are held outside of the Company. Employer's contributions charged in the accounts were \$192,769 (2005:\$163,124).

13 OPERATING LEASE COMMITMENTS

At 31 March 2006 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2006 \$	Other 2006 \$	Land and buildings 2005 \$	Other 2005 \$
Amounts payable within one year relate to commitments expiring as follows:				
Over five years	1,321,927	-	1,284,909	-

14 LITIGATION

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

15 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.

16 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.

17 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.