

**DIRECTORS' REPORT AND ACCOUNTS**

**TELEFLIGHT LTD**

**MARCH 31, 2005**

**Company Number 3918190**



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COMPANIES HOUSE

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

Directors: Barbara E Cohen  
Steve J Priest (appointed 7 June 2004)  
Heath Drewett (appointed 2 August 2004, resigned 2 August 2005)  
Tiffany Hall (appointed 31 December 2004)  
Mary Waldner (appointed 2 August 2005)  
Tina M Oakley (resigned 4 June 2004)  
Stephen W Gunning (resigned 2 August 2004)  
Patrick V Gaffey (resigned 1 September 2004)  
David M Noyes (resigned 1 September 2004)  
Robin Hayes (resigned 31 January 2005)  
Alan K Buchanan (resigned 31 January 2005)

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, 2005.

**RESULTS**

The profit after tax amounted to \$1,257,764 (2004: loss \$923,560).

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, 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:

<u>Directors' Names</u>	<u>British Airways Plc</u>		<u>British Airways Capital Limited</u>	
	<u>Ordinary shares subject to no restrictions</u>		<u>Convertible Capital Bonds</u>	
	<u>March 31 2005</u>	<u>April 1 2004</u>	<u>March 31 2005</u>	<u>April 1 2004</u>
Barbara E Cohen	58 ADRs	58 ADRs	-	-
*Tiffany Hall	7,886	7,886	-	-
*Heath Dewett	-	-	-	-
*Stephen Priest	155	155	-	-

	<u>British Airways Plc</u>		<u>British Airways Plc</u>	
	<u>Share Options</u>		<u>Conditional Share Options - Long Term</u>	
	<u>Plan 1996 (LTIPs)</u>			
	<u>March 31 2005</u>	<u>April 1 2004</u>	<u>March 31 2005</u>	<u>April 1 2004</u>
Barbara E Cohen	63,948	56,315	-	-
*Tiffany Hall	357,360	357,360	103,171	103,171
*Heath Dewett	148,739	148,739	-	-
*Stephen Priest	54,304	35,984	-	-

\* 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. No options were exercised during the period.

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

*(Continued)*

**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**

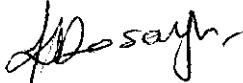
The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing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

BY ORDER OF THE BOARD



Kulbinder Dosanjh  
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 financial statements for the year ended March 31, 2005, which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 17. 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*

Ernst & Young LLP  
Registered Auditor  
LONDON

*20 DECEMBER 2005*

**TELEFLIGHT LTD**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED MARCH 31, 2005**

	Note	2005 \$	2004 \$
<b>Turnover</b>	1	<b>14,802,711</b>	13,941,436
Cost of sales		<u>(13,615,900)</u>	<u>(15,371,819)</u>
<b>Operating Profit / (Loss)</b>		<b>1,186,811</b>	(1,430,383)
Net interest payable	5	<u>(96,900)</u>	<u>(67,800)</u>
<b>Profit / (Loss) on ordinary activities before taxation</b>		<b>1,089,911</b>	(1,498,183)
Taxation	6	<u>167,853</u>	<u>574,623</u>
<b>Profit / (Loss) after taxation</b>		<b>1,257,764</b>	(923,560)
<b>Profit / (Loss) for the financial year</b>	11	<u><b>1,257,764</b></u>	<u>(923,560)</u>

There are no recognised gains or losses other than the profit amounting to \$1,257,764 in the year ended March 31, 2005 and loss amounting to \$923,560 in the year ended March 31, 2004.

**TELEFLIGHT LTD**  
**BALANCE SHEET**  
**As At March 31, 2005**

	Note	2005 \$	2004 \$
<b>FIXED ASSETS</b>			
Tangible Assets	7	3,685,037	5,618,554
		<u>3,685,037</u>	<u>5,618,554</u>
<b>CURRENT ASSETS</b>			
Debtors	8	1,101,112	934,845
Creditors: Amounts falling due within one year	9	(1,820,526)	(4,845,540)
<b>NET CURRENT LIABILITIES</b>		<u>(719,414)</u>	<u>(4,845,540)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,965,623</b>	<b>773,014</b>
<b>DEFERRED TAXATION ASSET</b>	6	-	-
		<u>2,965,623</u>	<u>773,014</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	6,000,000	6,000,000
Profit and loss account	11	(3,034,377)	(4,292,141)
		<u>2,965,623</u>	<u>1,707,859</u>

The financial statements were approved by the Board of Directors on 20 December 2005 and signed on behalf of the Board:

Director M. Waldner

TELEFLIGHT LTD  
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.

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 substantively enacted at the balance sheet date.

2 OPERATING PROFIT / (LOSS)

Operating profit / (Loss) is arrived after charging:

	2005	2004
	\$	\$
Depreciation of tangible fixed assets:		
Owned assets	1,409,371	1,736,048
Leased assets	524,146	543,523
Operating lease rentals:		
Land and Buildings	1,264,052	1,206,269
Equipment	63,983	10,782

3 DIRECTORS' REMUNERATION

The Directors received no remuneration or other emoluments from the Company during the year ended March 31, 2005 (2004: £nil).

4 EMPLOYEE COSTS AND NUMBERS

	2005	2004
	\$	\$
Wages and salaries	6,483,040	7,237,780
Social security costs	1,905,385	2,078,742
Other pension costs	163,124	158,684
	<u>8,551,549</u>	<u>9,475,206</u>
	2005	2004
The monthly average number of employees during the year was as follows:	<u>220</u>	<u>267</u>



TELEFLIGHT LTD  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED  
MARCH 31 2005

5 NET INTEREST PAYABLE

	2005	2004
	\$	\$
Loans from parent or subsidiary undertakings	96,900	67,800

6 TAXATION

	2005	2004
	\$	\$
Tax charge / (credit) for the year		
Deferred Tax:		
Current Year	44,072	(574,623)
Amounts in respect of prior year	(211,925)	(574,623)
	(167,853)	(574,623)

Factors affecting tax credit for the year

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

	2005	2004
	\$	\$
Profit / (Loss) on ordinary activities before tax	1,089,911	(1,498,183)
Profit / (Loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	326,973	(449,455)
Effects of:		
Expenses not deductible for tax purposes	105,348	109,258
Timing Differences:		
Depreciation (less) / greater than capital allowances	(44,072)	574,623
Free Group relief from group members	(388,249)	(234,426)
Current tax Charge for the year as above	-	-
Deferred Taxation Asset:		
	2005	2004
	\$	\$
Accelerated Capital Allowances	(1,101,112)	(933,259)
	(1,101,112)	(933,259)
Asset at start of period	(933,259)	(358,636)
P&L charge / (credit) for the period - current	44,072	(574,623)
P&L credit for the period - prior	(211,925)	-
Asset at end of period	(1,101,112)	(933,259)

TELEFLIGHT LTD  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED  
MARCH 31 2005

7 TANGIBLE FIXED ASSETS

	Land and Buildings	Equipment	Total 2005	Total 2004
	\$	\$	\$	\$
Cost:				
Balance at April 1	5,202,700	6,563,960	11,766,660	11,766,660
Balance at March 31	5,202,700	6,563,960	11,766,660	11,766,660
Depreciation:				
Balance at April 1	1,443,329	4,704,777	6,148,106	
Charge for the year	524,146	1,409,371	1,933,517	6,148,106
Balance at March 31	1,967,475	6,114,148	8,081,623	6,148,106
Net book amounts:				
March 31, 2005	3,235,225	449,812	3,685,037	
March 31, 2004	3,759,371	1,859,183		5,618,554
Owned assets		449,812	449,812	1,859,183
Leased assets	3,235,225	-	3,235,225	3,759,371
	3,235,225	449,812	3,685,037	5,618,554

The net book amount of land and buildings comprises:

Short leasehold	3,235,225	3,759,371
	3,235,225	3,759,371

8 DEBTORS

	2005	2004
	\$	\$
Other debtors	-	1,586
Deferred tax asset (Note 6)	1,101,112	933,259
	1,101,112	934,845

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005	2004
	\$	\$
Bank Overdraft	44,790	33,614
Amount owed to parent undertaking	1,576,856	4,701,183
Other creditors	21,637	56,840
Accruals and deferred income	177,243	53,903
	1,820,526	4,845,540

TELEFLIGHT LTD  
NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED  
MARCH 31 2005

10 SHARE CAPITAL

	2005	2005	2004	2004
	No.	\$	No.	\$
Authorised:				
At March 31,	6,000,000	6,000,000	6,000,000	6,000,000
Allotted, called up and fully paid:				
At March 31,	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 March 31, 2003	6,000,000	(3,368,581)	2,631,419
Loss for the year	-	(923,560)	(923,560)
At March 31, 2004	6,000,000	(4,292,141)	1,707,859
Profit for the year	-	1,257,764	1,257,764
At March 31, 2005	6,000,000	(3,034,377)	2,965,623

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 \$163,124 (2004:\$158,684).

13 OPERATING LEASE COMMITMENTS

At 31 March 2005 the Company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2005 \$	Other 2005 \$	Land and buildings 2004 \$	Other 2004 \$
Amounts payable within one year relate to commitments expiring as follows:				
Over five years	1,284,909	-	1,248,995	10,752

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 FR58 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.