

2004/2005

Annual Report & Accounts

Supplementary US GAAP Information

United States generally accepted accounting principles (US GAAP) information

The financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are described below:

(a) Deferred frequent flyer revenue

Under US GAAP, a proportion of frequent flyer revenue is deferred until the frequent flyer airmiles are redeemed. The remaining portion of revenue is recognised upon sale as the related services have been provided.

(b) Pension costs

Under UK GAAP, the Group accounts for all of its significant defined benefit pension plans under SSAP 24. Under US GAAP such plans are accounted for in accordance with FAS 87 "Employers' Accounting for Pensions". SSAP 24 and FAS 87 differ in certain material respects, the most significant being:

- UK GAAP allows measurements of plan assets and liabilities to be based on the result of the latest actuarial valuation. US GAAP requires measurement of plan assets and liabilities to be made at the date of the financial statements or up to three months prior to that date.
- Under UK GAAP, the effect of variations in cost accumulated can be accumulated at successive valuations and amortised on an aggregate basis. Under US GAAP, actuarial gains and losses which exceed the value of the assets or liabilities at the start of the accounting period are amortised over the remaining service lives of scheme members.
- Where an additional minimum liability exists under US GAAP, (ie where the amount provided for any scheme does not cover the unfunded accumulated benefit obligation for that scheme), this must be recognised in the balance sheet under FAS 87. The adjustment resulting from the recognition of any such minimum liability is reported as an intangible asset to the extent of unrecognised prior service cost, with the remaining amounts reported in Other Comprehensive Income net of related tax.

(c) Goodwill

Under UK GAAP, prior to April 1, 1998, goodwill arising on the acquisition of subsidiary undertakings, and investments in associated undertakings, was set off directly against retained earnings. From April 1, 1998, goodwill has been capitalised and amortised over its useful economic life.

Under US GAAP, prior to April 1, 2002, goodwill was capitalised and amortised over its useful economic life. The Group adopted FAS 142 "Goodwill and Intangible Assets", effective from April 1, 2002. In accordance with FAS 142, goodwill is capitalised and not amortised, but tested for impairment on an annual basis or on an interim basis when a triggering event occurs. As a result of the annual impairment test undertaken at March 31, 2003, the Group recognised at that date an impairment charge representing the outstanding balance of goodwill arising in respect of the acquisition of subsidiary undertakings.

The carrying value of goodwill arising in connection with subsidiary undertakings under UK GAAP and the related amortisation expense, are therefore eliminated under US GAAP. Amortisation of goodwill arising in connection with associated undertakings under UK GAAP is reversed, such that its carrying value under US GAAP reflects its initial valuation, less amounts amortised under US GAAP prior to April 1, 2002, and subject to any impairment charge.

(d) Foreign currency translation

Under UK GAAP, aircraft and other significant assets which are financed in whole or in part in foreign currency, either by loans, finance lease obligations or hire purchase arrangements, are regarded, together with the related liabilities, as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into sterling at rates ruling at the balance sheet date and the net differences arising from the translation of assets and related foreign currency loans are taken to retained earnings.

Under US GAAP, the cost of the assets are fixed in sterling at the rate of exchange ruling at the date of the original acquisition, lease or hire purchase, and the exchange gain or loss on the related foreign currency loans are reflected in Net Income.

The adjustment to revalue assets and recognise the effect in retained reserves under UK GAAP is therefore reversed under US GAAP. Similarly, depreciation charged on the revaluation adjustment under UK GAAP is reversed under US GAAP. The amount recognised in retained reserves in respect of the revaluation of loans under UK GAAP is transferred to Net Income under US GAAP.

(e) Other finance income and related fees

Under UK GAAP, lease fees received on the transfer of an asset between lessors are recognised immediately in certain circumstances as part of Net Income. Under US GAAP, these amounts are deferred and amortised to income over the minimum lease term.

(f) Property revaluation

Under UK GAAP, tangible assets may be carried either at cost less depreciation, or at a subsequent valuation less depreciation. Under US GAAP, tangible assets must be carried at cost less depreciation. The revaluation of properties, recognised at March 31, 1995 under UK GAAP, is therefore reversed under US GAAP. Similarly, depreciation charged on the revaluation adjustment under UK GAAP is reversed under US GAAP.

United States generally accepted accounting principles (US GAAP) information continued

(g) Associated undertakings

The Group's investments in associated undertakings are accounted for using the equity method under both UK GAAP and US GAAP. Applicable US accounting principles have been applied to the Group's share of associated undertakings' results.

(h) Disposals of investments in associated and subsidiary undertakings

Gains or losses on sales of investments in associates and subsidiaries can differ between US GAAP and UK GAAP. UK GAAP requires goodwill previously written off to reserves to be included in the calculation to derive the gain or loss on disposal. Under US GAAP, goodwill previously amortised or written-off as a result of impairments is not included in the calculation to derive such gain or loss. Under US GAAP, in accordance with FAS 52 "Foreign Currency Translation", amounts previously recognised as cumulative foreign exchange differences in Other Comprehensive Income are included in the calculation to derive gain or loss on disposal. Under UK GAAP such amounts are not included in the calculation.

(i) Derivative instruments

Under UK GAAP, derivative instruments entered into for hedging purposes are generally not recorded as assets and liabilities on the balance sheet. Under US GAAP, FAS 133 "Accounting for Derivative Instruments and Hedging Activities", as amended by FAS 137 and 138, requires that an entity recognise all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Changes in fair value over the period are recorded in current earnings unless hedge accounting is achieved. The Group does not currently designate any of its derivatives as qualifying hedge instruments under FAS 133. FAS 133 prescribes requirements for designation and documentation of hedging relationships and ongoing assessments of effectiveness in order to qualify for hedge accounting. Gains and losses related to the fair value adjustments of all derivative instruments are classified in the consolidated statement of income and cash flows in accordance with the nature of the derivative.

(j) Gains on sale and leaseback transactions

Under UK GAAP, gains arising on sale and leaseback transactions are recognised as part of Net Income to the extent that the sale proceeds do not exceed the fair value of the assets concerned. Gains arising on the portion of the sale proceeds which exceed the fair value are deferred and amortised over the minimum lease term. Under US GAAP, the total gains, arising on qualifying sale and leaseback transactions, including any realised revaluation gains, are deferred in full and amortised to income over the minimum lease term.

(k) Trade investments

Under UK GAAP, trade investments are stated at cost less provision for permanent diminution in value. Under US GAAP, trade investments classified as available for sale are stated at market value and the unrealised gains/losses are accounted for as Other Comprehensive Income in Shareholders' Equity.

(l) Deferred tax

For UK reporting, the Group provides for deferred tax in accordance with FRS 19 on all timing differences with the exception of gains on revaluations of fixed assets, or where potentially taxable gains have been rolled over, where there is no commitment to dispose of the relevant asset. Deferred tax assets are recognised where it is considered to be more likely than not that there will be suitable taxable profits from which to offset the timing differences.

Under US GAAP, deferred tax is generally provided on a full liability basis on all temporary differences arising between the accounting and tax bases of the Group's assets and liabilities.

Deferred tax recognised under US GAAP therefore includes the effect of methodology differences between US GAAP and FRS 19, plus the effect of other relevant reconciling adjustments between UK and US GAAP, provided for at 30%.

(m) Asset acquisition

From time to time the Group acquires aircraft previously held under finance lease arrangements. Under UK GAAP, the inherent gain or loss arising from the difference between the carrying value of the lease obligation and the proceeds paid by the Group to settle the obligation is either recognised as other income on completion of the transaction; deferred and recognised over the remaining economic useful life of the acquired asset; or recognised as an adjustment to the related lease obligation depending on the facts and circumstances. Under US GAAP, the above difference is recognised as an adjustment to the carrying value of the acquired asset on completion of the transaction. In addition, US GAAP requires that any difference between the adjusted carrying value and the tax written down value at completion of the transaction be recognised as a deferred tax asset or liability with a corresponding further adjustment to the carrying value of the acquired asset.

The effect on Net Income for the year was an improvement of £1 million (2004: £nil), comprising an improvement in net interest expense of £3 million (2004: £nil), and an increase in depreciation of £2 million (2004: £nil).

The effect of the significant adjustments to profit for the year and to shareholders' equity which would be required if US GAAP were to be applied instead of UK GAAP are summarised on pages 4 and 5.

Net income under US GAAP

For the year ended March 31, 2005

| | Notes | Group | | | |
|---|-------|-------------------|-------------------|---------------------|---------------------|
| | | 2005 £ million | 2004 £ million | 2005 \$ million* | 2004 \$ million* |
| Profit for the year as reported in the group profit and loss account | | 251 | 130 | 472 | 238 |
| Adjustments: | | | | | |
| Other revenue | | | | | |
| Deferred frequent flyer revenue | (a) | (31) | (34) | (58) | (62) |
| Employee costs | | | | | |
| Pension costs | (b) | (65) | 252 | (122) | 462 |
| Depreciation and amortisation | | | | | |
| Amortisation of goodwill in respect of subsidiary undertakings | (c) | 6 | 6 | 11 | 11 |
| Amortisation of goodwill in respect of associated undertakings | (c) | 1 | 1 | 2 | 2 |
| Depreciation – fleet – on exchange differences | (d) | (13) | (11) | (24) | (20) |
| – on asset acquisition | (m) | (2) | | (4) | |
| Depreciation – revalued property | (f) | 7 | 4 | 13 | 7 |
| | | (1) | | (2) | |
| Equity accounting of associated undertakings | | | | | |
| Share of results of associated undertakings | (g) | (16) | 3 | (30) | 5 |
| Share of tax of associated undertakings | (g) | 5 | (1) | 9 | (2) |
| | | (11) | 2 | (21) | 3 |
| Other gains | | | | | |
| Arising on translation of aircraft related loans | (d) | 17 | 173 | 32 | 317 |
| Changes in the fair value of derivative instruments | (i) | 256 | 19 | 481 | 35 |
| | | 273 | 192 | 513 | 352 |
| Net interest expense | | | | | |
| Other finance income and related fees | (e) | (2) | (11) | (4) | (20) |
| Asset acquisition | (m) | 3 | | 6 | |
| | | 1 | (11) | 2 | (20) |
| Income/(loss) on disposal of tangible fixed assets | | | | | |
| Arising on disposal of revalued property | (f) | | 4 | | 7 |
| Arising on sale and leaseback transactions | (j) | 13 | (20) | 24 | (37) |
| | | 13 | (16) | 24 | (30) |
| (Loss)/income on disposal of investments | | | | | |
| Disposal of interests in associated undertakings | (h) | (29) | | (55) | |
| Disposal of interests in subsidiary undertakings | (h) | | 12 | | 22 |
| | | (29) | 12 | (55) | 22 |
| Deferred tax | | | | | |
| Effect of the above adjustments | (l) | (51) | (121) | (96) | (222) |
| Effect of differences in methodology | (l) | (8) | (10) | (15) | (18) |
| | | (59) | (131) | (111) | (240) |
| | | 91 | 266 | 170 | 487 |
| Net income as adjusted to accord with US GAAP | | 342 | 396 | 642 | 725 |
| Number of shares | | '000 | '000 | '000 | '000 |
| Basic weighted average number of shares | | 1,071,126 | 1,070,077 | 1,071,126 | 1,070,077 |
| Diluted weighted average number of shares | | 1,126,485 | 1,118,117 | 1,126,485 | 1,118,117 |

| | Group | | | |
|---|---------------|---------------|---------------|---------------|
| | 2005 Pence | 2004 Pence | 2005 Cents | 2004 Cents |
| Net income per ordinary share ¹ – basic | 31.9 | 37.0 | 60.0 | 67.8 |
| Net income per ordinary share ¹ – diluted | 31.0 | 36.1 | 58.3 | 66.2 |
| Net income per american depositary share ¹ – basic | 319.0 | 370.0 | 600.0 | 678.0 |
| Net income per american depositary share ¹ – diluted | 310.0 | 361.0 | 583.0 | 662.0 |

¹ As adjusted to accord with US GAAP

* US\$ amounts are included for information only

Translation rate £1 = \$1.88 £1 = \$1.83

Shareholders' equity under US GAAP

At March 31, 2005

| | Notes | Group | | | |
|--|-------|--------------|-----------------------|--------------|-------------------------|
| | | 2005 | 2004 | 2005 | 2004 |
| | | £ million | Restated £ million | \$ million* | Restated \$ million* |
| Shareholders' equity as reported in the group balance sheet | | 2,465 | 2,187 | 4,636 | 4,009 |
| Adjustments: | | | | | |
| Intangible assets | | | | | |
| Goodwill set off in respect of subsidiary companies | | | | | |
| Cost | (c) | (114) | (114) | (214) | (209) |
| Amortisation | (c) | 27 | 21 | 51 | 38 |
| Other Costs | (b) | 15 | 18 | 28 | 33 |
| Tangible assets | | | | | |
| Fleet | | | | | |
| Cost | | | | | |
| Exchange differences | (d) | 313 | 282 | 589 | 517 |
| Asset acquisition | (m) | 4 | 15 | 8 | 27 |
| Depreciation | | | | | |
| Exchange differences | (d) | (106) | (85) | (199) | (156) |
| Asset acquisition | (m) | (2) | | (4) | |
| Property and equipment | | | | | |
| Cost | | | | | |
| Valuation uplift | (f) | (301) | (301) | (566) | (552) |
| Exchange differences | (d) | 42 | 38 | 79 | 70 |
| Depreciation | | | | | |
| Valuation uplift | (f) | 47 | 40 | 88 | 73 |
| Associated undertakings | | | | | |
| Net equity | (g) | (8) | (6) | (15) | (11) |
| Goodwill set off in respect of associated undertakings | | | | | |
| Cost | (c) | | 54 | | 99 |
| Amortisation | (c) | 2 | (13) | 4 | (24) |
| Trade investments | | | | | |
| Uplift to market value | (k) | 3 | 4 | 6 | 7 |
| Current assets | | | | | |
| Fair value of financial derivatives | (i) | 279 | 23 | 525 | 42 |
| Pension costs prepayment | (b) | 828 | 893 | 1,557 | 1,637 |
| Current liabilities | | | | | |
| Accruals and deferred income | | | | | |
| Other finance income and related fees | (e) | (3) | | (6) | |
| Gains on sale and leaseback transactions | (j) | (11) | (13) | (20) | (24) |
| Deferred frequent flyer revenue | (a) | (270) | (239) | (508) | (438) |
| Long-term liabilities | | | | | |
| Accruals and deferred income | | | | | |
| Other finance income and related fees | (e) | (3) | (18) | (6) | (33) |
| Gains on sale and leaseback transactions | (j) | (26) | (37) | (49) | (68) |
| Asset acquisition | (m) | 29 | 29 | 55 | 53 |
| Pension liability | (b) | (1,215) | (901) | (2,285) | (1,652) |
| Provisions for liabilities and charges | | | | | |
| Deferred tax | | | | | |
| Effect of the above adjustments | (l) | 22 | (22) | 41 | (40) |
| Effect of differences in methodology | (l) | (89) | (81) | (167) | (148) |
| | | (537) | (413) | (1,008) | (759) |
| Shareholders' equity as adjusted to accord with US GAAP | | 1,928 | 1,774 | 3,628 | 3,250 |

* US\$ amounts are included for information only.

Translation rate £1 = \$1.88 £1 = \$1.83

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Our investor relations website is
www.bashares.com

Our website for individual shareholders is
www.bashareholders.com