Release of financial information 2004/05 under IFRS

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Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. The Company undertakes no obligation to publicity update or revised any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward looking statements to be incorrect or that could otherwise have material adverse effect on the future operations or results of an airline operating in the global economy. Information on some factors which could result in material difference to the results is available in the Company's SEC filings, including, without limitation the Company's Report on Form 20-F for the year ended March 2004.

Welcome

George Stinnes

Head of Investor Relations

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Agenda

Welcome	George Stinnes *Head of Investor Relations*
IFRS Changes 2004/05	Mary Waldner *Manager Corporate Reporting*
IFRS Changes 2005/06	Keith Williams *Group Treasurer*
Wrap up & Q&A	

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What IFRS means for BA

- Major accounting policy change – affecting both measurement and presentation of financial information
- Culmination of comprehensive project – with more changes ahead
- Last time we will present UK GAAP numbers or reconciliations to UK GAAP
- It doesn’t change the way the business operates or the cash position BUT
- Drives a material change to some of our key investment measures

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2004/05 under IFRS

£m	UK GAAP	IFRS	Variance	%
Turnover	7,813	7,772	(41)	(0.5)
Operating profit	540	556	16	3.0
Operating margin	6.9	7.2	0.3	
Profit before tax	415	513	98	23.6
Net assets*	2,684	1,397	(1,287)	(48.0)

NB: Excludes any impact from adoption of IAS 32 & 39 effective from 1/4/05

* At 31/03/05

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Changes to traditional investment measures

- Distributable reserves
- Gearing
- Return on equity

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…. But no change to..

- Operating margin
- Cash

→ Business as usual

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IFRS Changes 2004/05

Mary Waldner

Manager Corporate Reporting

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Main applicable standards for BA – 2004/05

IAS 19	Employee benefits
IAS 18	Revenue Recognition
IAS 16	Property Plant and Equipment
IFRS 2	Share based payments
IAS 21	Changes in Foreign Exchange Rates
IFRS 3	Goodwill arising on Business Combinations
IAS 38	Intangible Assets
IFRS 5	Assets Held for Resale
IAS 28	Associates
IFRS 1	First Time Adoption of IFRS
IAS 12	Income taxes

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BA Pension schemes

	APS	NAPS	BARP	Overseas & other
Type of scheme	DBS	DBS	DCS	DBS & DCS
Scheme membership	~35k	~70k	~1k	Varies
Valuation at 31/3/03	£514m £129m	(£1,654)m	n/a	(£166)m
Asset portfolio	65% bonds 30% shares 5% property	28% bonds 65% shares 7% property	n/a	Varies
Scheme status	Closed mature scheme	Closed	New scheme opened in 2004	Mainly open

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Key methodology differences – IAS 19 and FRS 17

IAS 19	FRS 17
Certain plan assets excluded eg unpaid contributions	No exclusions apply
Income statement classification not prescriptive	Clear prescription between financing and operating charge
Less mandatory disclosure	More mandatory disclosure
Allows ‘corridor’ approach in recognition of annual actuarial gains and losses through income statement	Immediate recognition of actuarial gains and losses in shareholder funds
Does not allow netting off of assets and liabilities between different schemes	Allows netting off of assets and liabilities between different schemes

IAS 19 – Employee benefits

Post employment benefits

UK GAAP:

- SSAP 24 P&L approach matches the cost to periods of service
- FRS 17 balance sheet approach disclosed as a note to the accounts

IFRS:

- Balance sheet approach similar to FRS 17
- Some key methodology and disclosure differences

Balance Sheet	Income Statement
Pension deficit held on balance sheet £1.2bn reduction in net assets on transition	Net increase in pre-tax profit of £16m Ongoing future income statement volatility

IAS 19 – Employee benefits

Other employee benefits

UK GAAP:

- No provision made for annual leave accrued

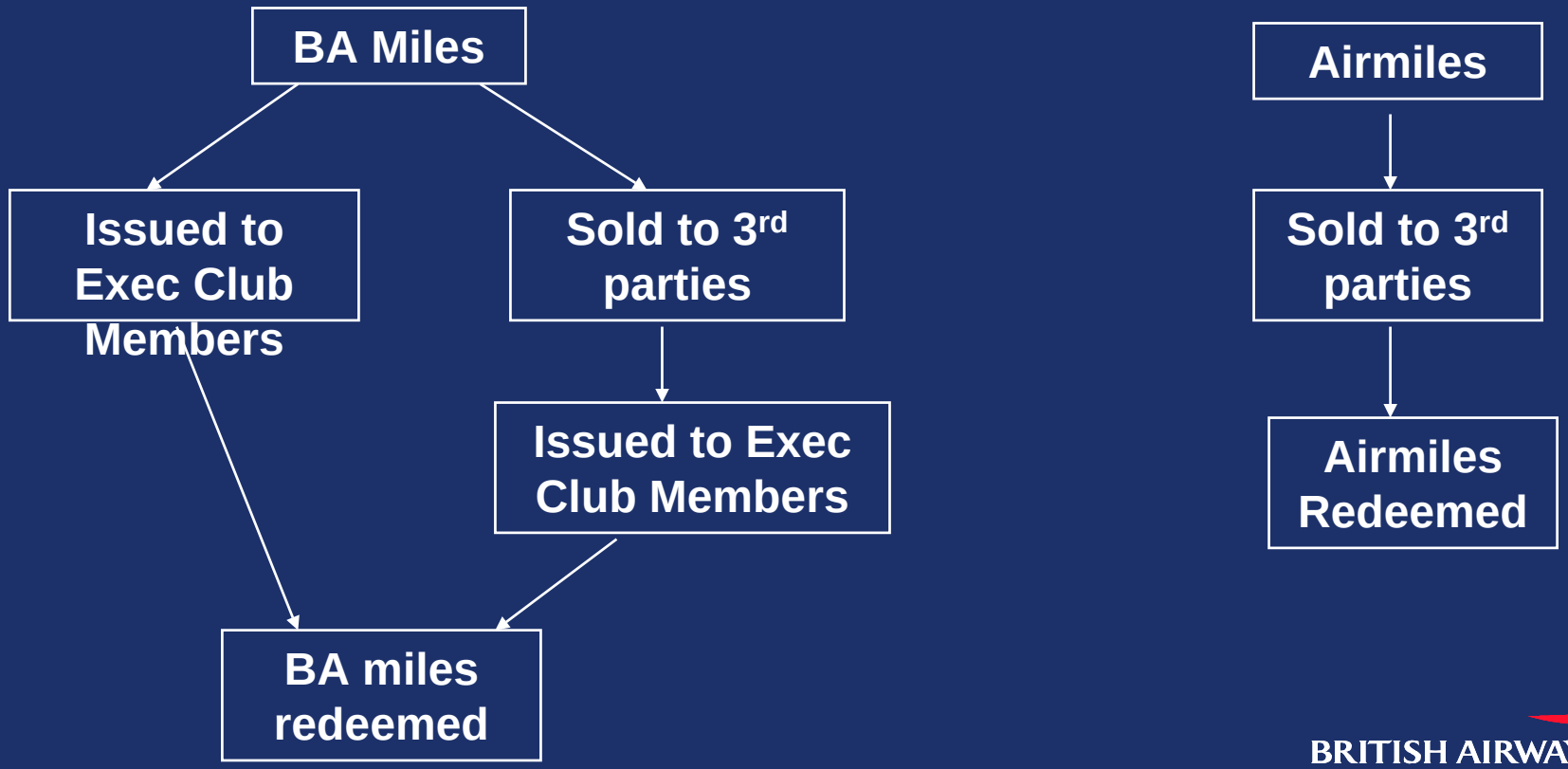
IFRS:

- Expected cost of compensated short-term absences recognised as service provided

Balance Sheet	Income Statement
£9m reduction in net assets on transition	Net reduction in pre-tax profit of £1m

BA Loyalty schemes

- impact on BA limited to the sale of loyalty programme miles to 3rd parties
- BA operates two loyalty programmes



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IAS 18 – Revenue Recognition

UK GAAP:

- Revenue from the sale of miles is recognised on issue
- Provision made under FRS 12 for the incremental cost of providing the service on redemption of the mile

IFRS:

- Fair value of a mile sold is deferred and recognised on redemption
- Cost of providing the service is recognised on redemption

Balance Sheet	Income Statement
Reduction in net assets of £167m on transition	Net reduction in pre-tax profit of £31m

IAS 16 – Property plant & equipment

UK GAAP:

- Fixed assets are accounted for on a component basis.
- The cost of major engine overhaul is expensed to the income statement as incurred

IFRS:

- Component approach basis as per UK GAAP, but more prescriptive on the level of which parts should be determined.
- Major engine overhaul treated as a separate part, capitalised and depreciated over the period to the next major overhaul

Balance Sheet	Income Statement
Reduction in net assets of £27m on transition	Net increase in pre-tax profit of £28m

IFRS 2 – Share based payments

UK GAAP:

- Cost of share options granted to employees is not charged to the P&L account

IFRS:

- Share options granted to employees are charged to the income statement
- Expense is calculated as the fair value of the award on the date of grant
- Expense recognised over the vesting period of the scheme

Balance Sheet	Income Statement
No impact	Net reduction in pre-tax profit of £8m

IAS 21 – Foreign exchange rates

UK GAAP:

- Certain US dollar-denominated assets and liabilities are treated as a foreign operation ('Branch accounting') with US dollar as its functional currency
- Exchange movements on these assets and liabilities are therefore taken to reserves rather than through the P&L account.

IFRS:

- US dollar liabilities previously in the branch are translated through the income statement.
- Cumulative exchange differences taken to reserves are unwound on transition

Balance Sheet	Income Statement
Increase in net assets of £162m on transition	Net increase in pre-tax profit of £3m

IFRS 3 – Goodwill arising on business combinations

UK GAAP:

- Goodwill arising on the acquisition of businesses is capitalised and amortised over a period not exceeding 20 years.
- Goodwill can be accounted for as one asset

IFRS:

- The amortisation of goodwill is prohibited.
- Goodwill is tested annually for impairment and written down accordingly.
- Goodwill is split into separately recognisable intangible assets if future benefits will flow from the asset and its cost can be measured reliably

Balance Sheet	Income Statement
Reduction in net assets of £6m on transition £22m of landing rights reclassified from goodwill	Net increase in pre-tax profit of £5m

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IFRS 5- Assets held for resale

UK GAAP:

- Asset revalued to market value once sale is confirmed

IFRS:

- An asset should be depreciated to market value and reclassified as an asset held for resale once a decision is made and the asset is available for sale

Balance Sheet	Income Statement
Decrease in net assets of £3m	Net increase in pre-tax profit of £3m

IAS 28 - Associates

UK GAAP:

- Associates equity accounted under UK GAAP
- Results of associates shown on a pre tax basis

IFRS:

- Associates equity accounted under IFRS
- Main differences result from the deferral of frequent flyer revenue and the application of IAS 19 to employee benefit obligations
- Results of associates are shown on a post tax basis

Balance Sheet	Income Statement
Decrease in net assets of £58m	Net reduction in pre-tax profit of £14m

IFRS 1 – First time adoption of IFRS

Disposal of Qantas

- Under UK GAAP the reported loss on disposal of Qantas was £11m.
- Under IFRS the disposal of Qantas results in a profit of £86m;
  - no charge for goodwill previously written off to reserves
  - application of IAS 28
  - write off of exchange gains arising on the investment since 1 April 2004

Balance Sheet	Income Statement
No impact on transition	Net increase in pre-tax profit of £97m

IAS 12 – Income taxes

UK GAAP:

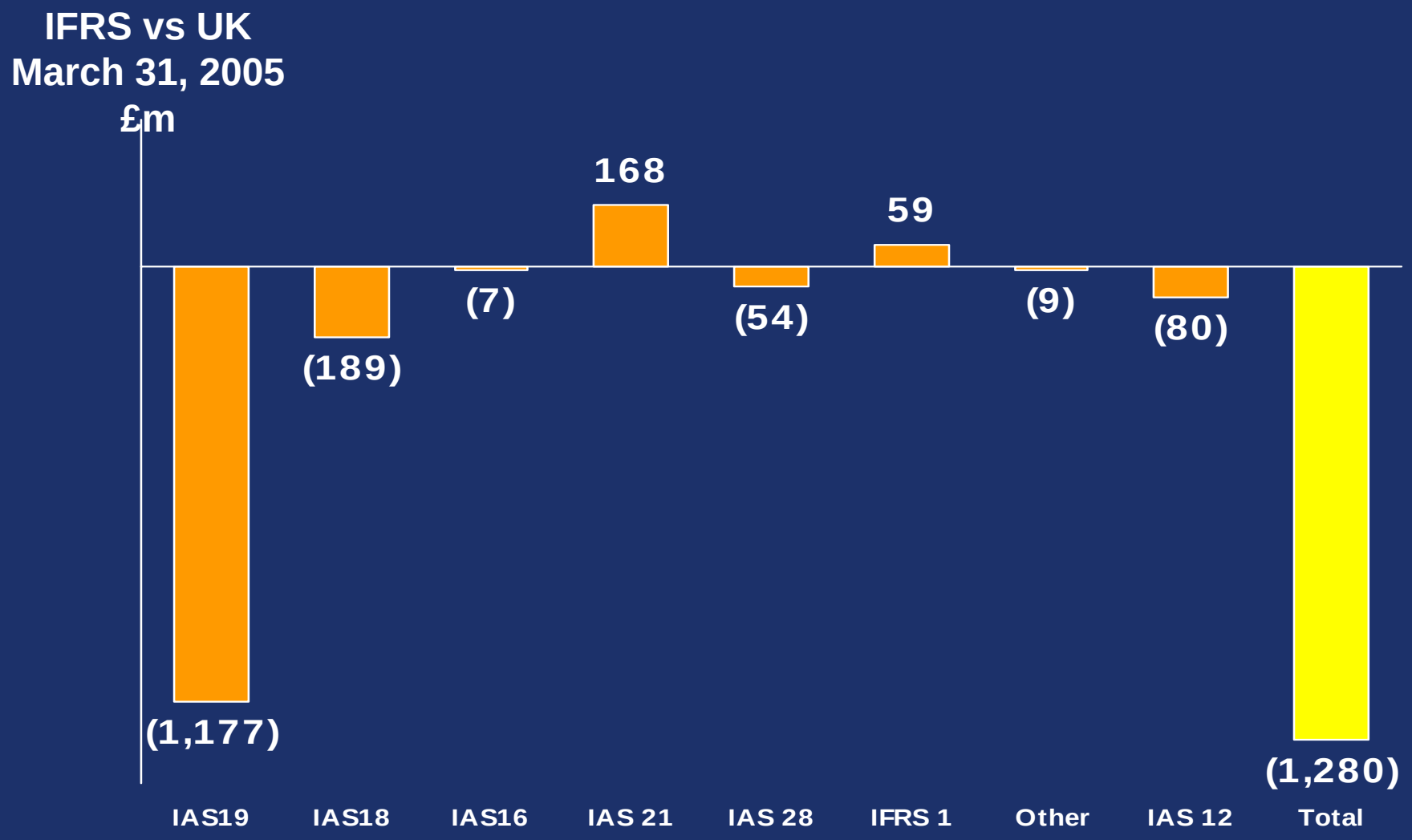
- Deferred tax is provided on timing differences that had originated, but not reversed, at the balance sheet date

IFRS:

- Deferred tax is provided on temporary differences based upon the future recovery or settlement of assets and liabilities recognised in the balance sheet

Balance Sheet	Income Statement
Net assets decrease by £94m on transition Creation of deferred tax asset of £505m on pensions and £9m asset relating to all other adjustments	Decrease in tax charge of £14m

Balance Sheet - Reserves



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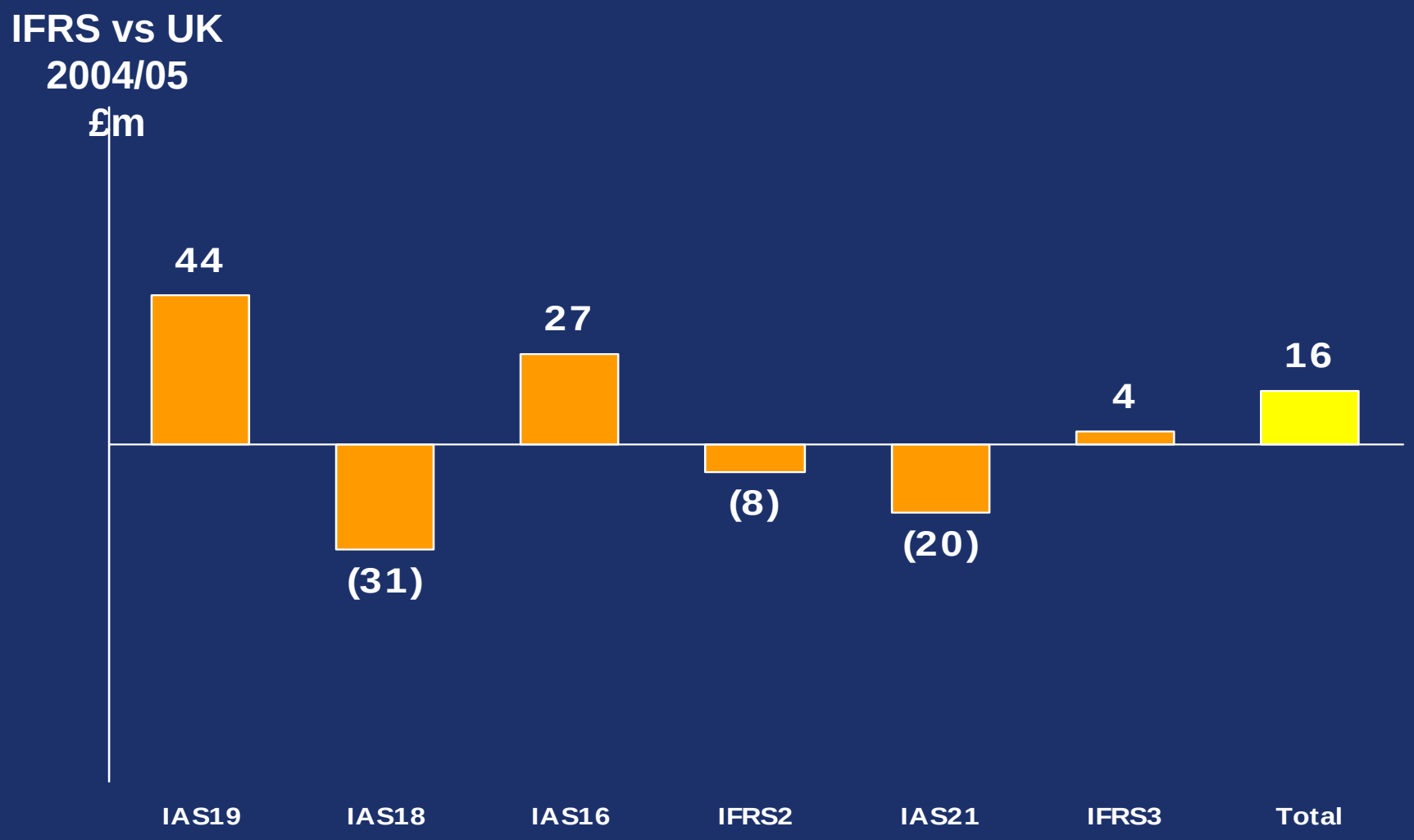
Income Statement – Operating Profit



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IFRS Changes 2005/06

Keith Williams

Group Treasurer

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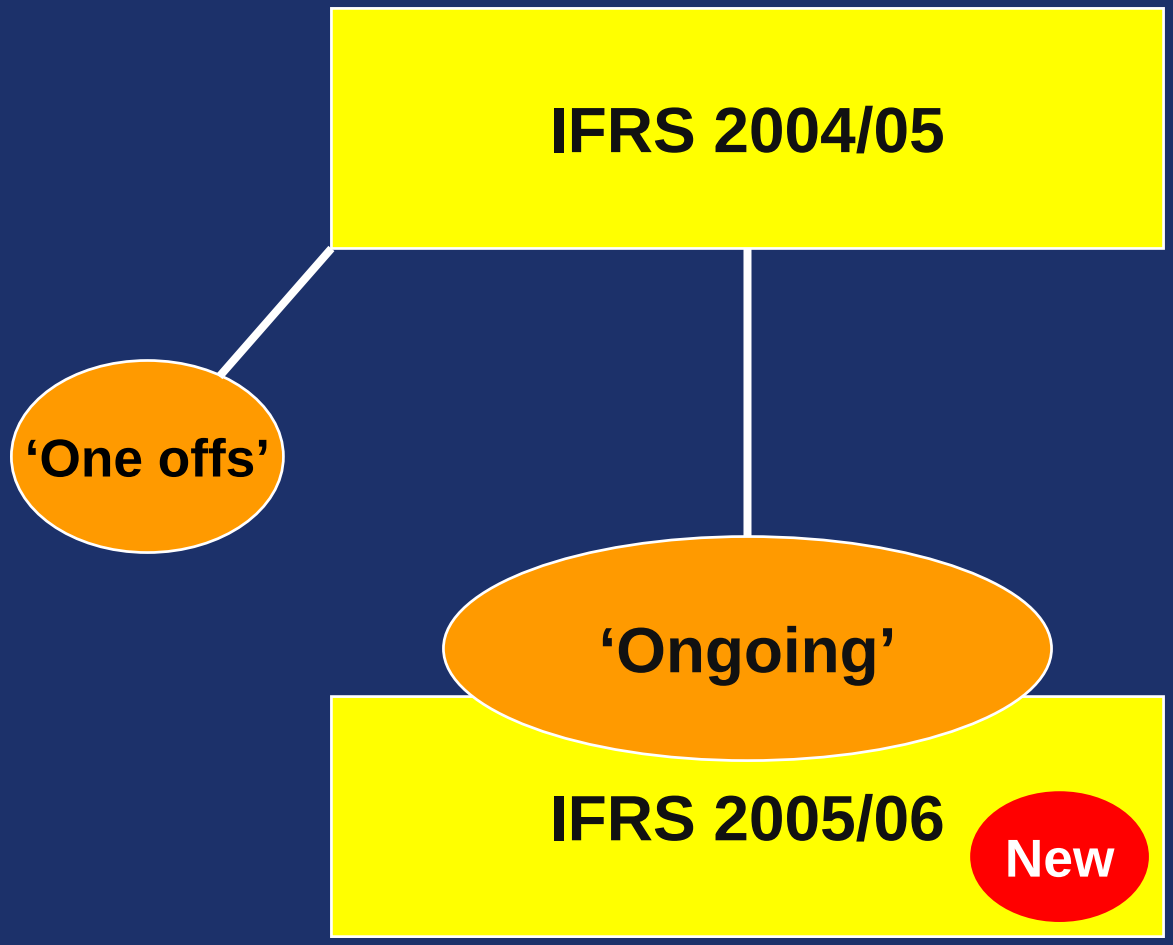
2005/06 Changes



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2005/06 changes

New: Fair value accounting

(Fuel and Currency)

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2005/06 changes

Changes to:

- Reported profit (income)
- Reported earnings
- Quantification (where possible)
- Impact of fair value changes
- Accounting disclosure

2005/06 Changes (Summary)

IFRS	Description	2004/05	Ongoing	New
1	First-time adoption	✓		
2	Share-based payments	✓	✓	
3	Goodwill	✓	✓	
5	Assets for re-sale	✓		
12	Income Tax	✓	✓	

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2005/06 Changes (Summary Cont'd)

IFRS	Description	2004/05	Ongoing	New
16	Property, Plant & Equipment	✓	✓	
18	Revenue recognition	✓	✓	
19	Employee Benefits	✓	✓	
21	Foreign Exchange	✓	✓	
21/ 32/39	Foreign Exchange (cashflow hedge)			✓

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2005/06 Changes (Summary Cont'd)

IFRS	Description	2004/05	Ongoing	New
28	Associates	✓		
38	Intangibles	✓		
39	Fair value			✓

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IFRS 2 – Share Based Payments

2004/05 Income Impact – (£8m)

2005/06 Income Impact – on similar scale

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IFRS 3 – Goodwill

2004/05 Income Impact – £5m

2005/06 - Same

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IAS 12 – Income Tax

2004/05 – Decrease in tax charge (£14m)

2005/06 – Some slight variations in timing of tax payments

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IAS 16 – Property, Plant & Equipment

2004/05 – Increase in income £28m

2005/06 – Depends on overhaul timing but broadly similar

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IAS 18 – Revenue recognition

2004/05 – Decrease in income – (£31m)

2005/06 – Depends on flow of miles issued versus redemptions but expected smaller impact

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IAS 19 – Employee benefits

2004/05 – Increase in income £15m

2005/06 – Broadly similar, unless pension corridor breached*

* even if pension corridor breached spread over future years

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IAS 19 - Employee benefits (Pensions)

Pensions largely Balance Sheet

Net liability recognised (March 2005)	1.1 bn
Unrecognised through corridor	0.3 bn
Deficit FRS 17 basis	1.4 bn

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IAS 21 – Foreign Branch

2004/05 – Increase in income £3m

2005/06 – Operating expenditure similar
Financing charge will change subject to IAS 39 cash flow hedge

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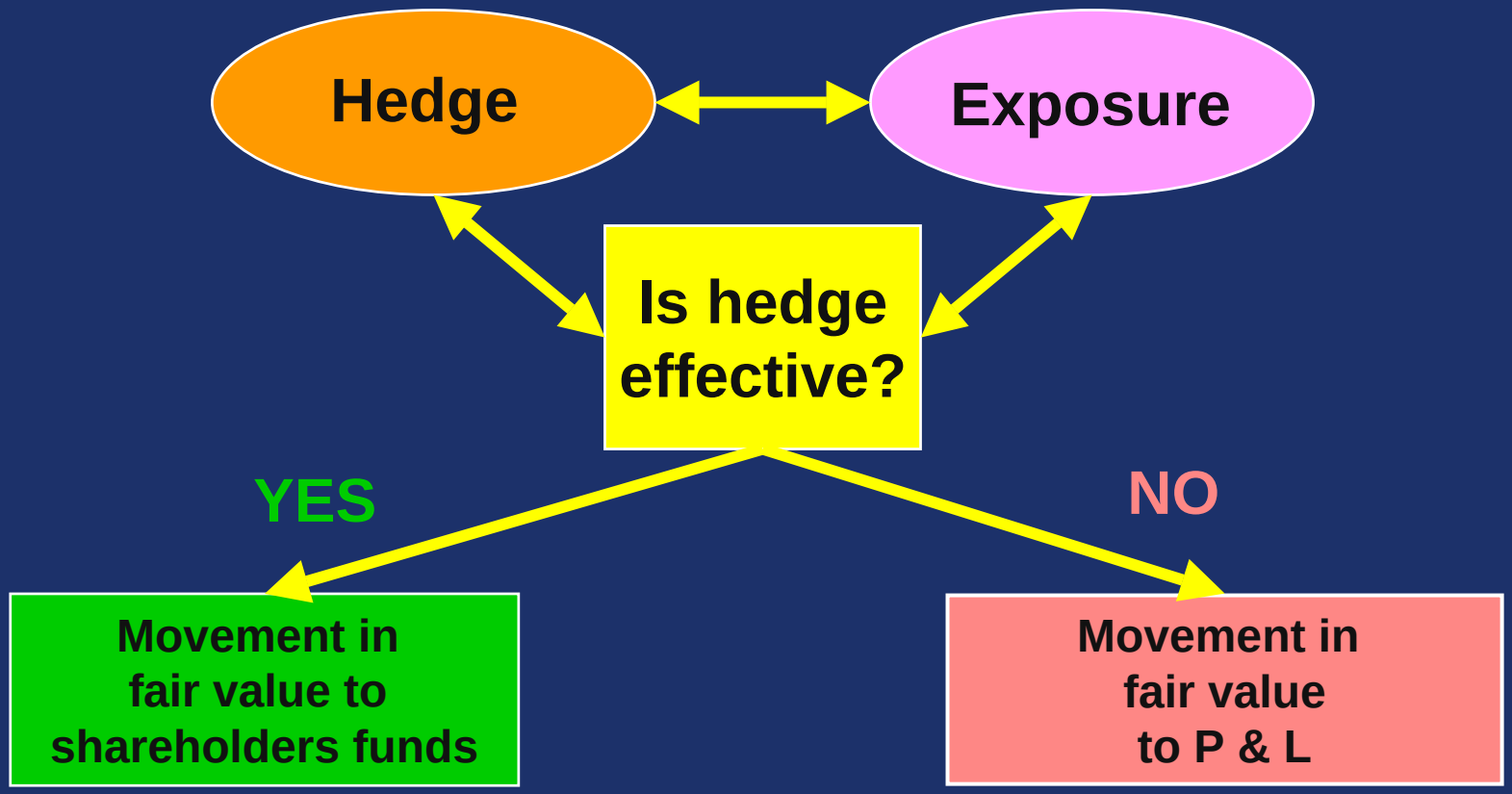
IAS 39 – Fair value accounting

- New
- Impacts both ‘previous’ branch accounting and fuel
- Fair value ‘marked to market’ position on Balance Sheet
- Complex rules to determine whether Balance Sheet movement via income or reserves

Principles of IAS 39

Basic principle:



Leads to P&L volatility

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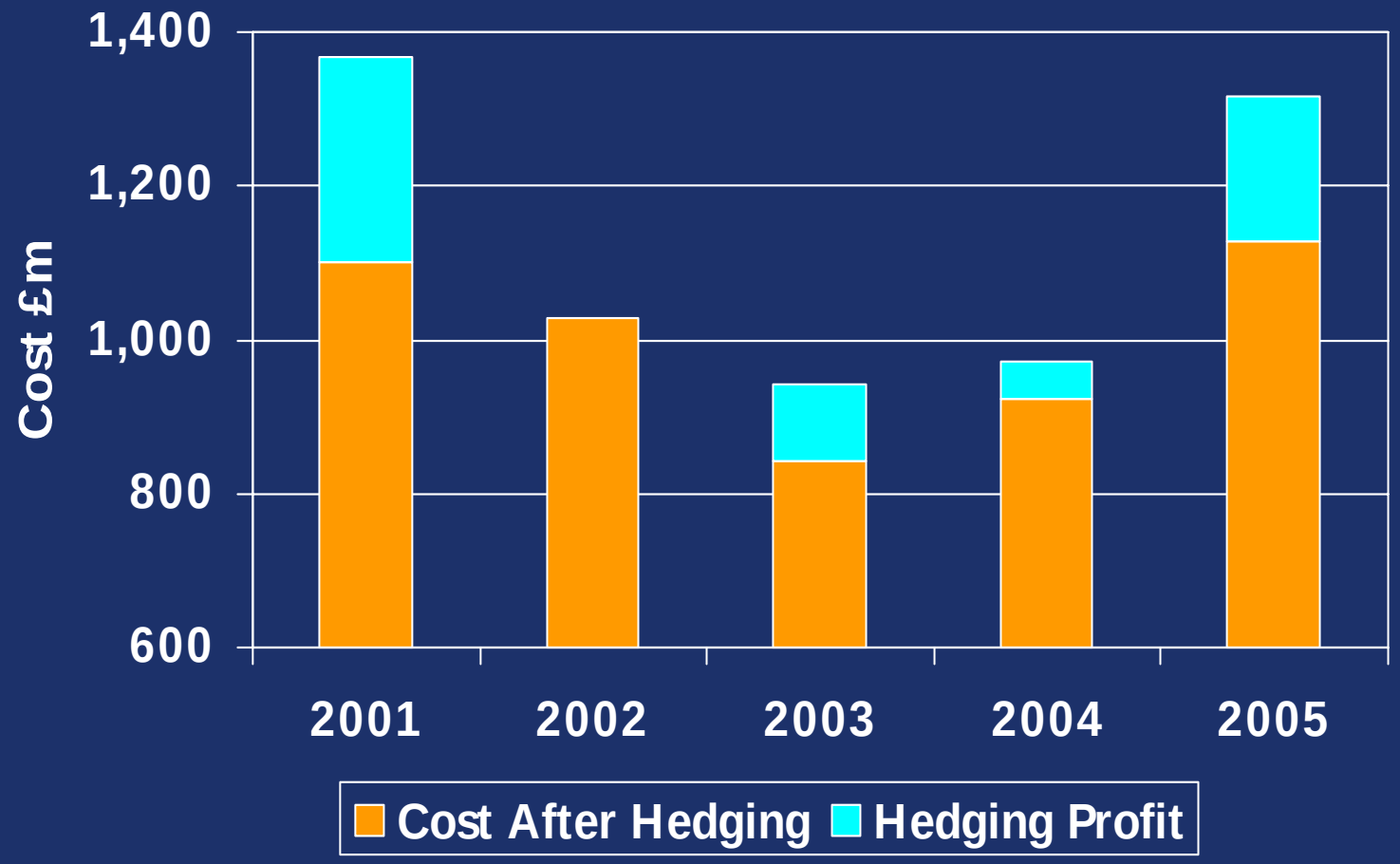
Fuel – What we do

Fuel Spend:



2002 - £75 million hedging loss

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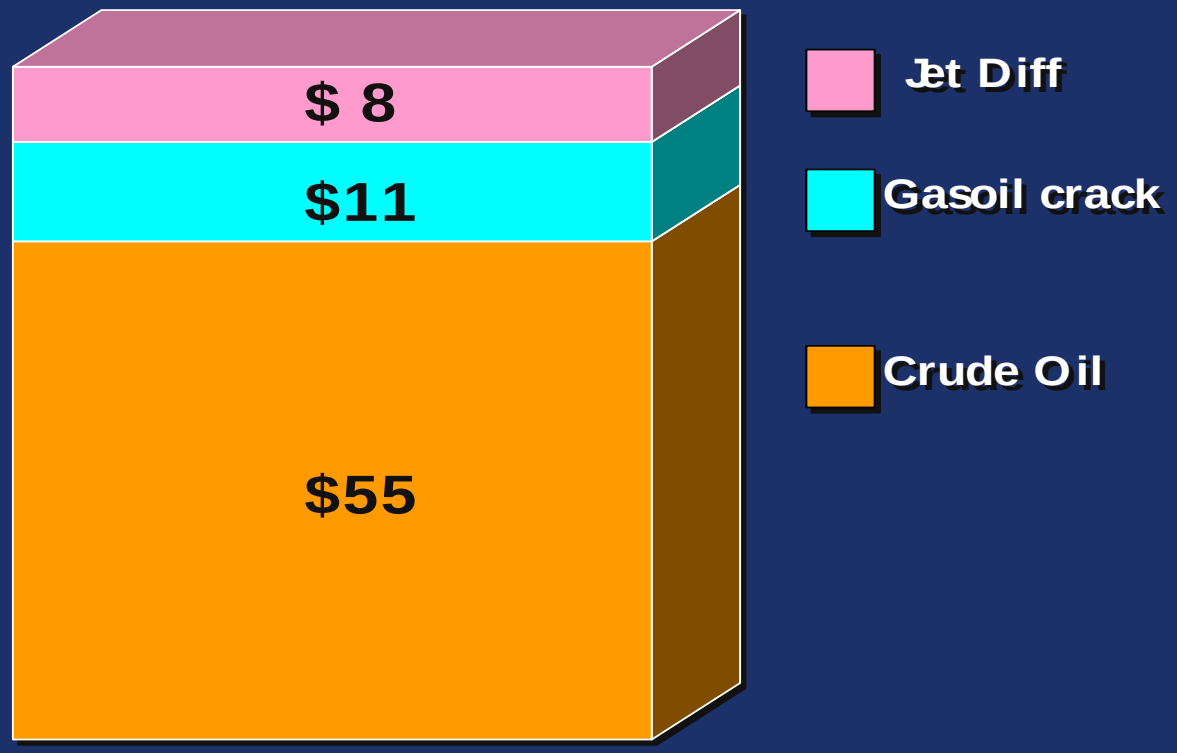
Fuel – What we do

Jet Kerosene $74/barrel
(equivalent to $580/metric tonne)



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Fuel – What we do

Jet Fuel Exposure:

- 42,000,000 barrels / year
- Biggest user of jet kerosene in North West Europe market

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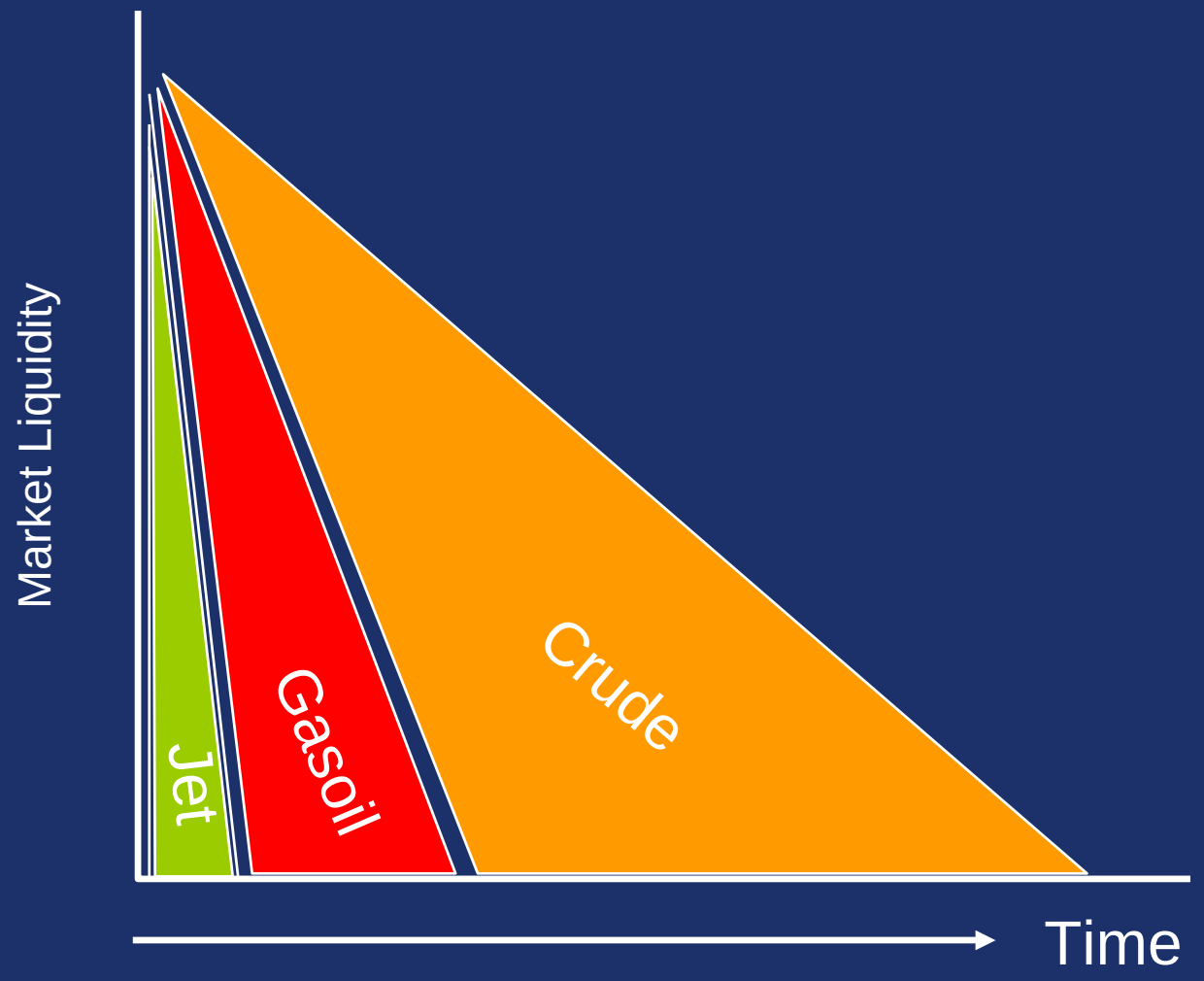
Fuel – What we do



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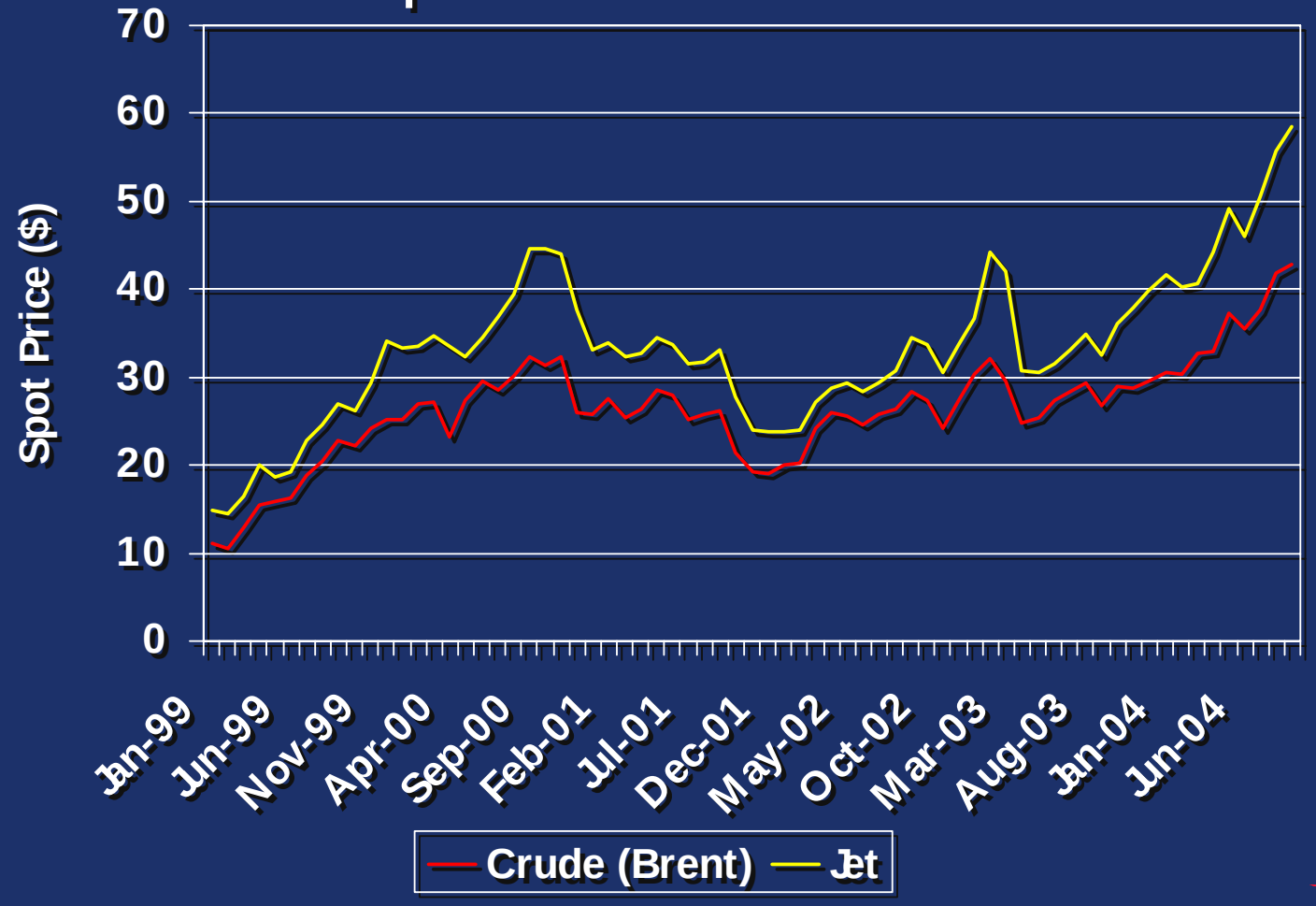
Fuel – What we do

Hedging Strategy:

- Size of exposure prevents hedging in illiquid markets
- BA strategy is to initially hedge in crude, upgrading cover through to jet fuel as markets become liquid

Fuel – What we do

Jet & Crude Spot Prices:



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Fuel - IAS 39 Tests

Three effectiveness tests:

- Do you expect crude to be an effective hedge against jet ?
- Does the crude hedge remain effective throughout its life?
- Mark to market movement generally posted to shareholders funds but if not effective posted to P&L

Fuel - IAS 39 Expectation

- We expect to be effective on most hedges
- Sometimes correlation jet/gasoil/crude is imperfect

Therefore……

- Some amount will go to P&L

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Fuel - IAS 39 Disclosure

- It’s not cash
- We will separate out marked to market movement in income statement
- Show operating margin excluding adjustment in notes

Foreign Currency Debt – What we do

As at 31 March 2005

	£m equiv
Sterling	2,890
US Dollar	846
Japanese Yen	756
TOTAL	4,492

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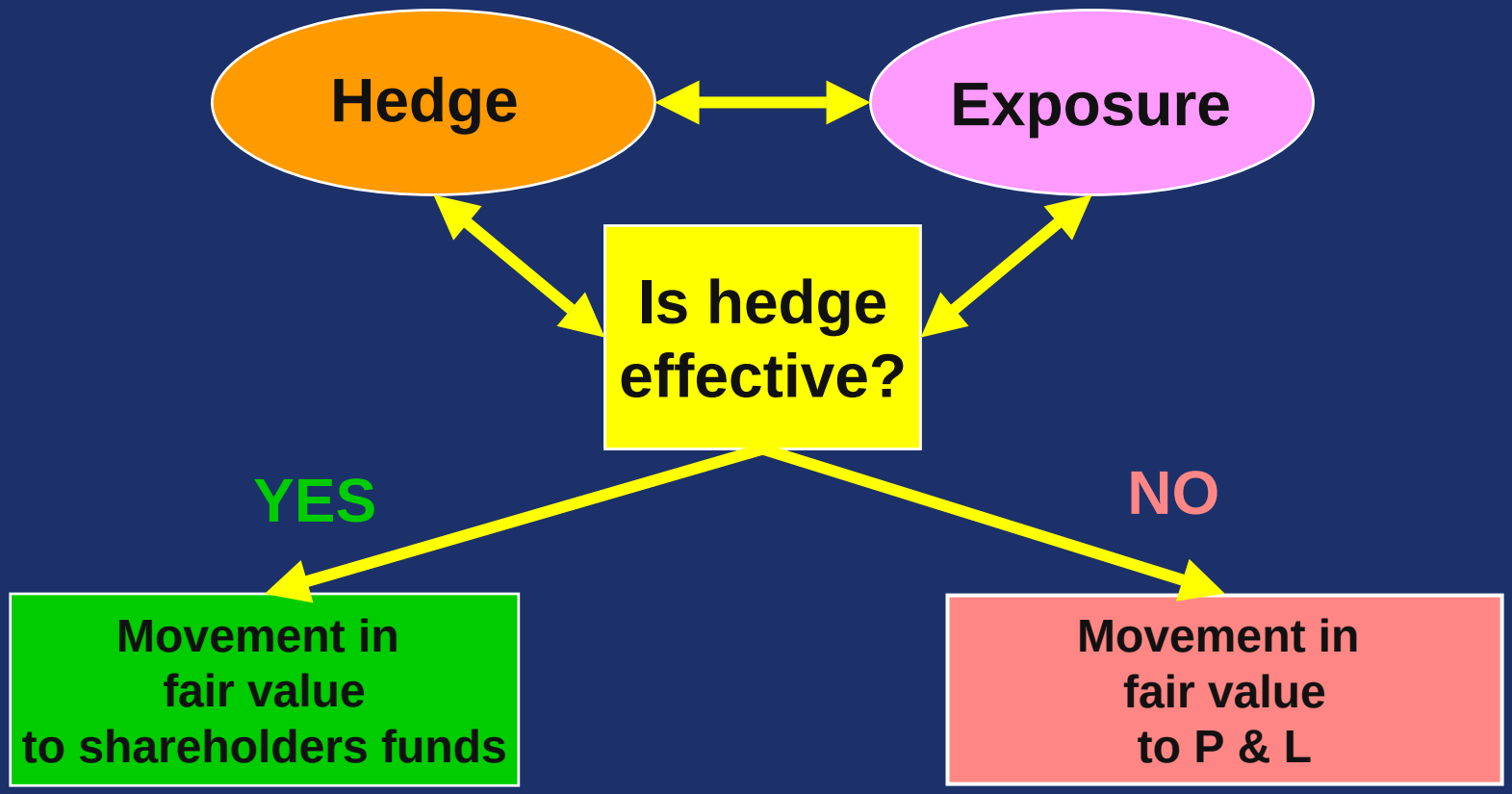
IAS 39 Treatment

Basic principle:



Leads to P&L volatility

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Foreign Currency Debt - IAS 39 Position

Debt Repayments Hedging Revenue:

- US$ and US$ linked revenues of some $2.5 billion
- Yen revenue 35bn pa hedging yen debt
- Mostly effective
- Some slight ineffectiveness giving rise to marked to market volatility

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Summary

- IFRS 2005/06 versus IFRS 2004/05 not significant to the income statement
- IFRS 2005/06 versus UK GAAP not significant in income statement
- Some new issues disclosed ‘marked to market’

Wrap up

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Q&A

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