

November 2010 Issue 45

BRITISH AIRWAYS 

O

VERVIEW

THE MAGAZINE FOR BRITISH AIRWAYS SHAREHOLDERS



THE RIGHT FIT

Everything you need to know
about the proposed merger
between British Airways
and Iberia

INCORPORATING THE
2010 HALF-YEAR
FINANCIAL REPORT
www.bashareholders.com

DIRECTORY

Registered Office

Waterside, PO Box 365, Harmondsworth
UB7 0GB

Registered Number 1777777

Shareholder Information UK

For queries in relation to your shareholding
or shareholder benefits contact:

Company Registrars,
Computershare Investor Services PLC,
The Pavilions,
Bridgwater Road,
Bristol BS99 6ZY
Tel: 0870 702 0110

Email: web.queries@computershare.co.uk

With your shareholder reference number
you can check your shareholding online at:
www-uk.computershare.com/investor

British Airways Shareholder Services
can be contacted at:
company.secretary@ba.com

Shareholder Reservations

Book online at
www.bashareholders.com

All other enquiries

0844 493 0787

Open 06:00-20:00, 7 days per week

For callers outside the UK, please dial:
+44 191 490 7901

Or in the US: 0800 247 9297

For fares, availability and
new bookings including
flights, hotels, insurance
and car hire: www.ba.com

For flight arrival and
departure information:
0844 493 0777

Open 06:00-20:00, 7 days per week

Travel Clinics:
0845 600 2236

Cedar Communications Ltd,
85 Strand,
London WC2R 0DW
+44 (0)20 7550 8000
www.cedarcom.co.uk

© 2010 Cedar Communications
Limited, London

Colour origination by Colour Systems
Printed in the UK by RR Donnelley

Editor | Tim Hulse

Deputy editor | Bryony Coleman

Editorial consultant | Mark Jones

Art editor | Belinda Tighe

Picture editor | Carl Harrison

Proof reader | Bob Larkins

Production manager | Deborah Homden

Group account director | Karen Huxley

For British Airways | Laura Goodes, Kate Gay,
Sarah Billington



Welcome to the latest issue of *Overview*, the magazine for British Airways shareholders. On the following pages you'll find details of the latest financial results, plus comments from the chairman, CEO and CFO.

As the proposed merger between British Airways and Iberia approaches, we look at the key differences between the merger and British Airways' new joint business agreement with Iberia and American Airlines.

One consequence of the joint business agreement is the launch of new BA-operated routes to San Diego and San Juan, Puerto Rico. We've got the lowdown on these and other new routes.

Finally, we take a tour of the latest addition to the British Airways fleet, the Boeing 777-300ER, which has impressive green credentials and an updated interior.

As always, we welcome your views: you can send us an email at overview@cedarcom.co.uk.

Tim Hulse, Editor

CONTENTS

03 MARTIN BROUGHTON

The chairman's view

04 WILLIE WALSH

The CEO's view

06 KEITH WILLIAMS

The CFO's view

07 MARK JONES

The expert's view

08 THE FIGURES

Key data from the half-year
financial report

10 THE IAG BOARD

Your guide to the team overseeing
the new holding company

12 JB VS MERGER

Explaining the difference between
the joint business and the merger

13 BOEING 777-300ER

All aboard the new plane

16 NEW ROUTES

San Diego, Haneda and more

The British Airways Board

(as at November 1, 2010)

CHAIRMAN

Martin Broughton

EXECUTIVE DIRECTORS

CHIEF EXECUTIVE

Willie Walsh

CHIEF FINANCIAL OFFICER

Keith Williams

NON-EXECUTIVE DIRECTORS

Maarten van den Bergh

Baroness Kingsmill

Jim Lawrence

Alison Reed

Ken Smart

Baroness Symons

The Summary Financial Statement in this magazine on pages 8 to 9 does not contain sufficient information to allow as full an understanding of the results of the group and state of affairs of the company or the group and of their policies as would be provided by the full interim management report. Shareholders who would like more detailed information may obtain this online at www.bashares.com.

Certain statements included in this edition of *Overview* may be forward-looking and may involve 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, discussions of the Company's business

and financing plans, expected future revenues and 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 publicly update or revise 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 a material adverse effect on the future operations or results of an airline operating in the global economy.

Fuller information on some of the factors that could result in a material difference is available in the Company's Annual Report and Accounts for the year ended March 31, 2010, which is available on www.bashares.com.



MARTIN BROUGHTON

CHAIRMAN'S NOTEBOOK

STILL BRITISH TO THE CORE

Views from the chair on the implications of the proposed merger with Iberia

This is an historic moment for British Airways and an historic opportunity for our shareholders. A vote for the Iberia deal will launch International Airlines Group (IAG). We have created the new company, with Willie Walsh as its CEO, to take further advantage of consolidation in the industry – and for shareholders, it's a multinational entity much better equipped to ride out the economic and political turbulence that has troubled aviation for so long.

For some shareholders, it may be an emotional break. The name on the share certificate will no longer be British Airways. The AGM will move to Madrid. (Although we will have a video link so that shareholders can see and hear the AGM, which will be in English, and can ask questions.)

But ultimately, shareholders always look at the broader commercial context and the long-term prospects of their investment. So the opportunity to lead the consolidation of an industry that is long overdue is something I strongly support.

This is all a part of constantly changing corporate life. It happens to companies of all shapes and descriptions; they go through various phases. For most of our life we were nationalised. There has been a period – 23 years – during which we've been a privatised and separate UK listed company. Now British Airways will be more an airline brand, rather than a publicly quoted financial entity.

Let me explain why that separation is a good thing. The beauty of the structure we're putting in place is that the airlines joining IAG will *retain* their brands while getting the benefits of the synergies available in a consolidated world.

If you look forward 20 years from now you'll have a multinational airline group, just as you have multinational consumer goods and services groups in other areas. The first two are BA and Iberia. We will retain our brand characteristics; and we'll be a good home for any other airlines that join us.

So neither British Airways nor Iberia is the top brand – now or in the future. We are all equal. We all have our own brand positions. IAG itself is a *non*-brand. It's deliberately set up with a descriptive corporate name. You are investing in the success of a consolidating airline industry as distinct from investing in a national flag carrier.

I can reassure shareholders that British Airways will not have its strength drained by this merger. On the contrary, British Airways is a very powerful name and we should retain our pride in being British. There's a kind of understated elegance that is a powerful

piece of the brand; it appeals to an awful lot of people who are not British. For British Airways, the 'British' piece defines the brand: I don't see that essence changing.

The only thing that can water down British Airways' position is the lack of capacity growth because of the absence of a third runway at Heathrow. However, from a corporate viewpoint, as a result of the merger, we now have the option of serving some of those destinations from Madrid if necessary.

There are lots of options for any airline looking at its future strategy. There's the low-cost option, the low-cost into long-haul option, the isolation option, or the option of staying regional.

Those potential partners need to ask themselves: where do they want to finish in this jigsaw? Do they want to be absorbed by one of the acquisitive companies such as Lufthansa; or do they want to join an IAG and retain their identity for the long term? What's right for one company may not be right for another.

Mergers and acquisitions go in waves. You need to know whether you are going to be swept along on the wave and be beached up who knows where; or whether you set out to ride the waves knowing where you want to end up.

For IAG – where's the rush? You look at the art of the possible. One deal might be a major priority, but simply not doable for the next ten years. So you get in a good position for when it is doable. In the meantime, it's parked. You don't wait for that one before you deal with anything else. Look at Iberia.

We've been in bed with them for ten years, first as a shareholder after they were privatised, then, for the past five years, in a joint business agreement.

My experience in other fields says that you tend to complete transactions where you've had quite an extended relationship. You've had conversations from time to time before you get to something both partners can agree upon.

Some people have commented that the structure looks complicated but I am confident it will work well in practice. I will be able to support at the IAG board level as deputy chairman, but my direct relationship will be with Keith Williams at British Airways. The really important IAG relationship now is between Antonio Vázquez and Willie Walsh.

To me, the Iberia deal is an extremely exciting development. It's the first stage in something I've seen as an objective ever since I got here: defining our role in the future of aviation. ■

"I can reassure shareholders that British Airways will not have its strength drained by this merger"

WILLIE WALSH

questions and answers

OVER TO YOU

We want to hear your views. Email us at overview@cedarcom.co.uk

Is it too early to talk about this airline growing again?

It's a nice problem to have. I'm actually quite positive. The figures we are seeing from the industry and the discussions I have had with other CEOs around the world are all positive. Yet everything is tempered by the concern over a double dip recession.

But you're not a believer in double dip, are you?

I haven't met anybody who can point to a reason why there will be a double dip. Keith Williams and I are realists rather than optimists or pessimists. I wrote a letter to the heads of the trade unions in June 2008 saying we believed we were going into a period of weak economic conditions, and people felt that we were being somewhat bearish. Keith and I were challenged at an investor presentation. They wanted to know why all our counterparts were speaking much more positively - were they seeing something that we weren't seeing or were we being more honest? We laughed and said we believed we were being completely honest.

The figures we are seeing are good, but that's all relative: "good" compared to absolutely dreadful in 2009. That is pretty consistent across our network. The economic environment is certainly a hell of a lot better than it was, but everybody continues to express concern, particularly about the sustainability of the US recovery. The pace of recovery and growth is uneven. If we were to map it out you'd say Asia was strongest, followed by Latin America, the Middle East, Africa, Europe/North America.

In the UK there's a big political debate around whether you cut or invest for the future. Where do you stand?

Look at what we did at BA. We cut and we invested. There might be a lesson in that. We had to cut our costs in the face of a collapse in revenue, but at the same time we recognised that we had to invest in new products for the long-term prosperity of the business.

You have to make sure you don't do anything in the short term that puts long term viability at risk. Since the Lehman Brothers crash in September 2008 we have invested in our IFE,

in new aircraft, in new cabins and in the London City-New York service. And while there's a debate to be had about whether we continue to expand, it's evidence that we tackled the performance of our business but recognised that we have to keep an eye on investment for the future as well.

You need a vision. Ours is that BA should be the global premium airline. We tested every decision against that aspiration. I think we have been able to deal with these issues successfully and to articulate that vision to the market. Clearly, we believe the investments we have made are right for the future of the business.

"I will stand back and allow Keith to do what he thinks is right for BA"

Is there a danger that your new role at IAG and that of Keith Williams as the new BA CEO will get confused?

If the objective of IAG was just to put British Airways and Iberia together then, yes, there could well have been that risk. But the objective of IAG is to successfully merge BA and Iberia but then create IAG as a platform for consolidation within the industry.

I liken it to the transition I had to make when moving from COO of Aer Lingus to CEO. You're still involved, but you have to appoint someone to do the job you used to do. You can't say, "I'm going to do both." I will stand back and allow Keith to do what he believes is right for British Airways. I know that I can't pass the baton to Keith and then try to run along beside him.

You told journalists that you have a shortlist of 12 airlines IAG could do a deal with. That caused a great stir and a lot of comment...

The objective is to pursue further consolidation. But I made it clear when talking to the journalists that we're not having any discussions with anybody and we are not proposing to have any informal or formal mergers. But it is fascinating to note the number of phone calls I received from airline CEOs around the world asking if they were on our list - and if they *could* be on our list!

In terms of the very near future, is your strategy driven by a sense of urgency?

We've been able to learn a lot from the mistakes others have made. We don't need to be driven by timing. We need to be sure we're doing the right thing. The right thing for IAG is to concentrate on delivering synergies.

But would you describe your new job as a deal-making role?

I'm not a deal junkie. I never have been. We've demonstrated that we are very disciplined in that regard. But I do see this, genuinely, as a crossroads in the development of the industry. If our argument around consolidation is correct and that the industry will benefit - well, then we need to look at what opportunities exist.

You also have to look at what's possible in terms of the regulatory environment. That barrier is likely to reduce still further going forward. But when the media speculated about India I pointed out that, today, the regulations preclude a foreign airline having any investment in an Indian domestic carrier.

I believe these rules will change over time. We won't see it within the next four or five years. But within ten? I think so. In the US, the US industry needs to consolidate first. It's doing that with Delta-Northwest and Continental-United. There's probably a bit more to happen. And once the domestic market consolidates, the US airlines will want to play a role in global consolidation.

What about the impact of the cabin crew strike on crew morale and hence service?

Our customer satisfaction scores were up on July, and up on June. The trend is improving. To be fair to our cabin crew, the vast majority of

them have been very professional. They have not allowed it to interfere.

Customers write to us. We know when there are issues because the customer will tell us. It's never easy to go through significant change. We're very clear that the sooner we tackle these issues, the better. The problem won't go away. Our cost base must be addressed.

Most crew want to see BA succeed. They maintain pride and enthusiasm for the job.

One commentator said the new transport minister was "invisible", especially on the threat posed to the industry from the proposed 'per plane' taxes. Do you agree?

Mr Hammond is clear that APD is a discussion we need to have with the Treasury. He's right. APD is a revenue earner for the Exchequer - despite earlier arguments that it's an environmental tax, the money they have raised has not gone to environmental schemes.

We've no complaints about a need to introduce effective economic measures. We've argued that the most effective way is the introduction of aviation in a global trading scheme. We felt the EU trading scheme was a good first step, if one limited to intra-European flying.

I am scheduled to meet George Osborne and Danny Alexander. I'm pleased they talked about consultation in the budget. We've been highlighting the business impact of aviation taxes - because clearly these taxes make doing business with the UK more expensive. We've highlighted the risk to the economy - especially when you're doing business with the emerging economies. A lot of people in Government get the argument, then shrug their shoulders and say, "Yes, but we need the revenue."

Economic recovery is a significant challenge. You go back to the balance of cutting and investing. You can cut costs - there's plenty of scope - and you can increase taxes, but there are risks associated with that. Getting the balance right is a difficult, if not an impossible, challenge.

Meanwhile, your own challenge is to be back in profit before tax. Are the coalition's plans threatening BA's recovery?

They have got to be aware of the risk. We were particularly keen to build on David Cameron's visit to India, where he highlighted



the importance of maintaining and developing trade links. We've pointed out that you can't state the ambition of doubling the value of that trade if you're going to make it more difficult and more expensive for people to do business with one another. It's not just about APD. There are other issues such as visas - the costs, the difficulties. These are issues we'll continue to raise.

I think the messages are getting through. I'd now like to see some action. It's nice to get sympathy. I got a lot from the previous government. It was followed by that same shrug of the shoulders.

You've been a forthright defender of BA and a vociferous spokesman for the industry. Will you disappear from public view in the new IAG role?

IAG will give us new opportunities to argue our case. Keith Williams will argue it from a BA-specific view and I'll be able to argue it from an IAG point of view. So maybe we'll get two bites of the cherry!

I don't think I'll become a remote and distant figure. I'll do what is required by the job and do what the board thinks is necessary. I would expect both Keith and myself to have a public profile. ■



KEITH WILLIAMS

BEHIND THE FIGURES

KEY FIGURES

Operating profit **£298m**
 Pre-tax profit **£158m**
 Revenue up **8.4%**
 Total costs down **1.5%**
 Non-fuel costs down **3.1%**
 Fuel costs up **2.4%**

HEADING TOWARDS RECOVERY

The latest results show a return to profitability and have exceeded the market's expectations

We are finally on a flightpath to recovery. Over the past year we have done a lot to restructure the business to bring it back to sustainability. However, we needed a boost from the revenue to bring it back to profitability.

As the world's economies have shown a slight improvement, that revenue boost has finally happened. By keeping costs down and growing revenue, we are profitable again.

As you can see from the results, in the first half of the year revenue improved by 8.4 per cent and with costs down 1.5 per cent, we made an operating profit of £298m and a pre-tax profit of £158m on sales of £4.4bn.

The size of the profit has exceeded the market's expectations. Most

of the analysts who follow our airline had been expecting an operating profit of around £230m and pre-tax profits of around £70-£80m.

Although the results show we are on the right flightpath, concerns about the world's economies and our industry still abound.

We cannot afford to rest on our laurels and the proposed merger with Iberia is one which is welcomed by the financial markets as giving both companies more stability going forwards. The combined Iberia and British Airways business will be stronger financially than British Airways alone, and Iberia's strength in the growing Latin America market will bring new and exciting opportunities.

It is good to see the last chapter in British Airways' own results finish on a relative high note. The merger with Iberia should continue this trend over time. ■

HOW THE ANALYSTS SEE IT

British Airways investor relations manager Robert French examines the view from the City

As we look forward to what we hope will be the start of an exciting new chapter in BA's history, I thought it would be interesting to take a brief glimpse back to the start of British Airways plc as we have known it for the last 23 years. The company announced its first post-privatisation results in May of 1987. That year, the world population had just reached five billion, the oil price was around \$20 per barrel, UK national debt was running at around 30 per cent of GDP (and falling) and Docklands Airport opened in London. The UK stock market, having banged the previous year, was to crash that autumn. And Mike Gatting's England cricket team returned victorious from Australia with the Ashes.

BA had just launched direct services to Tokyo, employed just under 40,000 staff and generated revenues of £3.3bn. How different things must have been for the newly-formed investor relations team as they prepared for the company's first Annual General Meeting - held in the Royal Albert Hall and attended by 1,800 people.

Fast-forward to today and the world population has increased by two billion, the oil price has quadrupled to \$83 per barrel and the UK, along with many of the world's developed economies, is facing up to the problem of debt that's in excess of 50 per cent of GDP. It's pleasing to see that, despite this backdrop, BA is not only still here to tell the tale, but ending this chapter on a positive note and well positioned for the future. And as for London City Airport, it is now well-established and popular with business travellers:

BA flies two transatlantic services to New York as well as operating a growing fleet of Embraer jets to UK and European destinations.

City analysts and investors have had a number of key concerns that they've asked us about extensively in the last few years: pension valuations, the joint business with American and Iberia, our merger with Iberia, actions to address the company's cost-base and, of course, when they would see the company return to profit. So it's particularly pleasing that at the end of this chapter we've been able to show real progress on all these fronts.

This positive tone has been reflected in the latest comments by analysts.

The general tone was that these were a strong set of results, ahead of the consensus of analysts, who had said they were expecting an operating profit for the quarter of around £300m. There were two main reasons for the results being better: yields had improved further than expected and costs were lower. Analysts look to the future and see potential for delivery of benefits from both the merger and our joint business with American Airlines and Iberia. Of course, they don't necessarily give instant credit in their price targets for full delivery of these benefits and will follow developments keenly. Subject to shareholder approval of the merger, the analysts will be watching the numbers and prospects of International Consolidated Airlines Group just as intently as they have BA's over the last 23 years.

As to how England fare this winter Down Under, we'll just have to wait and see! ■

The general tone was that these were a strong set of results, ahead of the analysts' consensus

MARK
JONES

NEW MEDIA EXPERT

LET'S STAY IN TOUCH

While ba.com accounts for 40 per cent of bookings, there is much more BA can do in terms of new media to engage its customers

On the wall of Martin Broughton's office there's an airline ticket. The BA chairman has the last paper ticket issued by IATA. It's at once a very familiar and an historic document: a bit like a framed luncheon voucher or traveller's cheque.

Today, you don't need paper at all. You can board a plane with a phone. The smartphone apps now being launched by BA mean that you don't need a printer: in fact, you don't need a laptop or a desktop either. If you look at the BA YouTube channel you'll see customers enthusing about the way they have everything they need for their flight - including the legal means for getting on it - on a screen that fits in the palm of their hands.

Even ten years ago, that last paragraph would have read like gobbledegook. Who knows how the same paragraph will read in 2020 - and what new words will spring up in the place of 'smartphone', 'app' and 'YouTube'? Of course, no one, not even Steve Jobs, can know for certain what gizmos we'll be using in a decade's time. What BA does urgently need to know is the benefits new media and new devices can deliver. The airline has a long record of innovation on the aviation side. Now it faces pressure to be just as innovative in the ways it communicates with customers.

So what are the benefits? First and foremost, making the journey easy. When passengers take a flight, their stress levels build up as they pass through the airport and only decline once they're on board. If we assume a principal source of stress is not feeling in control, then the smartphone is a stressbusting machine: wherever you are, you can control your booking and make changes.

Digital media have transformed the way we travel. Ba.com now accounts for 40 per cent of all bookings. The figure is only held back by the number of big corporate deals still signed offline. In October, it was named Best Airline Site in the significantly-named Travolution awards. "An all-round excellent use of the web medium combining good design, functionality and user experience," said the judges.

It was a suitable departing fanfare for BA's head of digital media, Chris Davies, who is leaving to direct commercial operations at the BBC's international website. That an airline person should take such a high-profile job at our biggest media organisation is an accolade in itself. But Davies leaves knowing there is lots more still to be done at ba.com. In his time, he's seen the site evolve from what the digital marketers call 'brochure-ware' - an elegant but inert display of the company's offering - to a dynamic commercial entity at the heart of everything BA does. So what's next? BA's digital innovators are keeping an eye on the potential of new products, such as Apple's iPad, already a familiar sight in the departure lounges of the world, and an iPad-specific app is under discussion at BA. But they are looking, too,

at a much more fundamental shift in the way we use technology and interact with companies.

Websites are getting better at knowing who we are. They can track our past behaviour and preferences and then guide us towards products and services we're interested in. I can understand why some find it an uncomfortable concept. But I'm one of those who accept that if companies are going to try and sell things to me, they may as well offer me things I want.

But there's a problem for large businesses such as BA. More and more 'what we want' is influenced by friends, friends of friends and even complete strangers through social media. The travel industry has been taken by surprise by the advent of people power, as expressed via the likes of Facebook, Twitter or the hugely popular TripAdvisor. This is sobering news for those travel journalists among us who have been used to guiding the destination choices of consumers.

As for travel companies such as BA - well, they risk being left out of the conversation altogether.

So BA needs to know who we are and what we like. In this world of highly personalised media, every time you open ba.com or receive an email from BA it's full of tips and ideas about places you want to go - not just what the airline happens to be promoting. The Amazon experience proves that customers don't resent such advice; it makes choosing easier.

The revenue potential is obvious. As well as ticket sales, BA has also shown it is one of the more adventurous companies, with its BA Media arm selling advertising opportunities to third parties at every stage of what they call 'the journey process'.

Personalisation can add value in ways we're only just beginning to see. The mobile boarding pass knows who and where I am. So if I'm stuck for a taxi or a hotel in New York, the app can help. Companies are just beginning to explore this area, known in the tech trade as 'location services'. Again, there is commercial potential: if you want a hotel, why not choose one that's offering a hefty discount in a paid-for ad? Today's consumers are adept - and very fast - at filtering the messages they want.

And they are very quick to let the world know if a company lets them down. You can engage with the world of social media, but be prepared for the flak as well as the accolades. In the past, British Airways was instinctively wary about public debate. No longer. Contentious issues such as the cabin crew strike have seen BA use every electronic means available to talk to customers and get its arguments over. For those of us who have been associated with the company for a decade or more, it's a big cultural shift.

The airline has shown it's prepared to engage with customers and critics en masse. Now it needs to have a one-on-one relationship. ■

"In this world of personalised media, BA needs to know who we are and what we like"

THE FIGURES

SUMMARY CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September, 2010

£ million	2010	2009	Better/ (worse)
Most of our revenue was earned from our main business, airline operations			
<i>Income from passengers flying on our services, plus excess baggage and fuel surcharges, was</i>	3,878	3,593	7.9%
<i>Freight and mail carried on scheduled services including fuel surcharges brought in another</i>	350	251	39.4%
Added together, that gave us a total traffic revenue of	4,228	3,844	10.0%
<i>Income from other airline related activities earned</i>	219	258	(15.1)%
This gave us a total Consolidated REVENUE of	4,447	4,102	8.4%
Our expenses comprised:			
<i>Pay, pension contributions and other employee costs</i>	1,003	1,031	2.7%
<i>Restructuring</i>		48	nm
<i>Depreciation, amortisation and impairment</i>	350	360	2.8%
<i>Charges for hiring the aircraft we fly on operating leases</i>	34	33	(3.0)%
<i>Fuel and oil costs (net of hedging)</i>	1,257	1,228	(2.4)%
<i>Engineering and other aircraft costs</i>	278	247	(12.6)%
<i>Airport landing fees and air traffic control charges</i>	313	322	2.8%
<i>Handling charges, catering and other operational costs</i>	506	529	4.3%
<i>Selling costs</i>	145	144	(0.7)%
<i>Currency differences</i>	(3)		nm
<i>Accommodation, ground equipment and IT costs</i>	266	271	1.8%
In total, therefore, our overall Consolidated operating costs were	4,149	4,213	1.5%
This gave us a Consolidated OPERATING PROFIT/(LOSS) of	298	(111)	nm
<i>We took into account our fuel derivative (losses)/gains</i>	(4)	5	nm
<i>Finance costs amounted to</i>	(85)	(76)	(11.8)%
<i>Finance income amounted to</i>	7	11	(36.4)%
<i>Net financing expense relating to pensions amounted to</i>	(41)	(100)	59.0%
<i>Retranslation (charges)/credits on our currency borrowings amounted to</i>	(8)	6	nm
<i>The net loss on disposal of property, plant and equipment and investments during the year was</i>	(3)	(9)	66.7%
<i>Our share of the losses in our associated companies was</i>	(2)	(19)	89.5%
<i>The net (charge)/credit relating to available-for-sale financial assets was</i>	(4)	1	nm
This produced a Consolidated PROFIT/(LOSS) BEFORE TAX of	158	(292)	nm
<i>Then we adjusted for tax totalling</i>	(42)	84	nm
This produced a Consolidated PROFIT/(LOSS) AFTER TAX of	116	(208)	nm
EARNINGS/(LOSS) PER SHARE			
The standard measure of a company's profitability is calculated by dividing profit attributable to shareholders by the average number of shares in issue during the period.			
On this basis, our earnings/(loss) per share were:			
-basic	9.3p	(18.8)p	nm
-diluted	7.9p	(18.8)p	nm

SUMMARY CONSOLIDATED BALANCE SHEET

As at 30 September 2010

£ million	30 September 2010	31 March 2010
The Consolidated tangible assets comprised:		
<i>Our fleet</i>	5,726	5,739
<i>Property</i>	894	920
<i>Computers, ground and other equipment</i>	230	245

nm = not meaningful

The Consolidated intangible assets comprised:		
<i>Goodwill</i>	40	40
<i>Landing rights</i>	202	202
<i>Software</i>	30	27
Together, these represented our intangible and tangible assets of	7,122	7,173
In addition, we had invested in other businesses	243	197
The market value of financial assets that are available for sale was	72	76
We had pension assets of	535	483
Amounts receivable by us after more than one year were	60	44
We had assets ready for sale within 12 months of	53	30
Our current assets, mainly money we are owed, our "cash in hand" and our stock represented	2,831	2,674
Therefore our total assets equalled	10,916	10,677
The money invested in the British Airways Group comprised:		
<i>Our called-up share capital, some 1,153.7 million 25p shares</i>	288	288
<i>Treasury shares</i>	(4)	(4)
<i>Our reserves</i>	1,802	1,629
Our total shareholders' equity was	2,086	1,913
<i>Amount due to a minority shareholder in one of our subsidiaries was</i>	200	200
Together our total shareholders' equity and minority interest were	2,286	2,113
We owe to creditors amounts due after more than one year which included:		
<i>Interest bearing long-term borrowings of</i>	3,430	3,446
<i>Our pension liabilities</i>	216	208
<i>Provision for deferred tax</i>	823	774
<i>Other provisions and long-term liabilities of</i>	467	396
So the amounts we owed after more than one year were	4,936	4,824
We also owed creditors amounts due within one year which included:		
<i>Most passengers book, and pay for, tickets in advance. This money, and amounts owing to creditors that are payable within one year, totalled</i>	3,691	3,738
<i>Current tax payable</i>	3	2
Therefore our total shareholders' equity and liabilities equalled	10,916	10,677

OPERATING AND FINANCIAL STATISTICS

Airline scheduled services	For the six months ended 30 September 2010	Difference on a year ago
Passengers carried (000)	16,452	(7.3)%
Revenue passenger kilometres (RPKs) (m) <i>The number of passengers carried, multiplied by the distance they flew in kilometres</i>	55,251	(7.9)%
Available seat kilometres (ASKs) (m) <i>The number of seats available for sale, multiplied by the distance they flew in kilometres</i>	69,792	(6.2)%
Passenger load factor (%) <i>The percentage of seats available that were actually purchased</i>	79.2%	(1.4)pts
Revenue per RPK (p) <i>How much we received on average from each passenger for every kilometre flown</i>	7.02	17.2%
Tonnes of cargo carried (000)	375	(0.5)%
Aircraft in service (as at 30 September 2010)	239	(7)
Average manpower equivalent (MPE) <i>The number of employees adjusted for part time workers and overtime</i>	35,867	7.3%
Productivity (in terms of available tonne kilometres per MPE) (000)	297.5	3.8%

MEET THE BOARD



ANTONIO VÁZQUEZ
CHAIRMAN

Antonio Vázquez holds a BSc degree in Economics from Malaga University. He worked for Arthur Andersen & Co from 1974 to 1978, before moving on to hold various positions in the international wine and spirits industry, eventually becoming managing director and member of the board of Domecq International. He then became managing director of the cigar division of Tabacalera, before becoming SVP and COO of the cigar division of Altadis Group, and latterly group CEO. In June 2008, he was appointed independent director of the board of Telefónica Internacional. In July 2009, he was appointed chairman and CEO of Iberia.



MARTIN BROUGHTON
DEPUTY CHAIRMAN

Martin Broughton became chairman of British Airways in 2004, having joined the Board as a non-executive director in 2000. He also serves as chairman of Liverpool FC. Broughton was president of the CBI from 2007 until 2009, having previously chaired the British Horseracing Board from 2004 to 2007. Prior to that, he was chairman of British American Tobacco, a role he took on in 1998, having formerly served as group chief executive and deputy chairman. He has also been chairman of the Wiggins Teape Group, chairman of Eagle Star and group managing director of BAT Industries' Financial Services and is a member of the European Round Table of Industrialists.



WILLIE WALSH
CHIEF EXECUTIVE OFFICER

Willie Walsh became CEO of British Airways in October, 2005. He was previously CEO at Aer Lingus, a company he joined in 1979 as a cadet pilot. He worked his way through the ranks to become a captain and began his move to management in 1989, fulfilling various roles in the flight operations department. He completed an MSc in Management and Business Administration at Dublin's Trinity College in 1992. In 1998 he was made CEO of Futura, Aer Lingus's Spanish charter airline. He returned to Dublin with Aer Lingus in 2000, where he took up the role of COO, becoming CEO in October 2001.



CÉSAR ALIERTA IZUEL

César Alierta holds a degree in law from the University of Zaragoza and an MBA from the University of Columbia (New York). He has been executive chairman of Telefónica since July 2000, and is a member of the boards of directors of China Unicom and Telecom Italia. In 1996 he became chairman of Tabacalera, where he gave his support and backing to the cross-border merger with the French company Seita. The result of this merger was Altadis, where he served as chairman until July 2000, when he was appointed chairman of Telefónica.



PATRICK CESCAU

Patrick Cescau has been a non-executive director of Tesco plc since February 2009 and was appointed the company's senior independent director in July 2010. He is also a non-executive director of Pearson plc and in 2010 was appointed the senior independent director. In June 2009 he joined the board of INSEAD, one of the world's leading business schools. Cescau was group chief executive of Unilever from 2005 to 2009, having previously been chairman of Unilever plc and deputy chairman of Unilever NV.



JOSÉ MANUEL FERNÁNDEZ NORNIELLA

José Manuel Fernández Norniella has a BSc in Energy Techniques Engineering from the Polytechnic University of Madrid. He has been a director of Iberia since 2003 and is also vice-chairman of Caja Madrid, a director of Telvent, and honorary chairman of the Ebro Group. He is a former Spanish MP and Secretary of State for Trade, Tourism and SMEs, and has represented Spain at the World Bank and International Development Bank. From 1996 to 2005 he was chairman of the council of Spanish chambers of commerce.



BARONESS KINGSMILL

Baroness Kingsmill is a member of the House of Lords, having been made a life peer in 2006. She joined the BA board in 2004, before which she spent seven years as the deputy chairman of the Competition Commission, chairing more than 20 merger and monopoly enquiries. She has held many directorships in the private and public sector and is currently a non-executive director of KornFerry International and of Horizon plc. She is a member of the PwC Advisory Board and the Microsoft European Advisory Council.



JIM LAWRENCE

Jim Lawrence holds a BA degree in economics from Yale University, and an MBA with distinction from Harvard Business School. He serves as a non-executive director on the board of British Airways and is the chairman of the Remuneration Committee. In June 2010 he joined Rothschild North America as CEO and co-head of Global Investment Banking. Prior to joining Rothschild, he was at Unilever from 2007 as CFO and executive director. Before that, he served as CFO at General Mills from 1998 to 2007.



JOSÉ PEDRO PÉREZ-LLORCA

José Pedro Pérez-Llorca is the founding partner and chairman of the law firm Pérez-Llorca. He was a career diplomat and a member of the Spanish Parliamentary Counsel, and helped to draft the Spanish Constitution. A former Spanish cabinet minister, he has held several board-level positions, particularly in the credit sector, including the chairmanship of Urquijo Leasing and AEG Ibérica. He is a former member of the board of Telefónica and of the Madrid Stock Exchange Council and holds several honorary doctorates in Law.



KIERAN POYNTER

Kieran Poynter is a non-executive director of British American Tobacco, Nomura International and F&C Asset Management. He spent 37 years with PwC and its predecessor firms in the UK, including eight years as chairman and senior partner, before retiring from the firm in 2008. He served as a member of the president's committee of the CBI from 2000 to 2008 and in 2009/2010 served as a member of the advisory committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector.



RODRIGO DE RATO Y FIGAREDO

Rodrigo de Rato y Figaredo holds an Economics doctorate from Madrid Complutense University and an MBA from the University of California. Deputy and member of the Spanish Popular Party leadership for 25 years, he is a former economic vice-president of the Spanish government and has served on the board of governors of the IMF and World Bank. He is currently chairman of the board of Caja Madrid, vice-chairman of the board of CECA, director of Mapfre and a member of the board of trustees of the Teatro Real in Madrid.



RAFAEL SÁNCHEZ-LOZANO TURMO

Rafael Sánchez-Lozano was appointed a director of British Airways in December 2009, following his nomination by Iberia. He holds a BA in Law and a BA in Business Administration from ICADE. After holding various positions at Citibank, Manufacturers Hanover Trust and JP Morgan, he worked at Caja Madrid in senior roles and was a board member of several of its subsidiaries. He joined the Iberia board in 2007, and in July 2009 he was appointed managing director and chief operating officer of the Spanish airline.



JOHN SNOW

Secretary Snow is president of JWS Associates LLC, a Richmond, Virginia-based consulting firm. Previously, he served as the US Secretary of the Treasury under President George W Bush from 2003 to 2006. Prior to joining the Bush administration, he served as chairman, president and CEO of CSX Corporation, the global transportation company, for well over a decade. He currently serves on the boards of Cerberus Capital Management LP, Marathon Oil Corporation, Verizon Communications and Amerigroup Corporation.



KEITH WILLIAMS

Keith Williams has a first class honours degree in History and Archaeology from Liverpool University and has been the chief financial officer of British Airways since January, 2006. He joined BA in 1998 from Reckitt and Colman, where he was head of tax, and became British Airways group treasurer and head of tax in 2000. After training in accountancy with Arthur Andersen in the early 1980s, he held a variety of senior management roles, becoming treasurer for Apple Computer Europe, based in Paris, between 1991 and 1996.

THE LOWDOWN

Confused by the difference between a joint business deal and a merger? Read on

JOINT BUSINESS



IBERIA MERGER

WHO IS INVOLVED?

British Airways, American Airlines, Iberia

British Airways, Iberia

WHAT'S THE DIFFERENCE BETWEEN A JOINT BUSINESS AND A MERGER?

A joint business is when two or more companies agree to do business in one specific area. In this case, the three airlines involved have agreed to share revenues on flights between North America and Europe.

At its simplest, a merger is when two companies come together to form a single company. In this case, British Airways and Iberia have agreed to form a new group called International Airlines Group (IAG), while retaining their own brands and identities. Shares will no longer be traded in BA or Iberia, only IAG.

WHAT ARE THE BENEFITS FOR OUR CUSTOMERS?

- Greater access to discounted fares
- Improved scheduling to provide smoother connections
- Reciprocal frequent flyer benefits.
- Access to more VIP lounges
- Through ticketing and baggage
- A larger network with many new routes supported

- Larger combined network for passengers and cargo
- Enhanced ability to invest in new customer products and services such as aircraft, customer lounges and websites

WHAT ARE THE BENEFITS FOR BRITISH AIRWAYS?

- Together with AA and Iberia, BA will share the combined \$7-8bn revenue on all flights across the North Atlantic
- Greater financial stability allowing for long-term growth and investment
- More opportunity for introducing new routes

- Around €400m of annual financial benefits is expected by the end of the fifth year after merger has been completed.
- Greater financial stability
- Cost savings
- Greater potential for growth by making the most of the dual hubs of London and Madrid

WHY ARE WE DOING THIS?

So that oneworld can compete more effectively with the other two global alliances, SkyTeam and Star Alliance, who are already able to plan routes and fares together on transatlantic flights.

We've had a successful relationship with Iberia for 11 years and want to build on that success. The industry has already begun a period of consolidation - this move will make us stronger, with the best possible service and a wider route network.

WILL THIS CHANGE THE WAY OUR COMPANIES ARE SET UP?

- No, we remain completely separate entities with individual brands and operations

- Yes, but only at the top. The airline brands and operations will continue as normal
- IAG's headquarter will be in London and will be 56 per cent owned by BA shareholders and 44 per cent by Iberia. It will be listed on both the London and Spanish stock exchanges

WHAT'S THE LATEST NEWS?

The joint business was launched on October 1, 2010, making access to cheaper fares, bigger choice of flight times and easier connecting journeys a reality. The airlines have announced six new routes as part of the the joint business, including new BA-operated routes to San Diego and San Juan, Puerto Rico.

Both airlines require shareholder approval for the merger to proceed. It is hoped that the merger will be completed in January, 2011.

WHAT ARE THE KEY FIGURES?

- 433 destinations in 105 countries
- Nearly 5,178 daily departures
- 70 million frequent flyer members
- 200 lounges globally

- 419 aircraft providing connections to 205 destinations
- 10 million frequent flyer members
- 76 lounges globally



THE 777-300ER TAKES OFF IN STYLE

British Airways has taken delivery of two new 777-330ERs. Four more will go into service by early 2012. You can see a video of one of the planes being constructed at www.youtube.com/user/FlyBritishAirways

The latest addition to the British Airways fleet has impressive green credentials – as well as an entirely new interior and inflight entertainment system. Charlotte Swift goes for a ride

Stepping on board a brand-new plane is a bit like walking into a show home. There's that newly made smell, everything you look at shines with an all-new glint and anything you touch responds perfectly. It feels like a place ready to be lived in.

Not that I'd actually want to set up home in one of the new 777-300ERs, but I certainly wouldn't mind flying halfway across the world in one – every day if I was given half a chance.

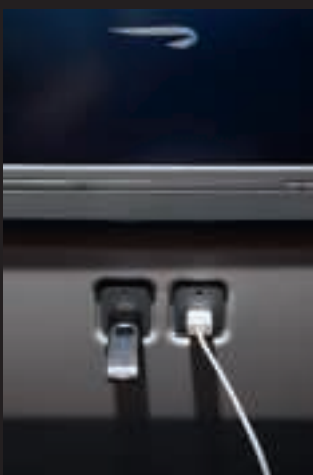
BA took delivery of its first Boeing 777-300ER (Extended Range) in July, and its second arrived in September. By early →



The 777-300ER is 33ft longer than the 777-200 and the longest aircraft in BA's fleet. The new plane is also quieter and extremely fuel efficient, while its CO2 emissions per seat are 23 per cent lower than the 747-400



New World Traveller (left) and World Traveller Plus seats (below) are more comfortable than before and have hammock-style headrests to give better neck support. Customers in First class (above) can luxuriate in 6ft 6in flat beds while watching movies on 15in flatscreens



Personal electronic devices can be powered via in-seat sockets and connected to the in-flight entertainment system via USB and RCA ports





THE ARRIVAL OF THE 777-300ER MARKS A NEW MILESTONE FOR BA



The new Thales IFE system offers more choices of movies, TV and radio. Touchscreens are larger than before and the IFE handset can be used for playing games offered on the new system



2012, the airline will have a total of six of the new long-haul aircraft in service. Their arrival marks a new milestone for BA. The aircraft has great environmental credentials: it is quieter than its predecessors, emits less CO₂ per seat and is more fuel efficient. But arguably the biggest draw of all is that it carries an entirely new interior and in-flight entertainment (IFE) system.

Even if you're a member of crew, or travelling in First, it's rare to have the opportunity to wander from row 1 through to row 50 inspecting the cabins at leisure, sitting in and reclining seats as you go. So when I was invited to join one of the 777 test flights I really made the most of it.

The luxurious new First cabin, which we reported on in the last edition of *Overview*, is the result of a £100m investment by BA and succeeds in its aim of bringing glamour to the skies. The comfortable seats-cum-6ft 6in flat beds, the Egyptian cotton, the mega 15in TV flatscreens, mood lighting and the double windows with slatted blinds all trick the mind into wondering whether you really are on a plane at all.

Club class continues to impress with its mini-suites and flat beds, and, like all the cabins on the new aircraft, it now also benefits from the new entertainment system. But where the 777-300ER really starts to come into its own is when you arrive at row 21 and step into the new World Traveller Plus cabin.

First impressions? It looks like a business class cabin. The very striking difference from the old format is that it feels brighter - the design is simple but more contemporary. It was when I settled into one of the seats that I realised it wasn't just the fabric design that had changed for the better. The seats are significantly more comfortable: there's more legroom, there are hammock-style headrests for better neck support, they recline further and there are footrests. Recaro, the manufacturer responsible for the seats, has a century-long reputation for luxury seat design. No surprise, then, to discover that its client list includes Porsche, Audi and BMW.

The new cabin will unquestionably answer the call of corporate travel bookers whose tight budgets restrict them to booking 'economy' seats.

But the highlight for me was always going to be the revamp at the back of the aircraft. After all, this is the experience the majority of BA's customers will have.

The 3-3-3 seat configuration in World Traveller not only makes the cabin appear more spacious, it will also undoubtedly give it the edge over competitors who have four abreast in the central section.

The redesign includes new seats and headrests, larger and better quality individual TV screens, seatback trays that fold away in two stages, and pillows and blankets with newly designed bright turquoise motifs.

And then there's the technology. The 777-300ER is the first aircraft in BA's fleet to be installed with the new Thales IFE system. It is loaded with entertainment including 70 films, 230 TV programmes and hundreds of CDs, plus radio channels and podcasts. That's in addition to the numerous games (Battleships, Pac-Man, etc), which can be configured to enable play against fellow passengers.

There's a joystick for gaming and you can use either the remote or touch-screen facility to fast-forward, pause or rewind programmes. Technophiles armed with their own equipment will be able to make use of USB ports that connect to the IFE system and there are regular UK plug sockets for recharging.

The enhancement in both viewing quality and user-friendliness is significant. Combine the benefits of the new IFE with the refreshed cabins and the aircraft's environmental benefits and it's easy to see how the new arrivals really do herald the start of a new era.

Customers travelling to Dubai, Chicago, Delhi and Mumbai (chosen for their unique ability to handle the new plane, which, at 242ft, is longer than a 747) will be the first to experience the 777-300ER. The new cabins will also be fitted into the double-decker Airbus A380s and B787 Dreamliners that BA has on order.

It's a major investment, and one that will not only considerably improve customers' travel experience but is sure to make rival airlines reassess their offerings. ■

Pillows, blankets and headrest covers have been given a contemporary look, with heritage designs inspired by BA's museum archive



ROUTE NEWS



Sunny San Diego will become BA's third Californian destination

STILL BROADENING OUR HORIZONS

British Airways is launching new routes to the US, Japan and Caribbean

SAN DIEGO

British Airways is expanding its services to America's Sunshine State with daily flights to San Diego next summer. The new route has been made possible by BA's joint business initiative with American Airlines and Iberia.

The southern California city will be British Airways' third destination in the state after Los Angeles and San Francisco. It boasts a mild and sunny year-round climate, miles of sandy beaches, a wealth of major attractions and easy access to the many areas of natural beauty in the region.

"Connoisseurs of the BA route network may know that this is the third time that we have launched this particular route," says British Airways chief executive Willie Walsh. "I think that serves to highlight the benefits of our joint business with American Airlines and Iberia. The route did not deliver a profitable return for BA in isolation but we are extremely confident that, by working together with our colleagues, it will."

The route will be served by a Boeing 777 with three classes of travel. Flights start from 1 June 2011 from Heathrow Terminal 5.

TOKYO HANEDA

BA is also launching a new five-a-week route to Haneda in Japan in a push to open up the domestic Japanese market to UK travellers - the airport is very close to Tokyo city centre and offers excellent domestic connections. The Haneda route will be in addition to BA's current Narita flight schedule, offering customers



BA's new route to Haneda provides a gateway to the domestic Japanese market

"THE NEW SAN DIEGO ROUTE HIGHLIGHTS THE BENEFITS OF OUR JOINT BUSINESS WITH AMERICAN AIRLINES AND IBERIA"

more choice and flexibility. The route will be served by a Boeing 777 with four classes of travel. Flights start on 19 February 2011 from Heathrow Terminal 5.

BUENOS AIRES

Buenos Aires flights will be moving to a daily direct service from Heathrow from 27 March 2011, removing the current stop in São Paulo and making British Airways the only carrier to fly direct between the UK and Argentina.

CARIBBEAN

Gatwick is reaping the benefits of the success of its long-haul leisure routes with increased flying from the airport, and British Airways is expanding its services to the Caribbean from 28 March 2011. There will be a new twice-a-week year round service from Gatwick to San Juan, the capital of Puerto Rico.

Flights to Barbados will increase from ten to 12 a week, to Antigua from five to six a week and to St Lucia-Port of Spain from five a week to daily. This boosts the number of flights operated by BA to the Caribbean to 64 a week across 15 destinations and reinforces its position as the airline that flies to more Caribbean destinations from Europe than any other airline.

OTHER ROUTE NEWS

In addition, Gatwick to Tampa is increasing from five to seven flights a week and the new route to Cancún, launched in November 2010, is increasing from two to three services from 27 March 2011. ■