BRITISH AIRWAYS

BRITISH AIRWAYS

Investor Day 2009

March 5, 2009

Health warning

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, discussions of the Company's Business Plan programs, 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 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.

George Stinnes

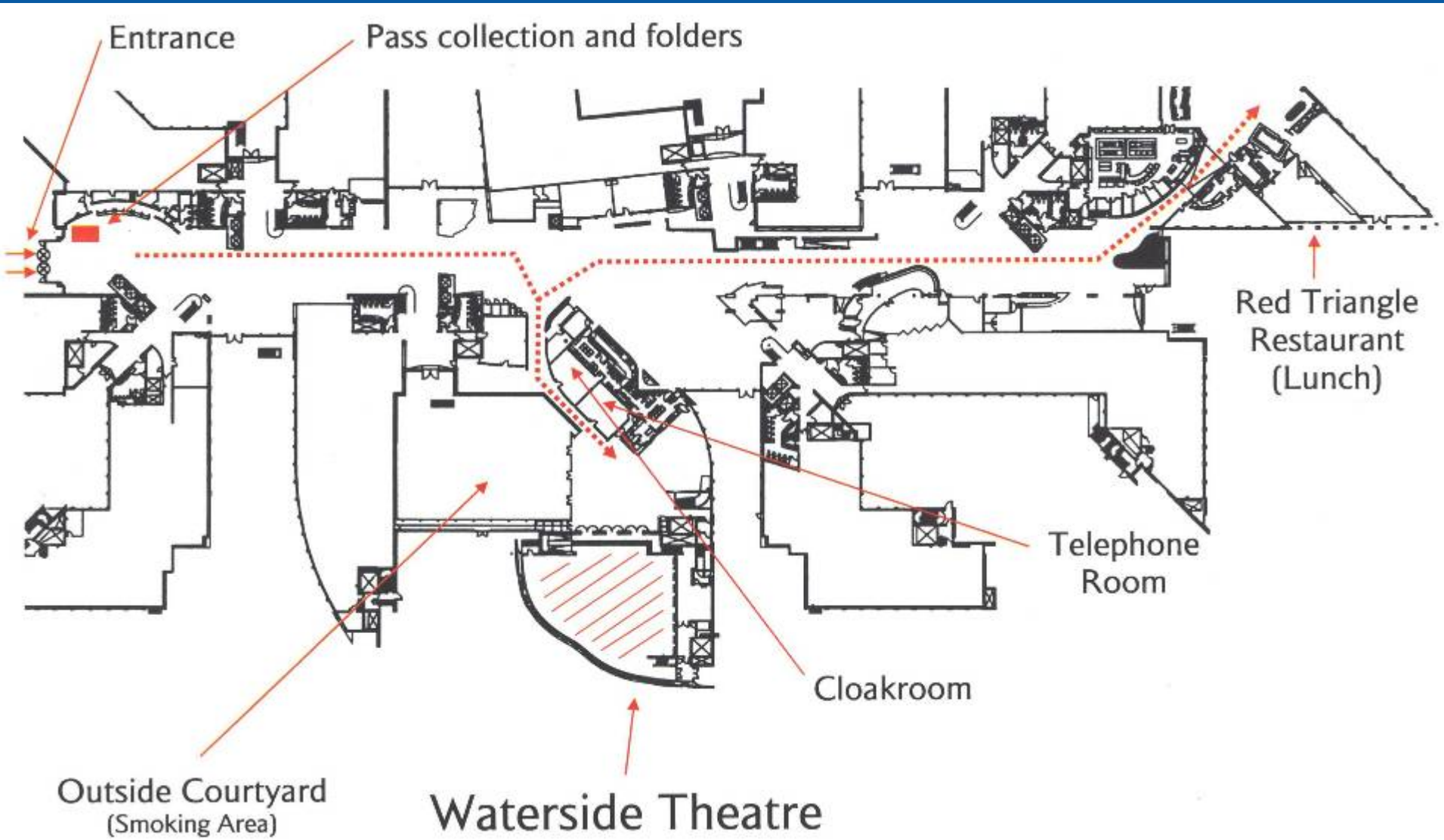
Group Treasurer & Head of Investor Relations

Fire health and safety

- Fire alarm
  - continuous alarm: evacuate building
  - assembly point: courtyard Americas house
  - do not use lifts, do not stop to collect belongings
- Accidents
  - first-aider at reception
  - advise emergency services by calling 9-999 at reception
- No smoking
  - smoking area in Americas courtyard

PLEASE TURN OFF ALL MOBILE PHONES

Waterside plan



Feedback

British Airways Investor Day 2009

FEEDBACK FORM

We hope that you enjoyed your day with us here at Waterside and that you found it informative and helpful in assessing British Airways.

In order to improve ourselves we would value feedback. Would you please list for us the two biggest concerns that you have about an investment in British Airways at this time and also rate each of the sessions that you had today as well as your overall impression of the day.

Please indicate if you are:

- Buy Side ☐
- Sell Side ☐
- Debt Analyst/Investor ☐
- Other ☐

INVESTMENT CONCERNS:

My biggest two concerns about an investment in British Airways at this time are:

1.

2.

OVERALL EVALUATION:

	Poor	Fair	Good	V. Good	Excellent
Overall value of the day					
Breadth of topics					
Consistency					
Organisation					
Conference facilities					
Audio visual quality					
Handouts					

Comments:

1

Competition

British Airways Investor Day 2009

COMPETITION

Prize for Winner

What were the 3 most encouraging messages that you heard today?

1

2

3

NAME

COMPANY

E-MAIL

(Winner will be notified by E-Mail)

PLEASE HAND YOUR COMPLETED FORM TO A MEMBER OF BA STAFF

BRITISH AIRWAYS

www.bashares.com www.badebtholders.com www.bashareholders.com

Agenda

Introduction	George Stinnes
Welcome	Martin Broughton
Opening remarks	Willie Walsh
Updates from business areas:	
Strategy	Robert Boyle
Customer	Silla Maizey
Coffee break	
Operations	Andy Lord
Sales and marketing	Drew Crawley
People	Tony McCarthy
Lunch	
Financial outlook	Keith Williams
Balance sheet and liquidity	George Stinnes
Coffee break	
Closing remarks	Willie Walsh
Question and answer	

BRITISH AIRWAYS

Martin Broughton

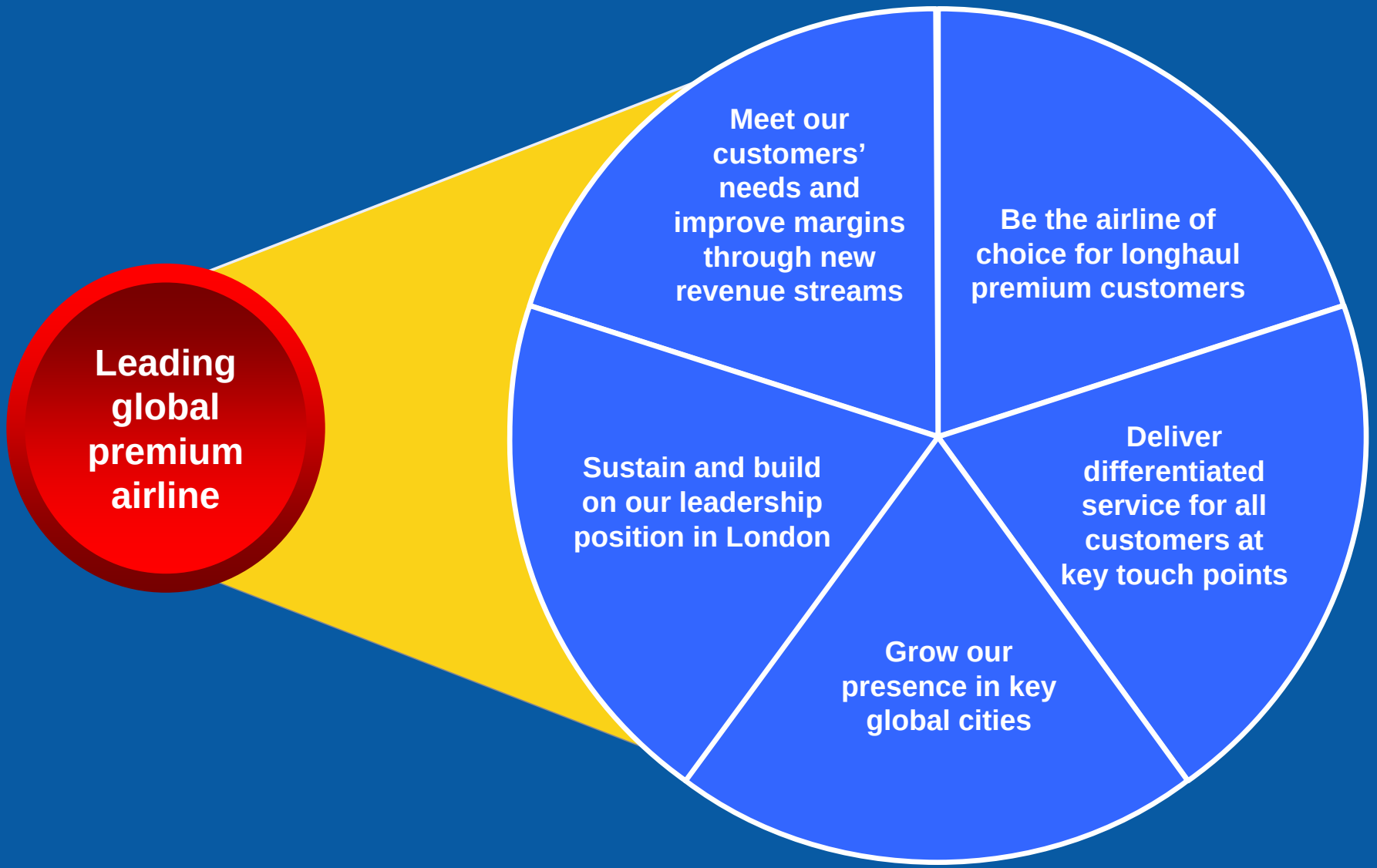
Chairman

BRITISH AIRWAYS

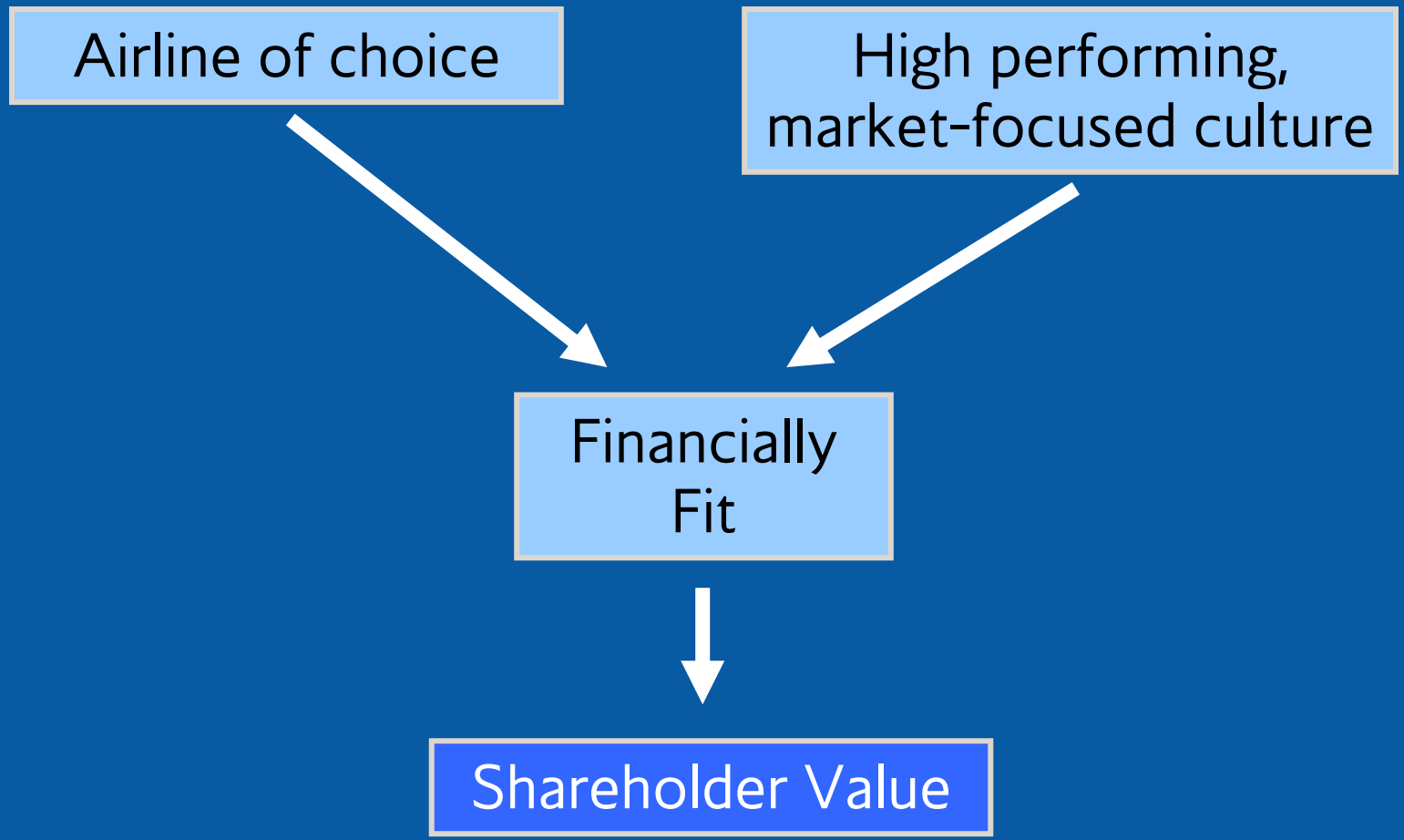
Willie Walsh

Chief Executive Officer

To be the leading global premium airline


Leading global premium airline
Meet our customers' needs and improve margins through new revenue streams
Be the airline of choice for longhaul premium customers
Deliver differentiated service for all customers at key touch points
Grow our presence in key global cities
Sustain and build on our leadership position in London

Core themes of our business plan



Dual focus

Short-term survival

Long-term competitiveness

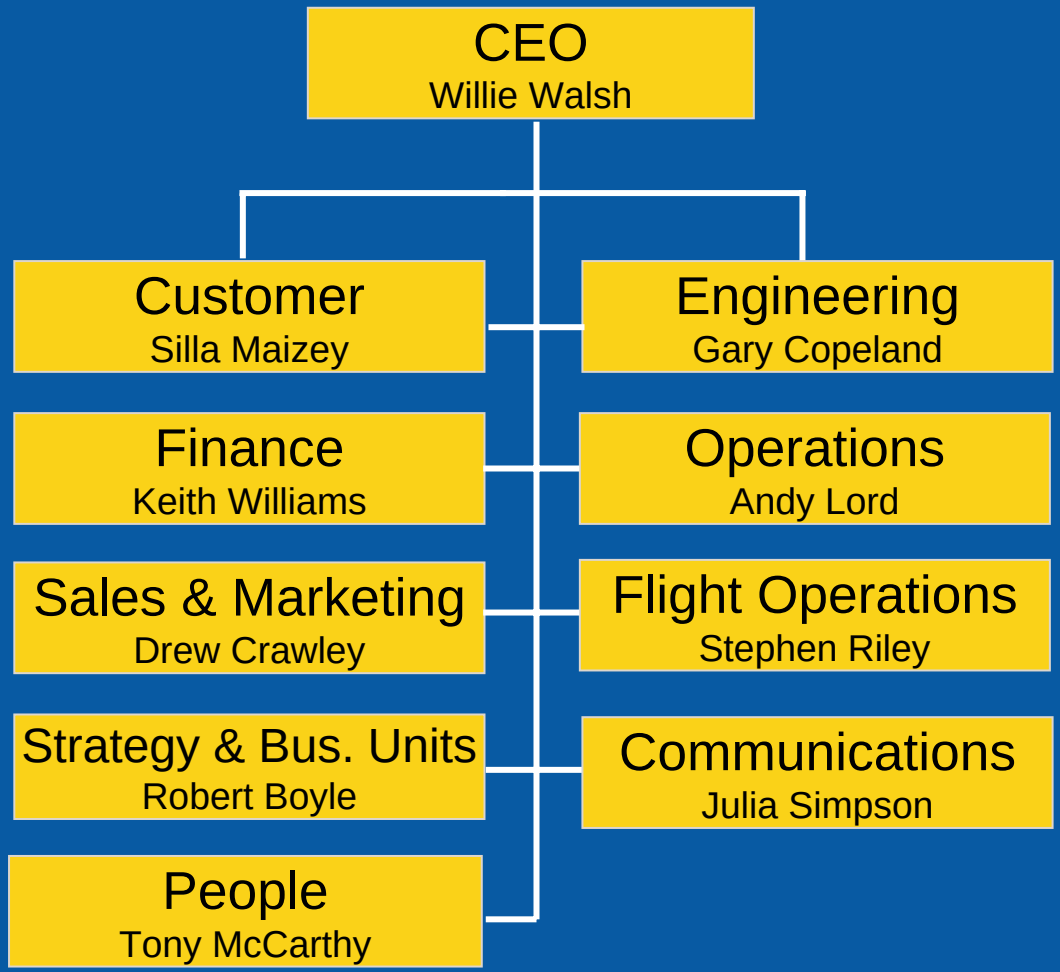
Customer

Cost

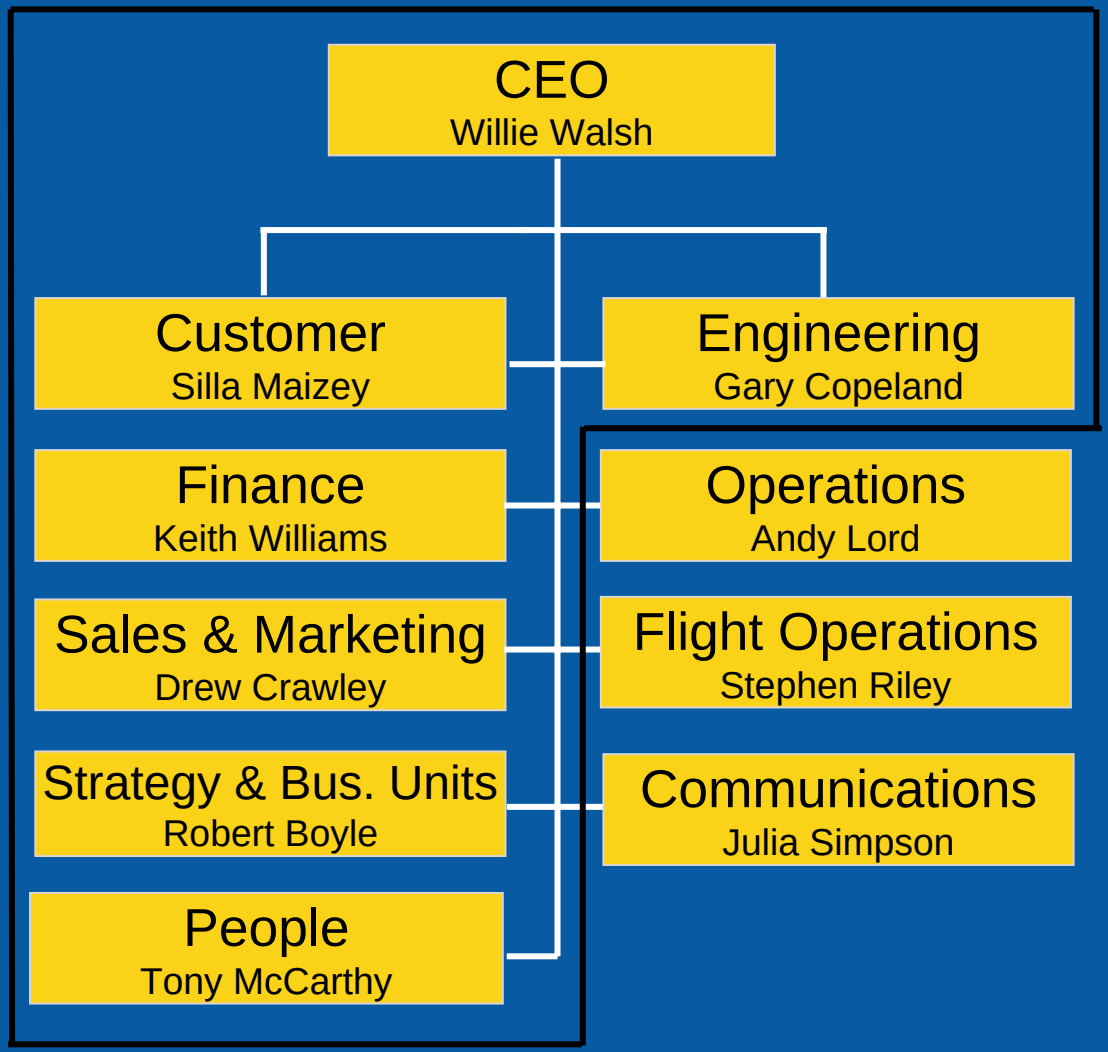
Cash

Investment

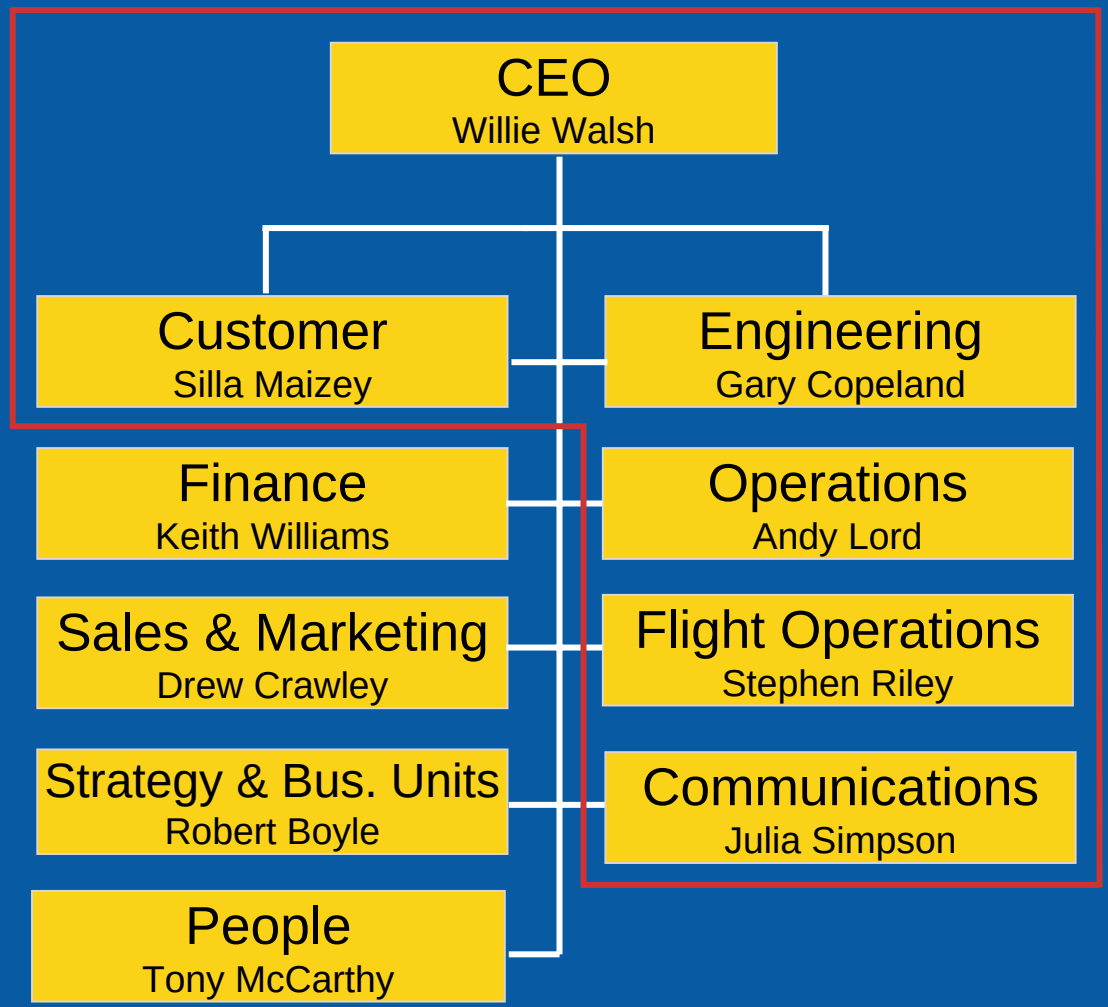
Management Structure



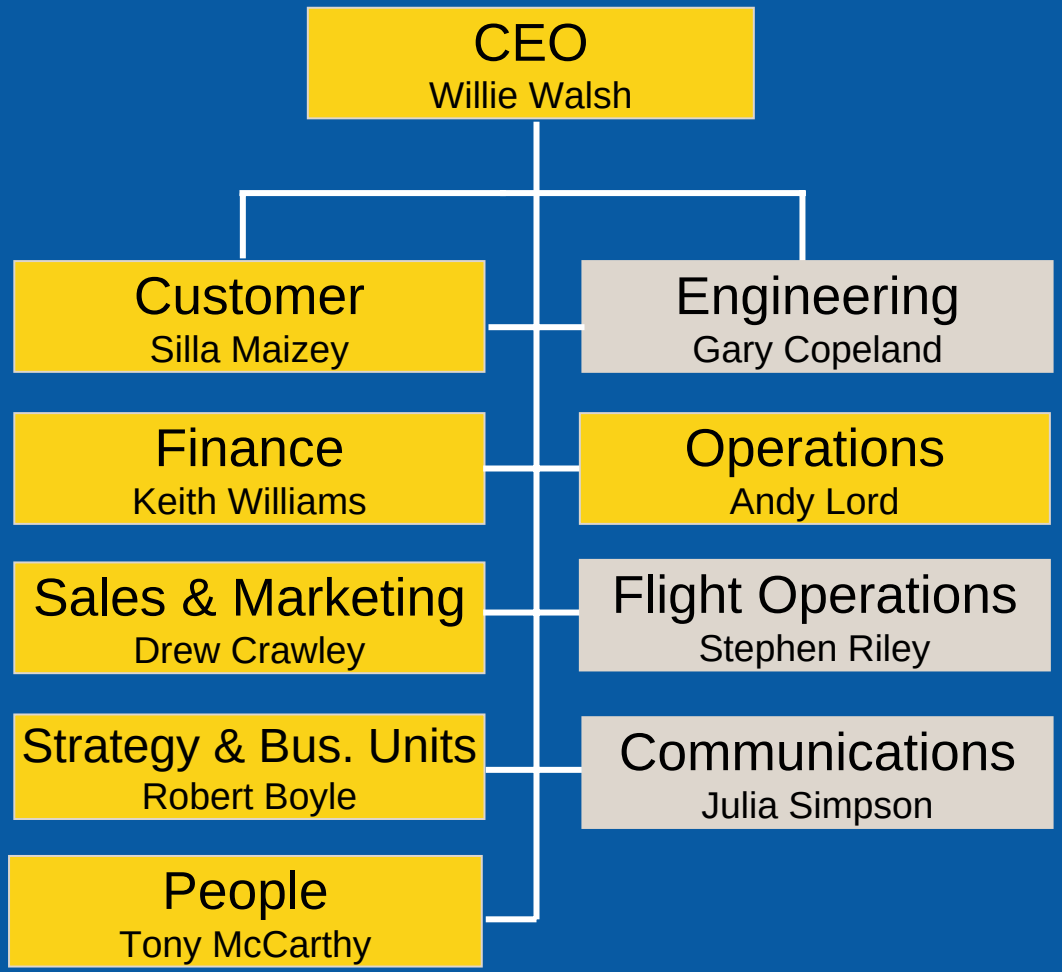
Management Board



Customer and Operations Executive



Today's presentations



BRITISH AIRWAYS

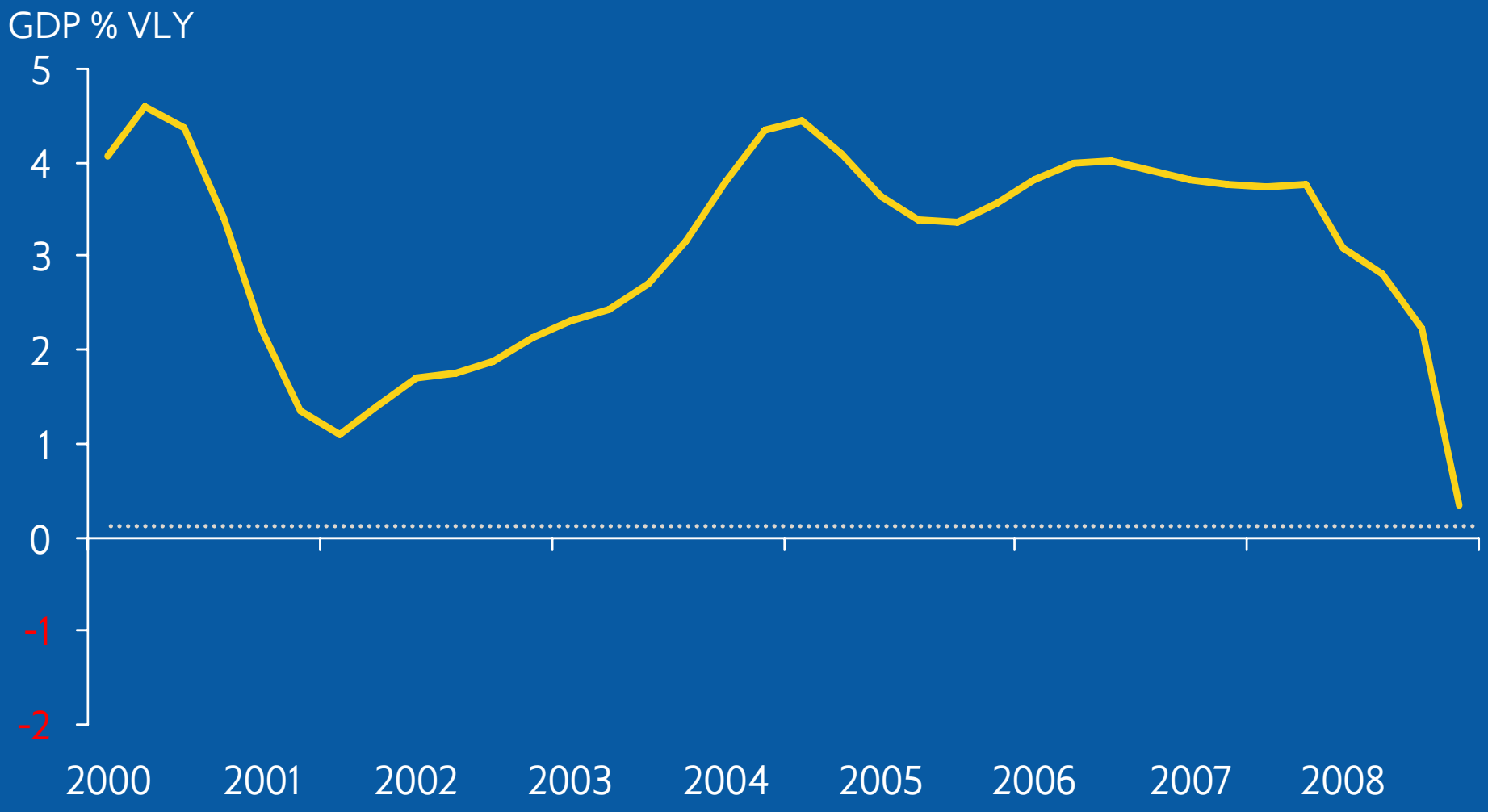
Robert Boyle

Director of Strategy and Business Units

Strategy

Industry Context

Global recession



Source: Oxford Economics and Capital Economics, February 2009. Calendar years

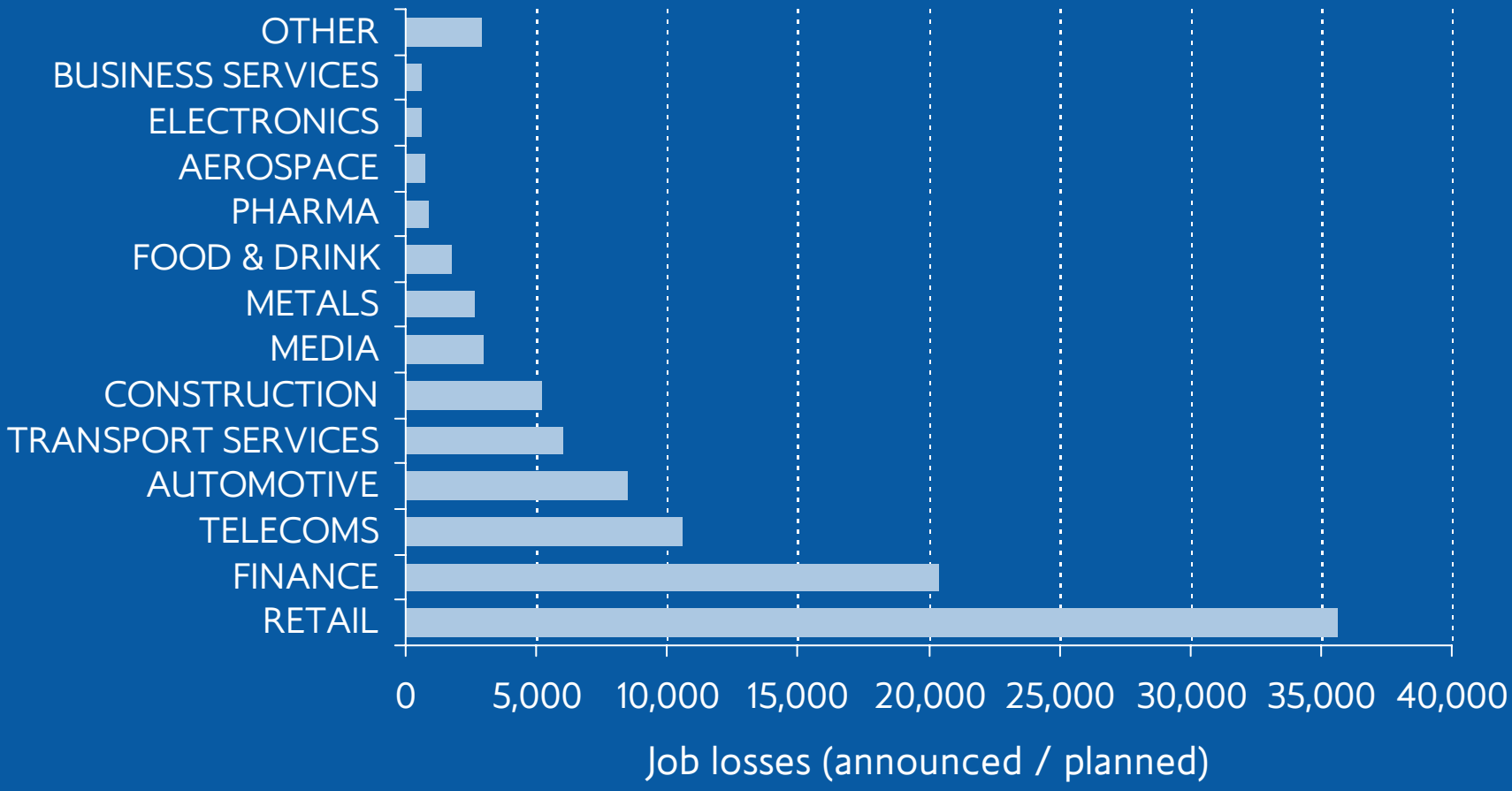
Outlook for 2009 sharply downgraded

	Forecast Date		
GDP %	**November 08**	**January 09**	**Change**
UK	(1.0)	(2.7)	(1.7)
USA	(0.4)	(2.0)	(1.6)
France	(0.3)	(1.9)	(1.6)
Germany	(0.7)	(2.3)	(1.6)
Japan	(1.1)	(3.0)	(1.9)
China	8.4	5.6	(2.8)
India	6.0	4.0	(2.0)

Source: Oxford Economics

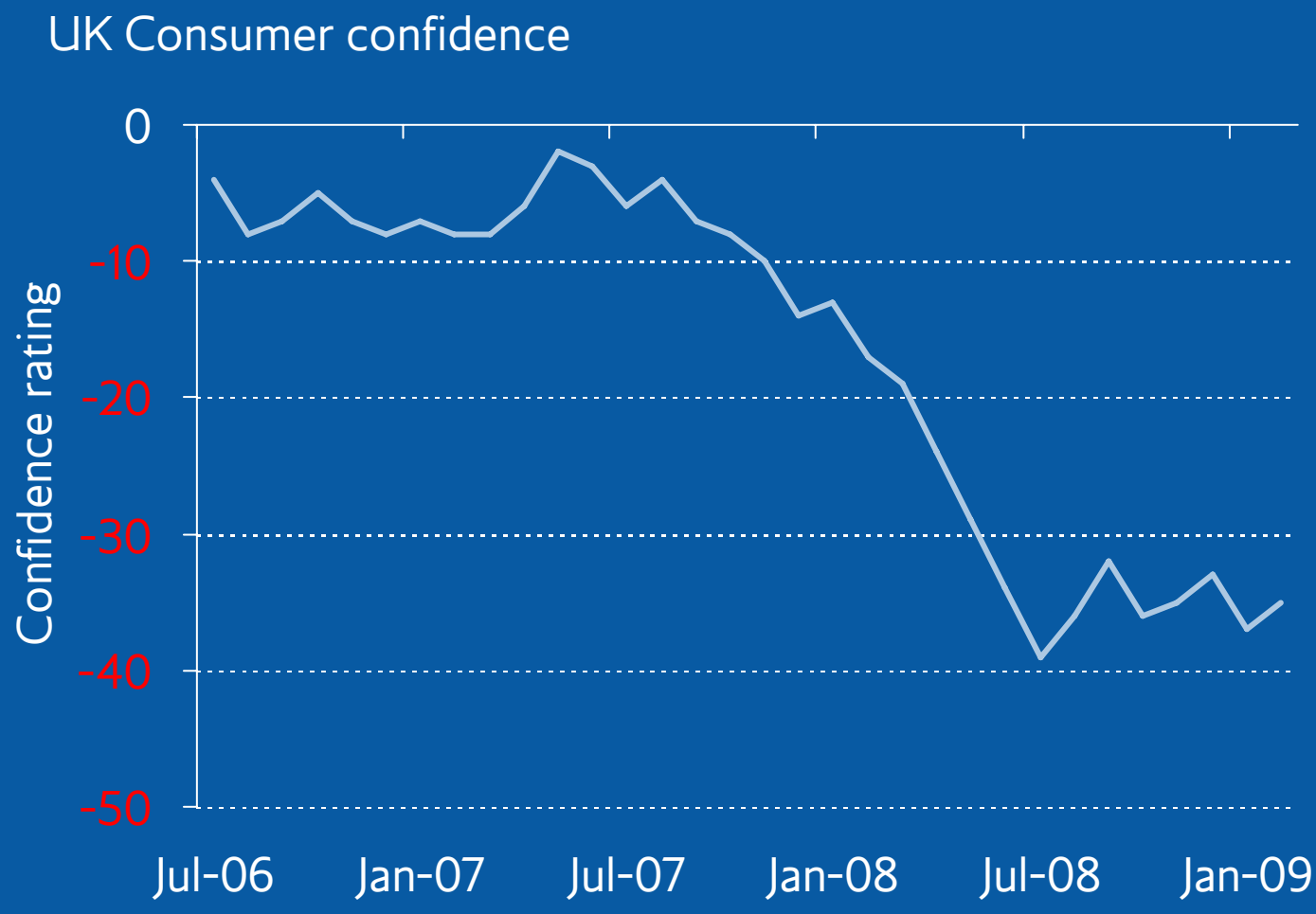
Down-turn affecting broad range of sectors

UK job losses by sector



Source: Based on media announcements since November 2008

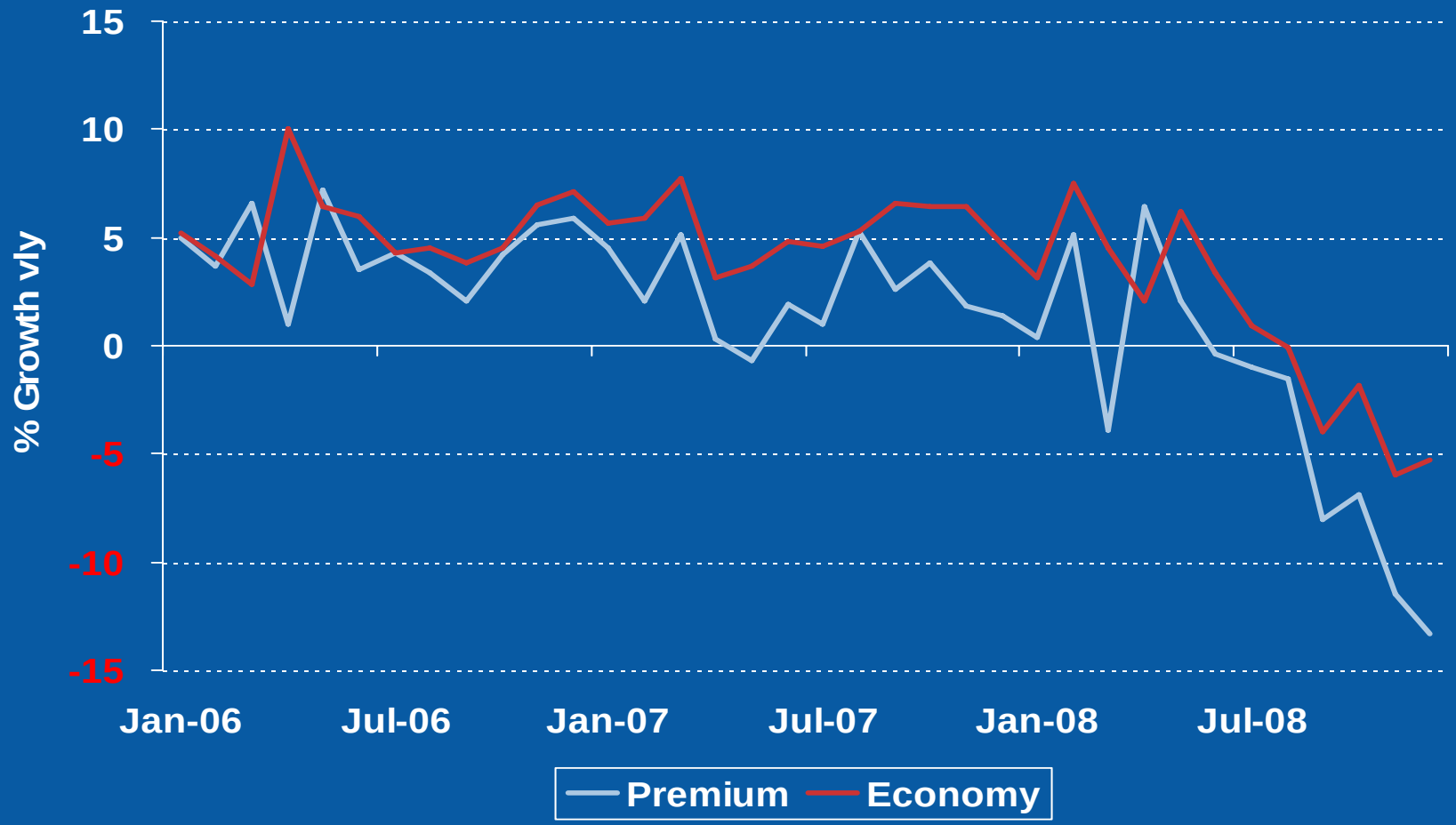
Consumer confidence at an all time low



Source: GfK NOP

Global air travel hit hard

Global passenger traffic growth

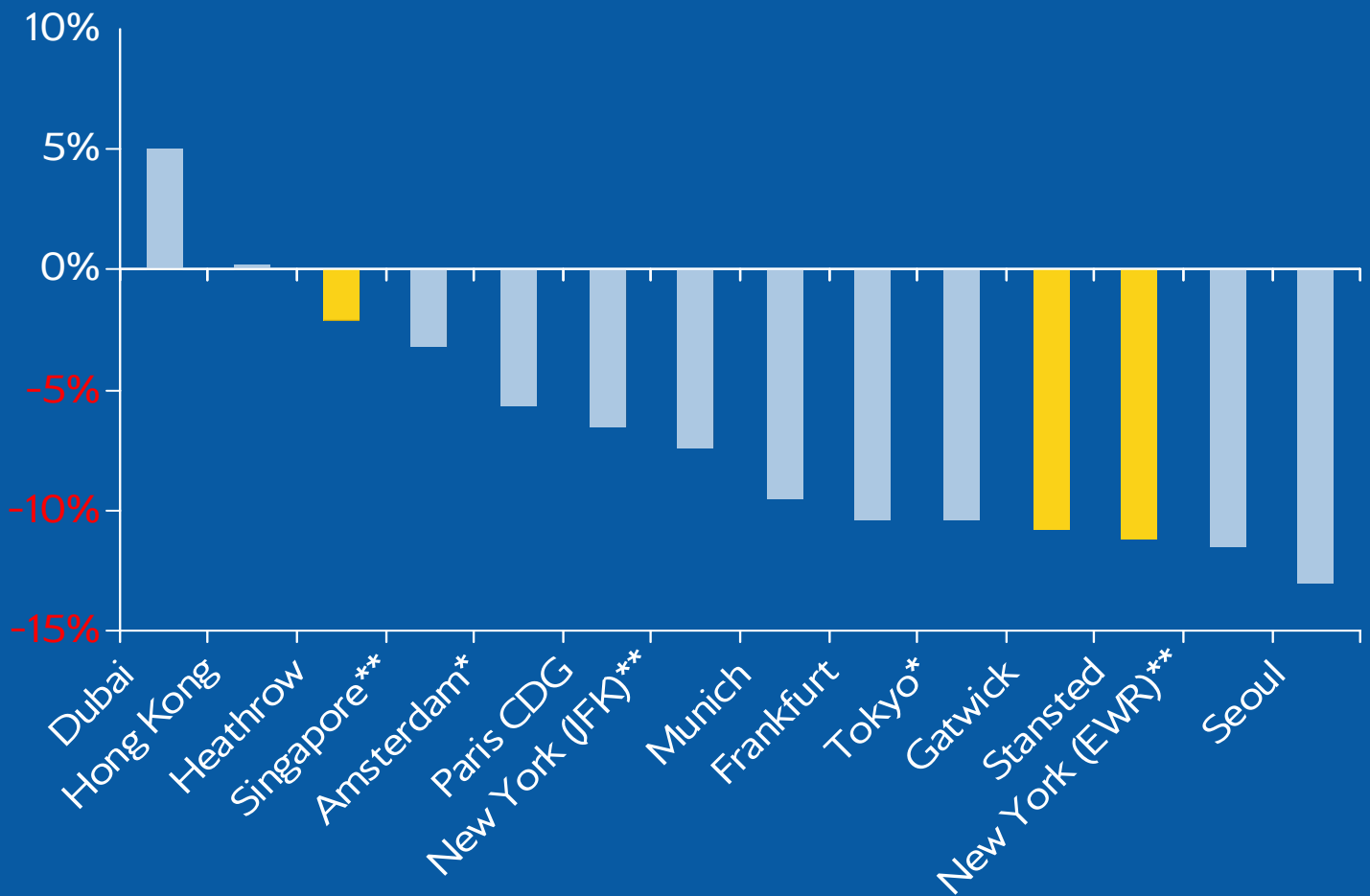


Source: IATA

Several airline failures

Heathrow faring relatively well

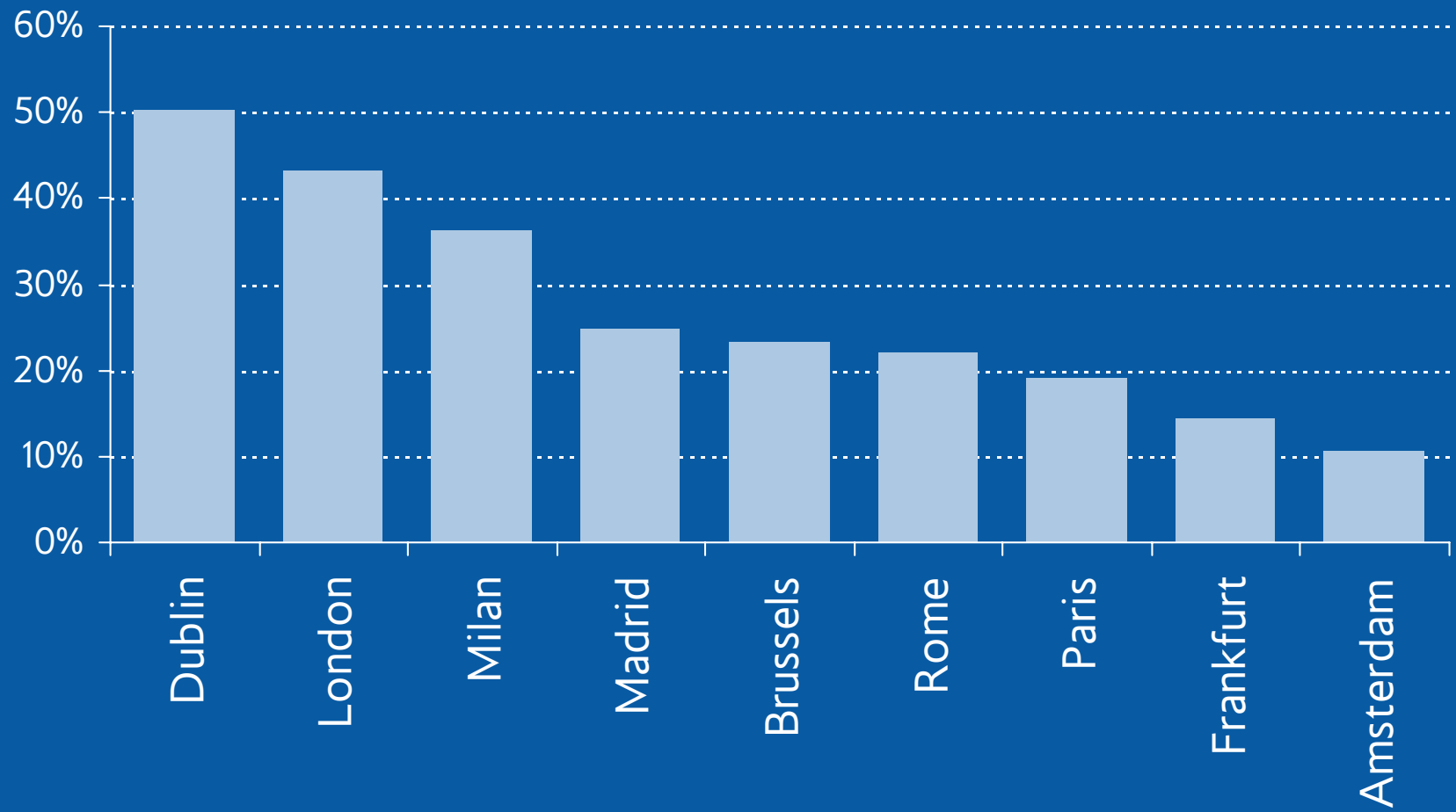
Airport passenger numbers, change versus last year



January 2009, unless indicated * Dec 2008, ** Nov 2008

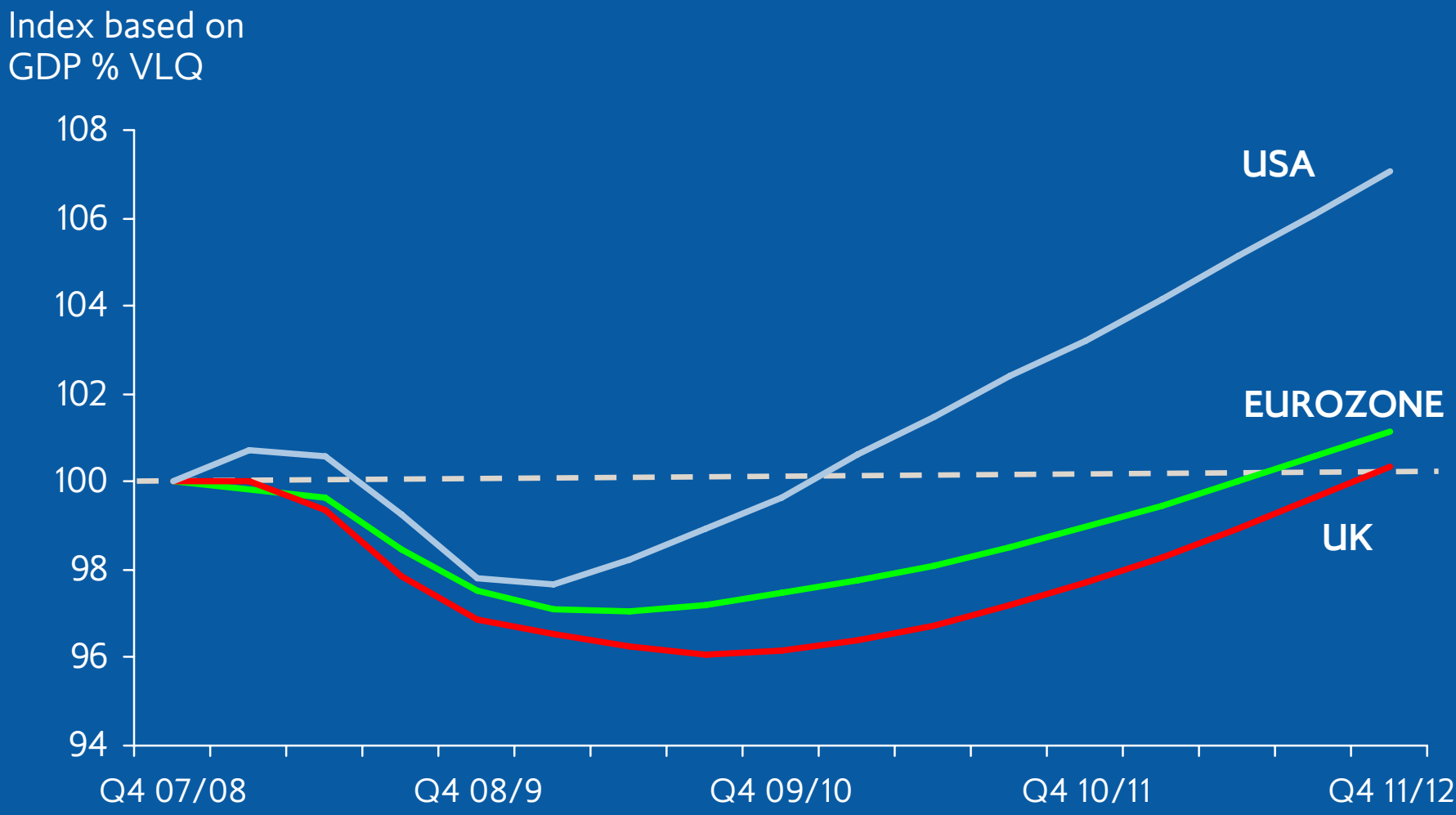
London LCC penetration closer to maturity

Proportion of seats to European destinations offered by low cost carriers



Source: OAG scheduled seats, March 2009.

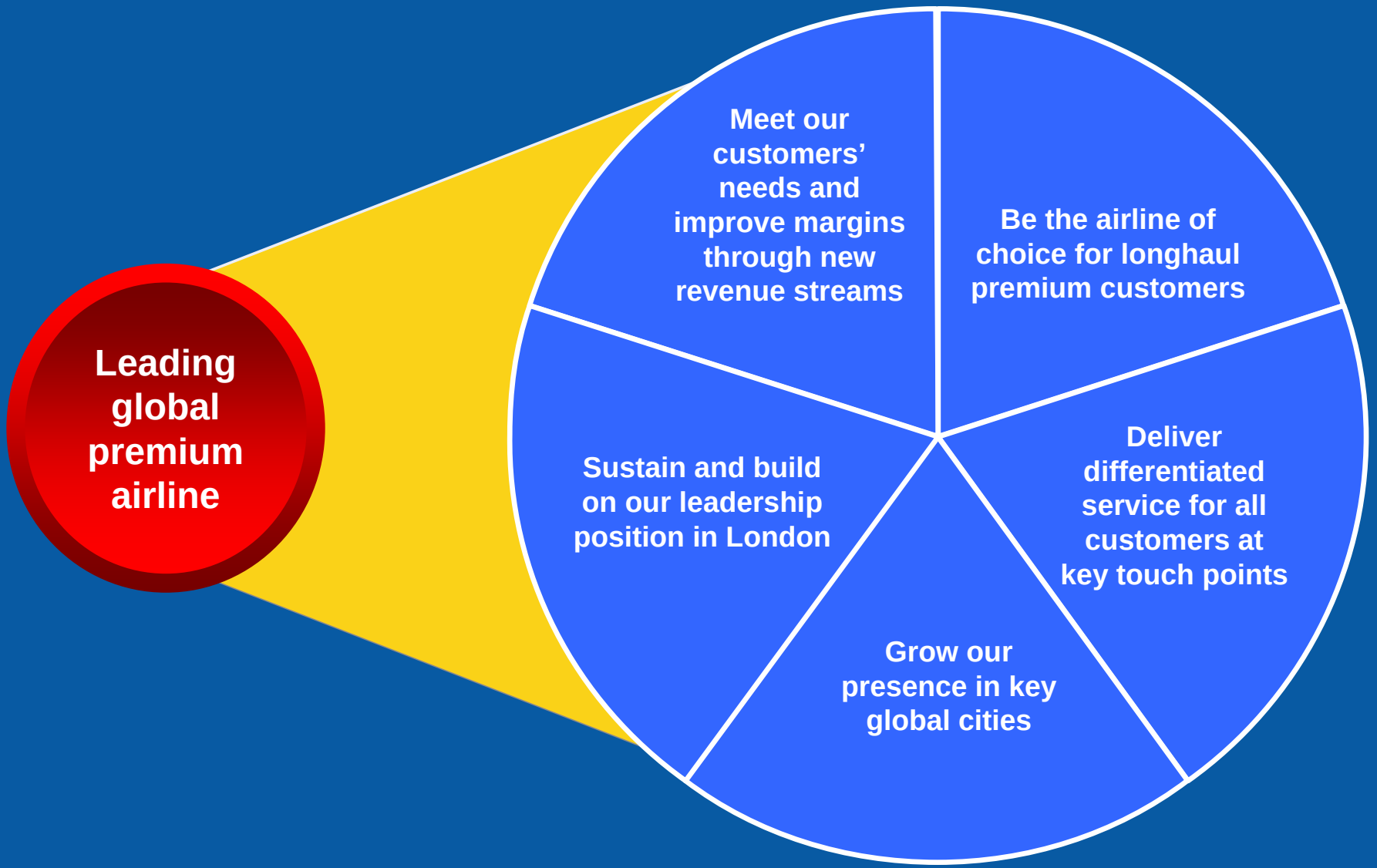
US expected to lead recovery during 2009-10



Source: Oxford Economics and Capital Economics, February 2009

Long-term strategy

To be the leading global premium airline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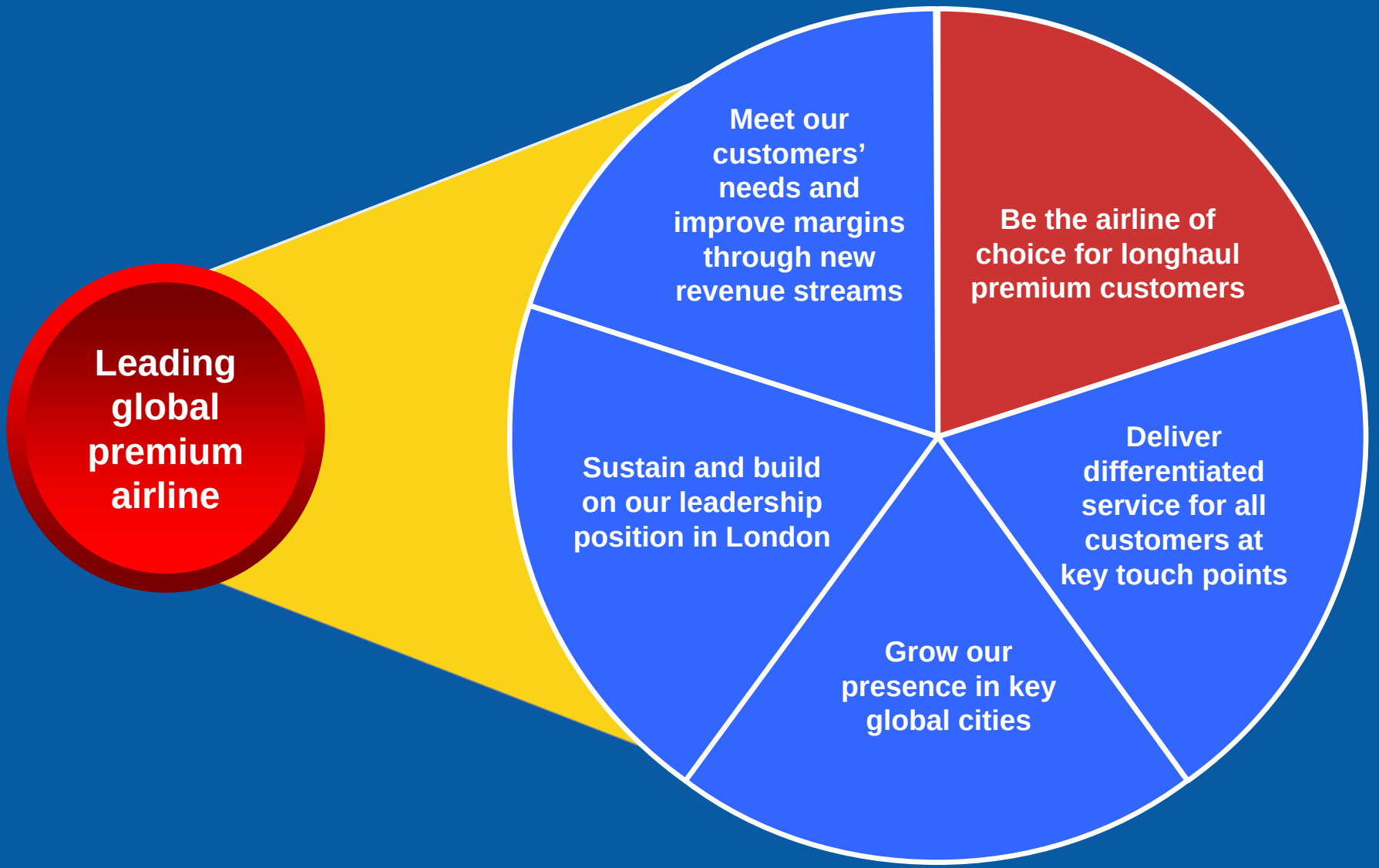
Grow our presence in key global cities
Sustain and build on our leadership position in London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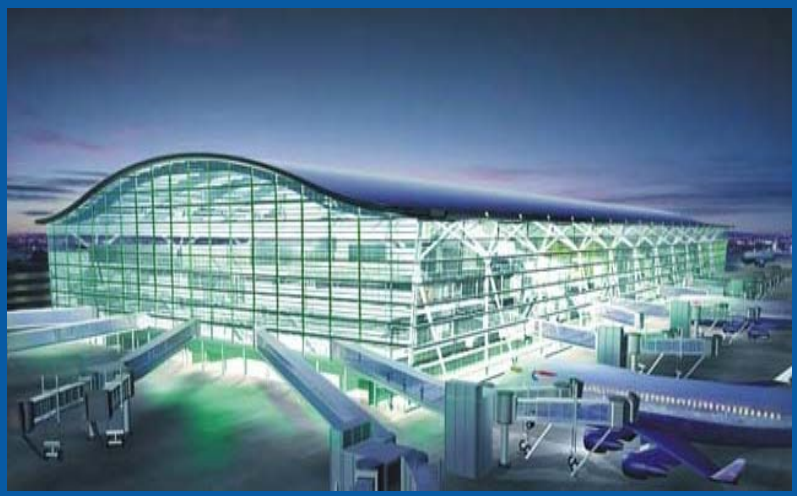
Products to be proud of

First
BRITISH AIRWAYS

Heathrow as a global hub

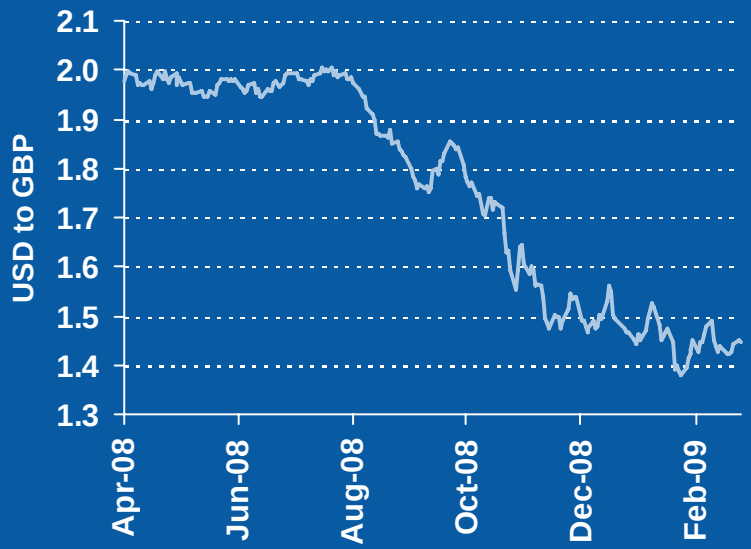


- Historically constrained by runway and terminal capacity
- Constraints less of a competitive weakness in downturn

- Opportunity to increase share of the broader market
  - New infrastructure delivering improved connecting experience
  - Currency shifts increase attractiveness of transfer traffic

Sterling decline brings opportunities

c.30% fall in £ vs $



c.10-15% fall in £ vs €

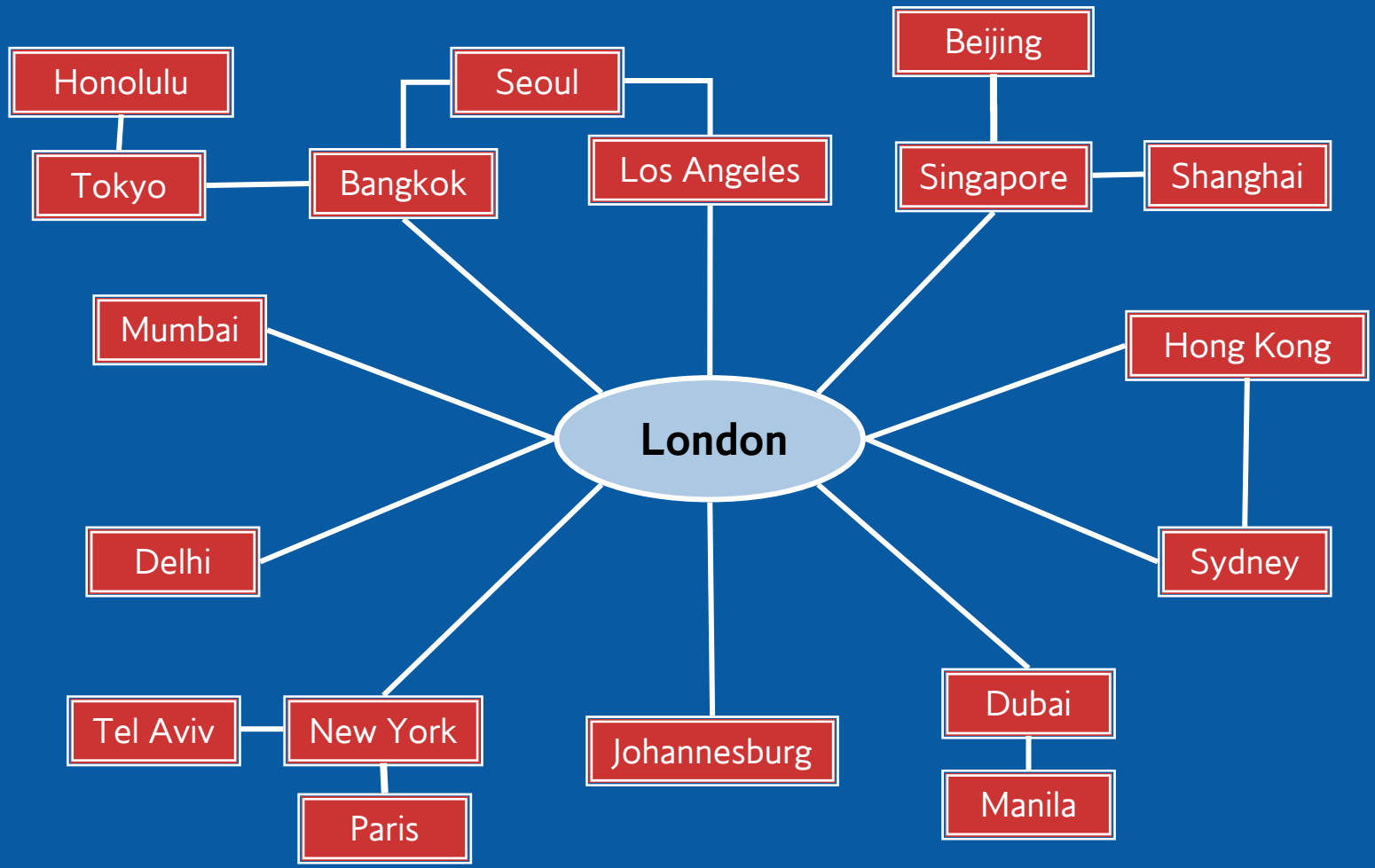
- Significant costs in 'home base' currency
- We estimate that fall in sterling gives us a 5-10% improvement in our relative cost competitiveness versus key European & US competitors

Heathrow well placed geographically

- Can reach all but Australia non-stop
- Especially strong for North Atlantic
- Balanced network portfolio

Well placed to serve largest longhaul flows

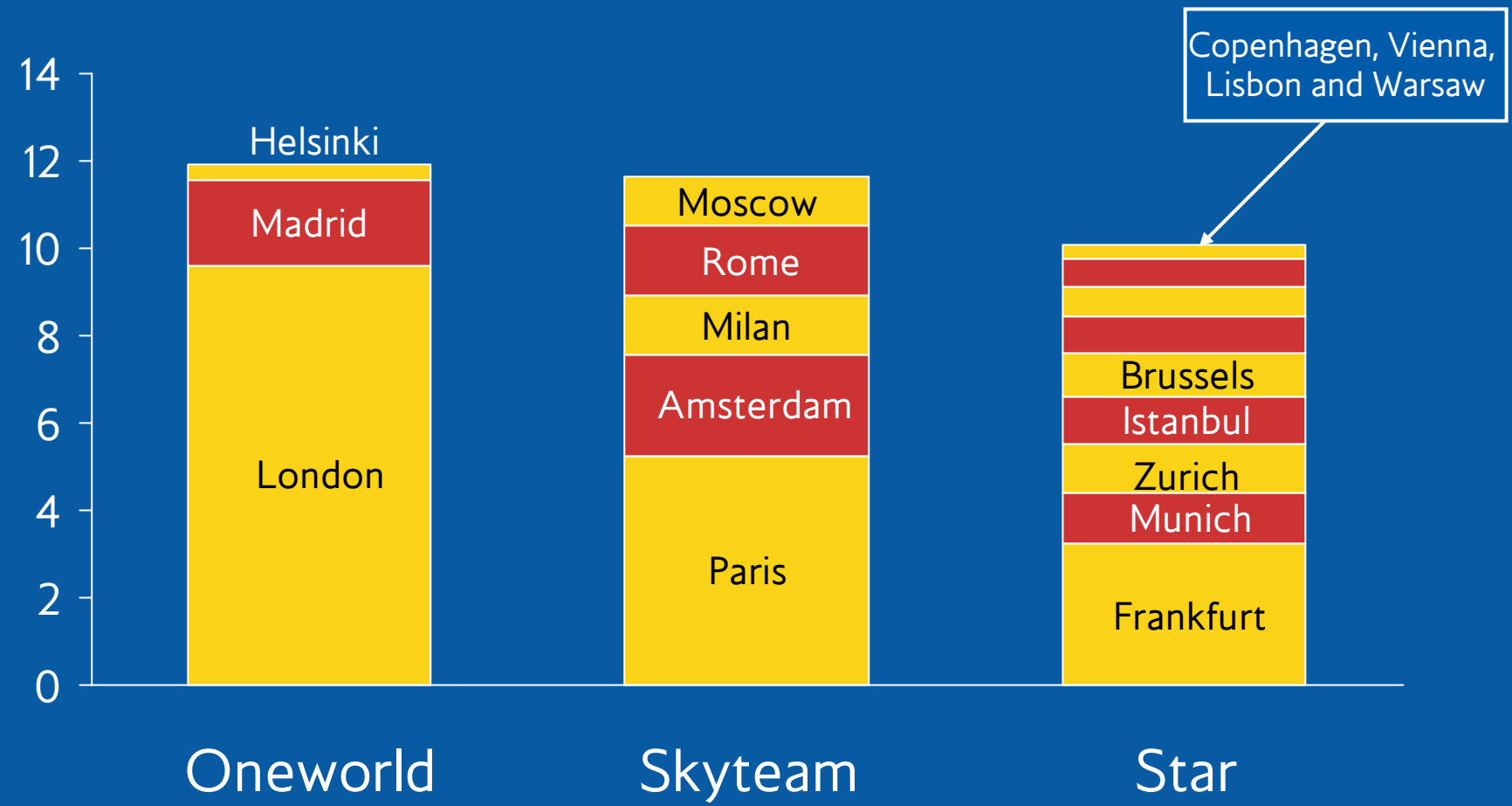
Largest international longhaul O&D markets



Un-factored CRS bookings Jan –Dec 2008, trajets over 2,000 miles..

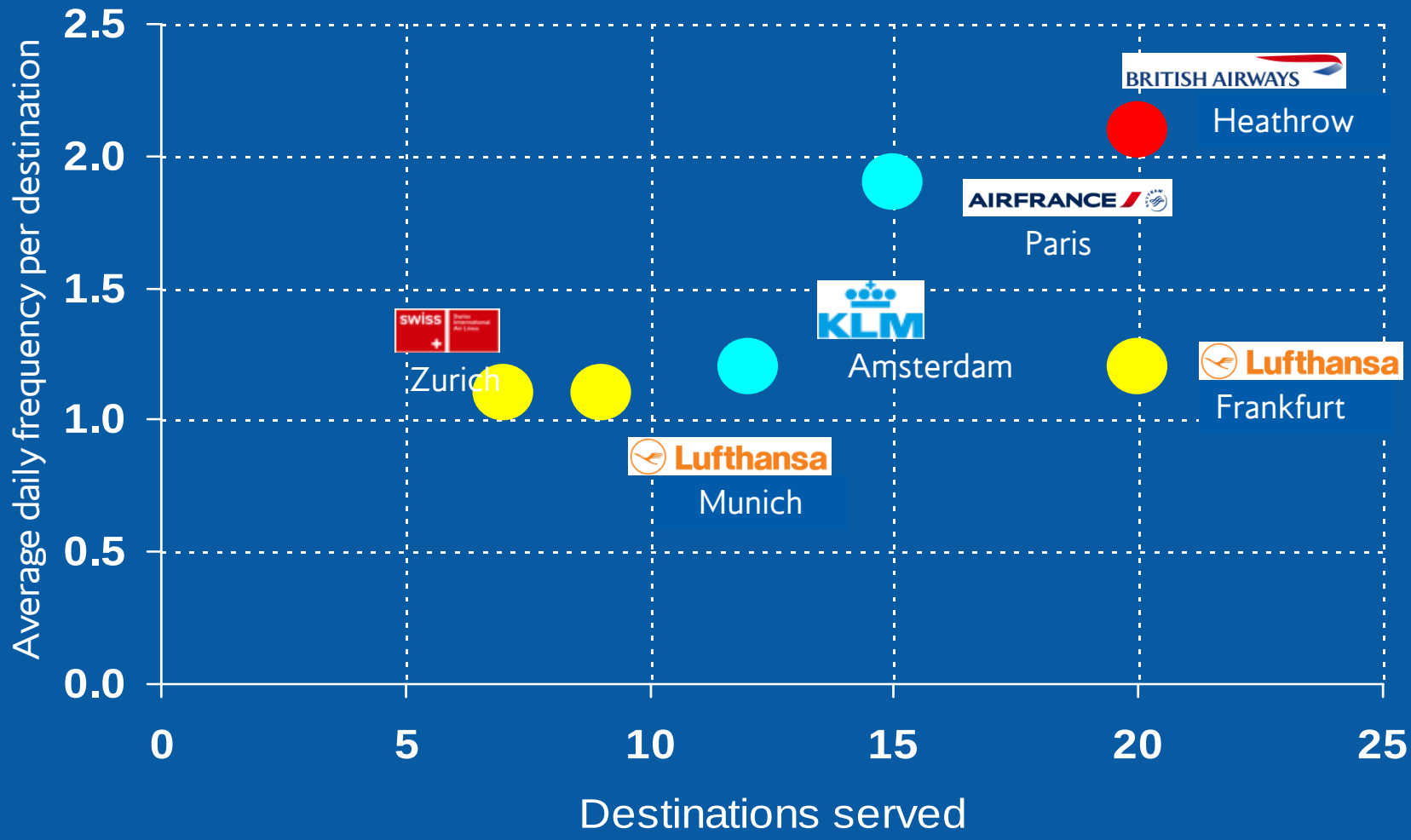
Also well placed in an alliance context

Longhaul passengers by originating European city



CRS passengers Jan – Dec 2008, journeys over 2,000 miles

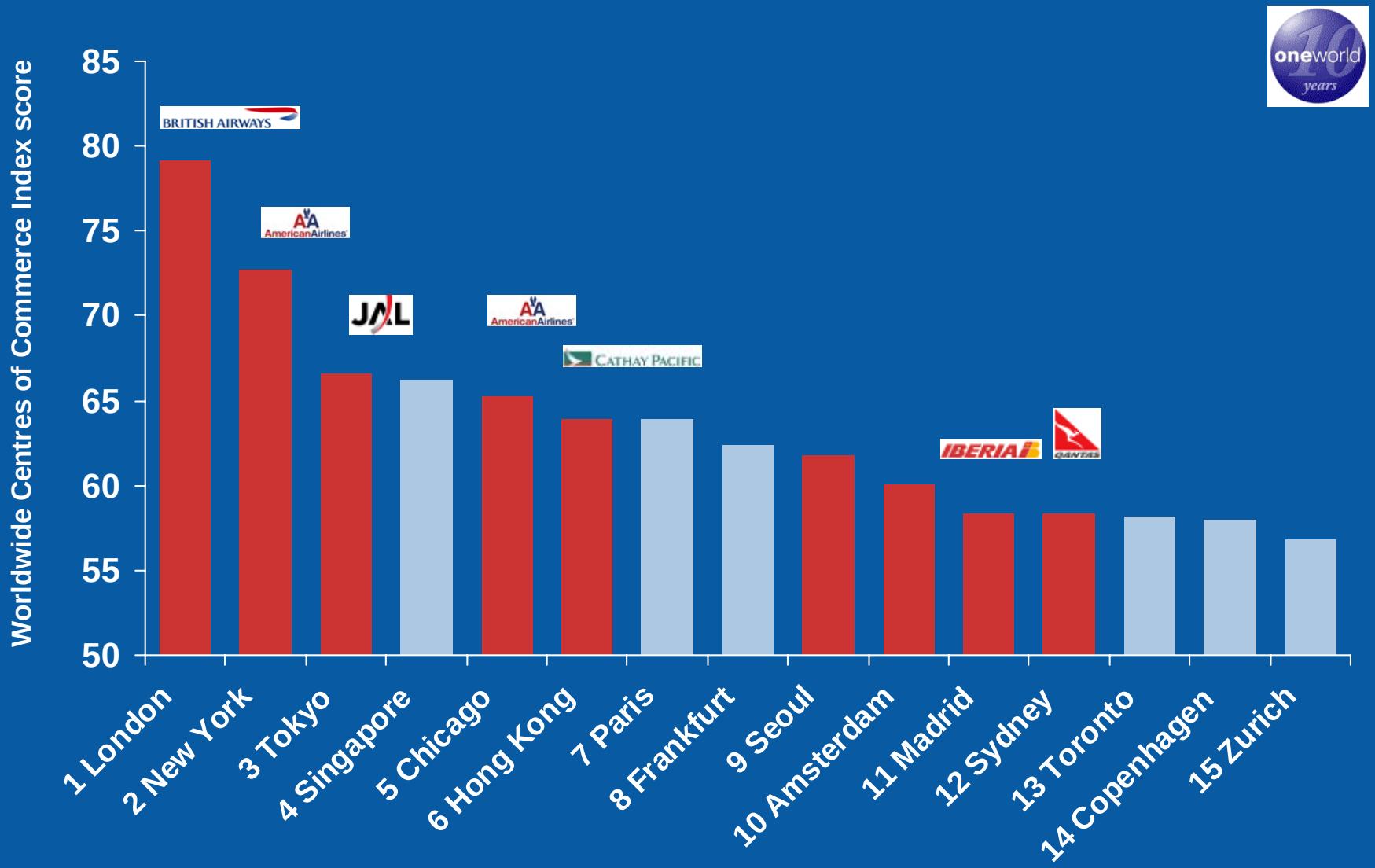
North Atlantic network strength



Source: OAG September 2008 departures

Leading global premium airline

oneworld presence in key Global Cities



MasterCard Worldwide Worldwide Centers of Commerce Index™

Transatlantic joint business agreement

Joint business overview

- Scope: routes from USA, Canada, Mexico to EU, Switzerland, Norway

- Structured cooperation, not an entity
  - Three brands with unique strengths
  - Coordination, not integration of operations

- Key benefit areas
  - Coordinated network and schedule
  - Improved customer service and product
  - Enhanced Frequent Flyer Loyalty benefits
  - Joint selling and pricing
  - Cost savings through cooperation

Regulatory approval: the world has changed

- Transatlantic competition changed dramatically
- US/EU Open Skies a reality
- LHR the most competitive of all European hubs
- New entrants obtained LHR slots to serve US
- Majority of passengers in overlap markets have an alternative nonstop choice
- Major competitors all benefit from transatlantic ATI

Expected timing

- Regulatory filing — August 2008
- Outcome of application — Expected Sep-Oct '09
- Implementation — Planning underway

Targeting benefit delivery from early 2010

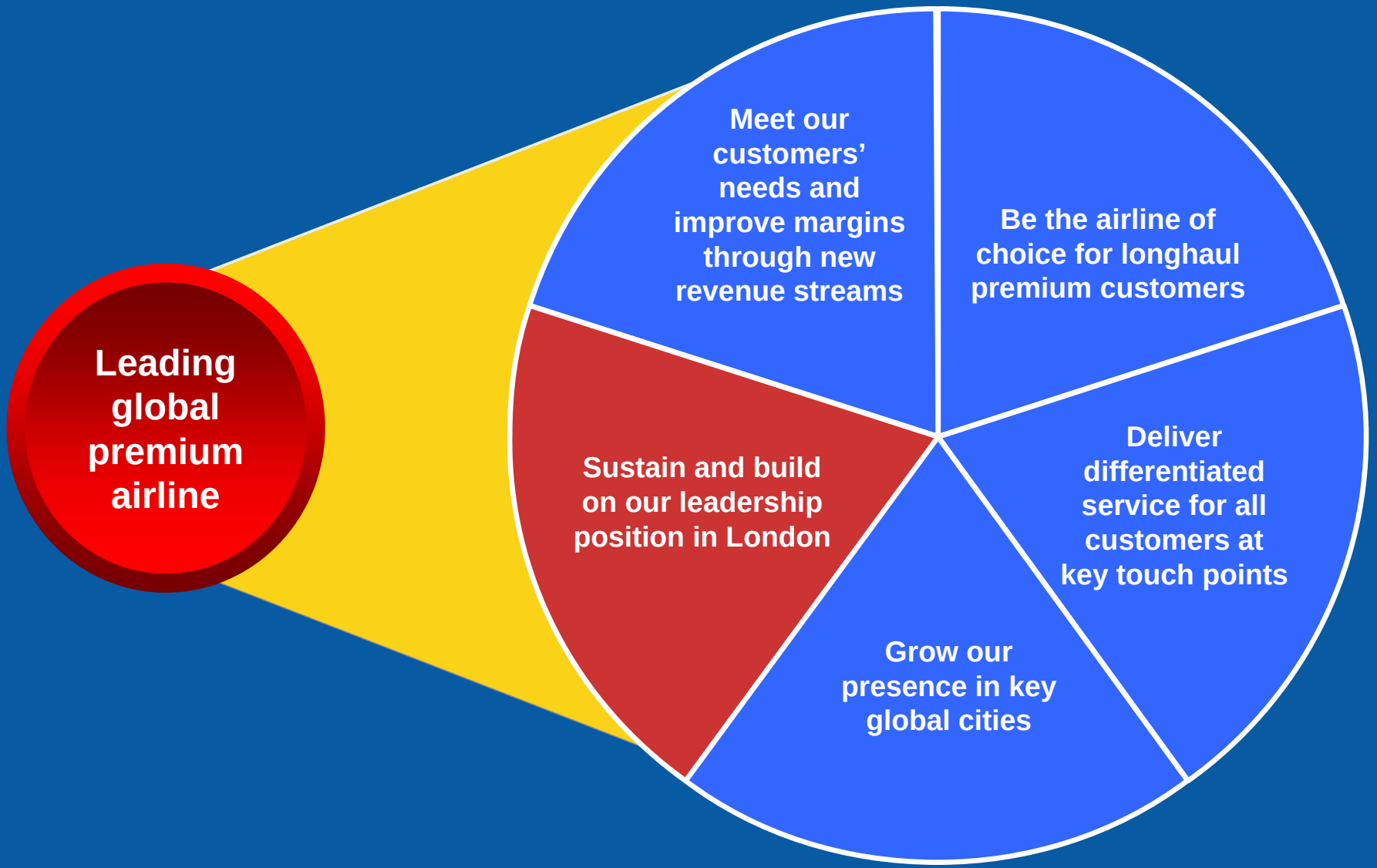
OpenSkies

- Strategically supports presence in key global cities
- Launch environment challenging
- Growth slowed in response
- Great customer feedback
- Building market share

Continuing focus on emerging markets

	BA daily services	**one**world partners
Latin America	3.0	Iberia, LAN, American
Russia	4.3	
India	6.4	
China	4.7	Cathay Pacific

Seeking additional **one**world members in these focus areas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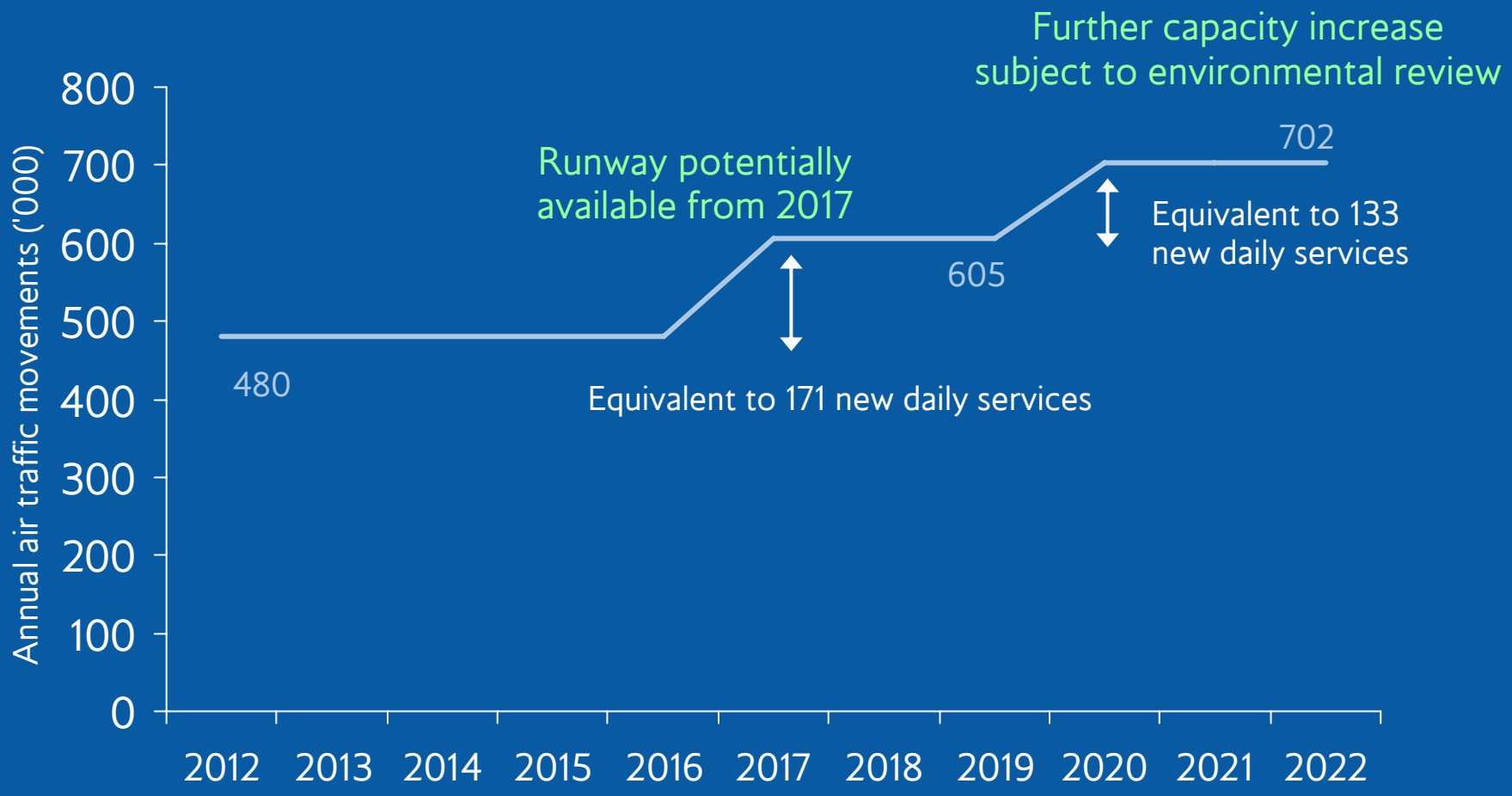
BA well positioned in London

	Daily Departures	Daily ASKs (m)
Heathrow	277	378
Gatwick	80	45
London City	30	4

Heathrow R3 – longer term opportunity

Growth in movements at LHR



Heathrow new longhaul aircraft

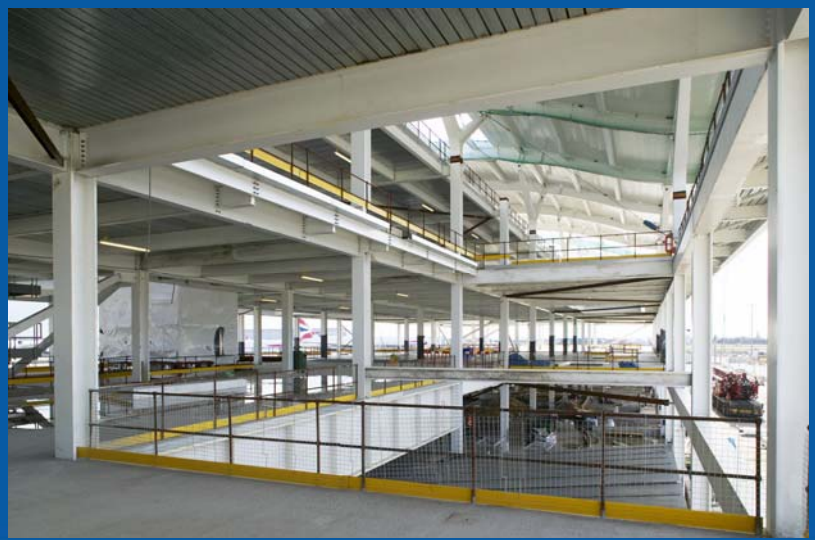
- A380 replacing B747-400s
- B777-300ER for growth
- B787-8 / B787-9 replacing B767s / growth

- Noise (QC) reductions of up to 58% versus oldest aircraft

Local Noise	B747-400	A380	B777-300ER	B767	B787-8	B787-9
QC (dep)	4	2	2	2	1	2
QC (arr)	2	0.5	1	1	0.5	0.5
Impact	Better by ...	58%	50%	Better by ...	50%	17%

Source: Certified data and guaranteed data

Heathrow infrastructure improvements



- Completion of co-location of **one**world in T3
- T5C
- Baggage system

Gatwick

- Adjusting capacity Winter 09
  - Shorthaul aircraft reducing from current 32 aircraft to 24 in Winter 09
  - Longhaul remaining at 8 aircraft
- Longer-term plans under on-going review
- New ownership may provide new opportunities

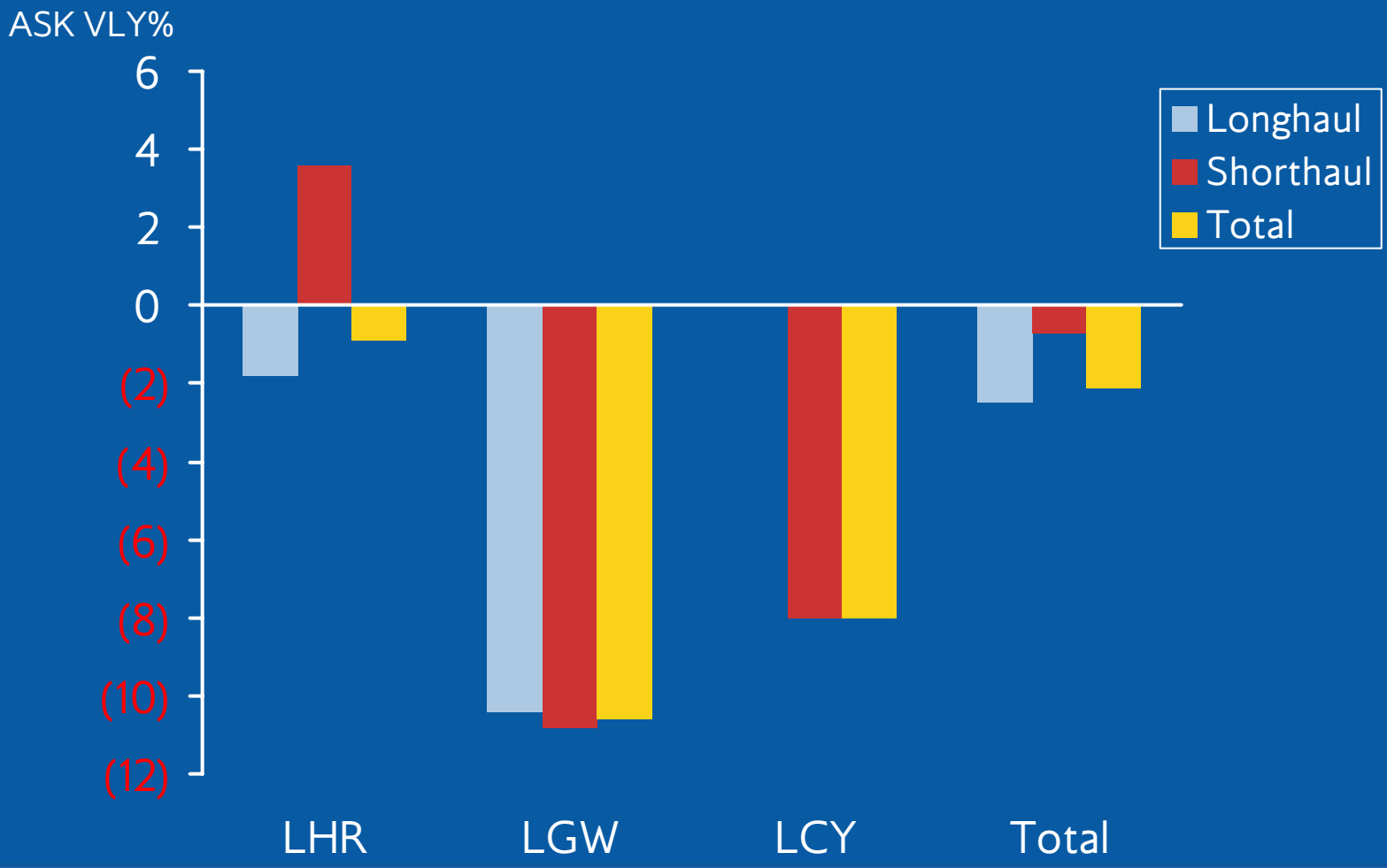
London City

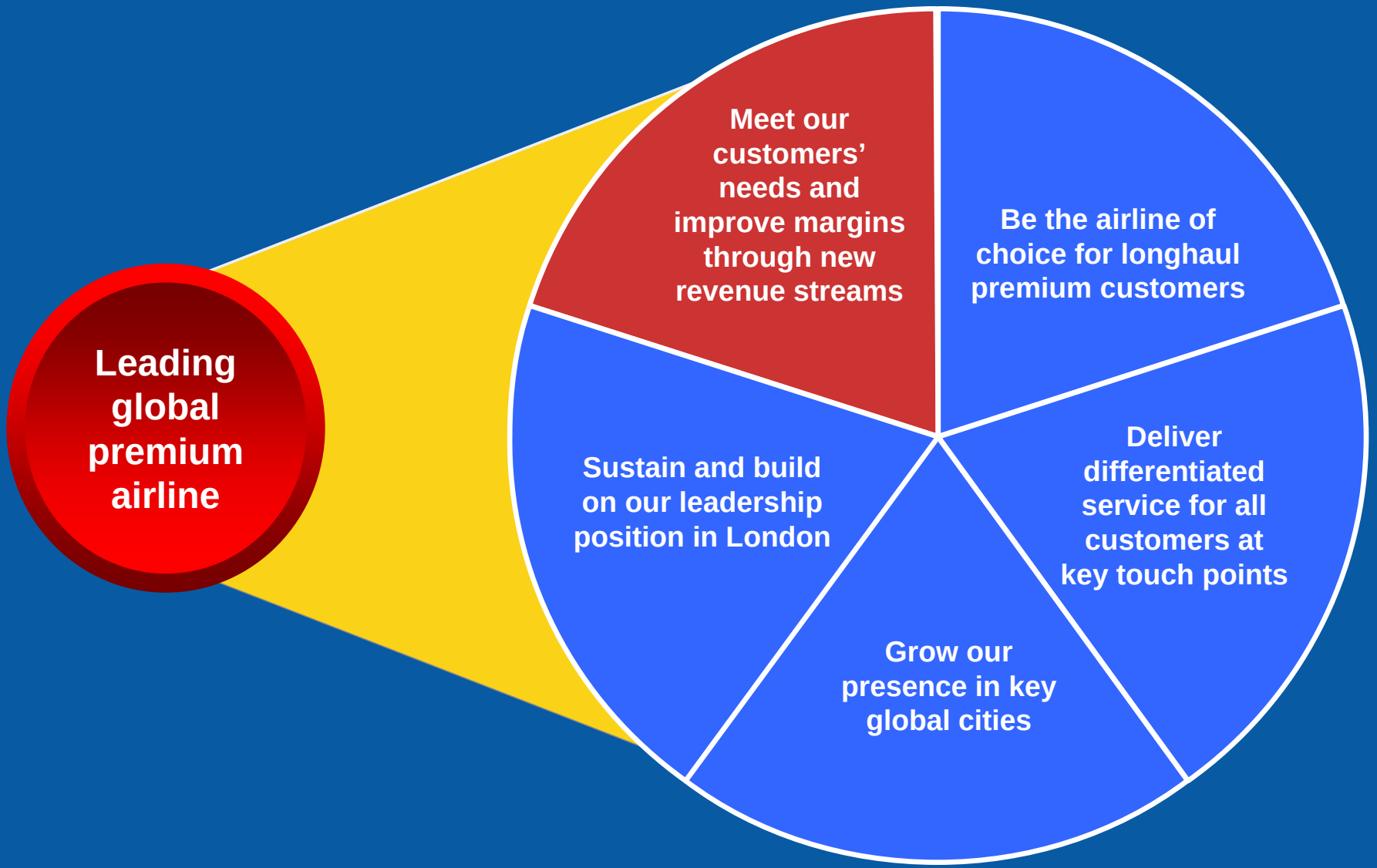
- Destinations and frequency grown to complement LHR
- 56 flights to key business destinations daily
- Reinvestment in fleet
- 2009/10 capacity reduced
  - 17% below previous plans
  - business destinations and frequency maintained

London City – New York

Summer capacity plans

Overall London capacity down around 2 per cent VLY

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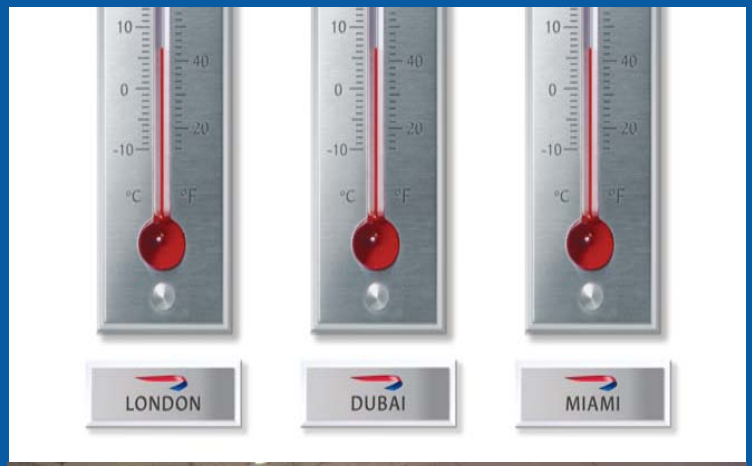
Cargo industry outlook

- Downturn to continue into 2009
- Asia Pacific exports most severely impacted
- Significant decline in yields anticipated
- Recovery anticipated towards end '09
- UK export market may benefit from weaker sterling
- Import demand will remain subdued

BA World Cargo outlook



- Holding share
  - Operational performance improvement in 2008/09
  - Market share gains in US, UK & Indian markets
  - Less capacity exposure to Asia Pacific
- 2009/10 focus
  - Optimise premium mix
  - Deliver customer segmentation

Cargo capacity and cost actions

- Freighter arrangements afford flexibility
- Reduce external expenditure
- Drive productivity and performance
- Significant improvement in unit costs

Mileage

Improve the proposition

Through the line campaign to acquire new Airmiles customers

Grow ancillary sales with redemption bookings

Grow partnership revenue

Other ancillary revenue opportunities

- Further exploitation of ba.com
- Upsell
- Baggage income
- Other partnership opportunities

Strategy summary

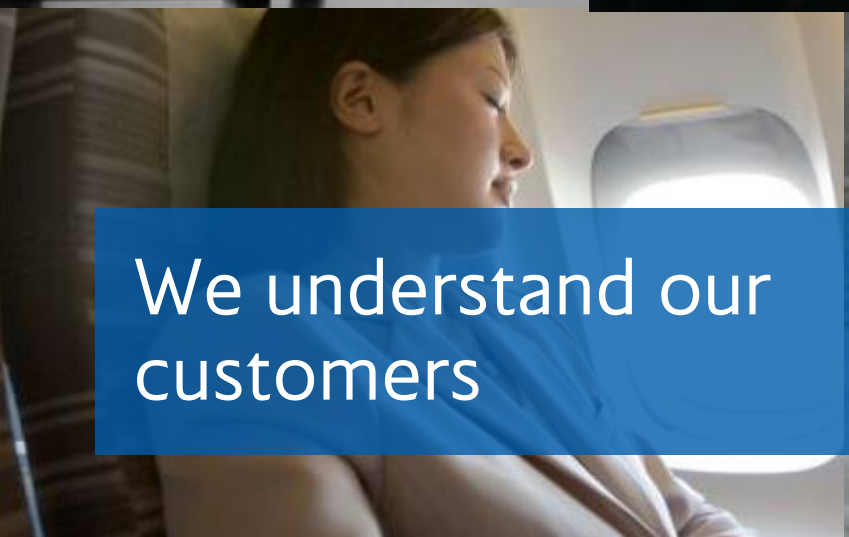
- Challenging environment
- BA well positioned to gain share and be an early beneficiary of a US led upturn
- **one**world opportunities on transatlantic and in emerging markets
- Capacity adjustments in near term, mainly outside LHR
- Remaining focused on long term strategy to be the leading global premium airline

BRITISH AIRWAYS

Silla Maizey

Director of Customer

Customer

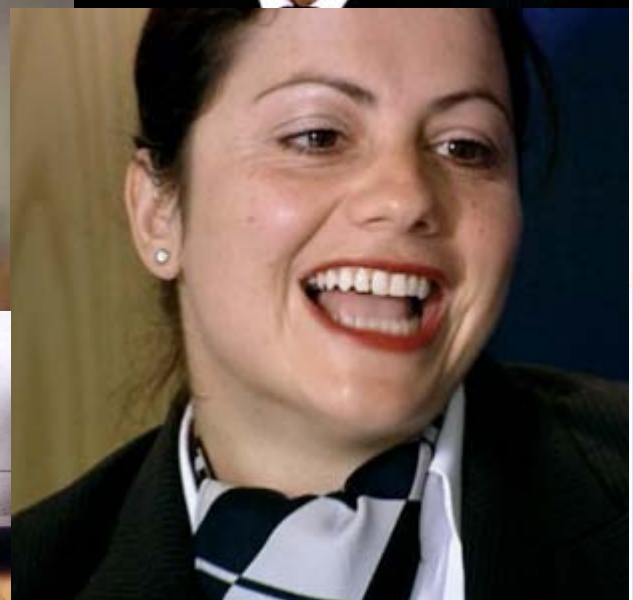


We understand our customers

We engage with
our people

Tracey Goddard, ADM Barbados, with Kevin Alderman and Adam Weisbruck from Four Seasons

We focus on premium service training



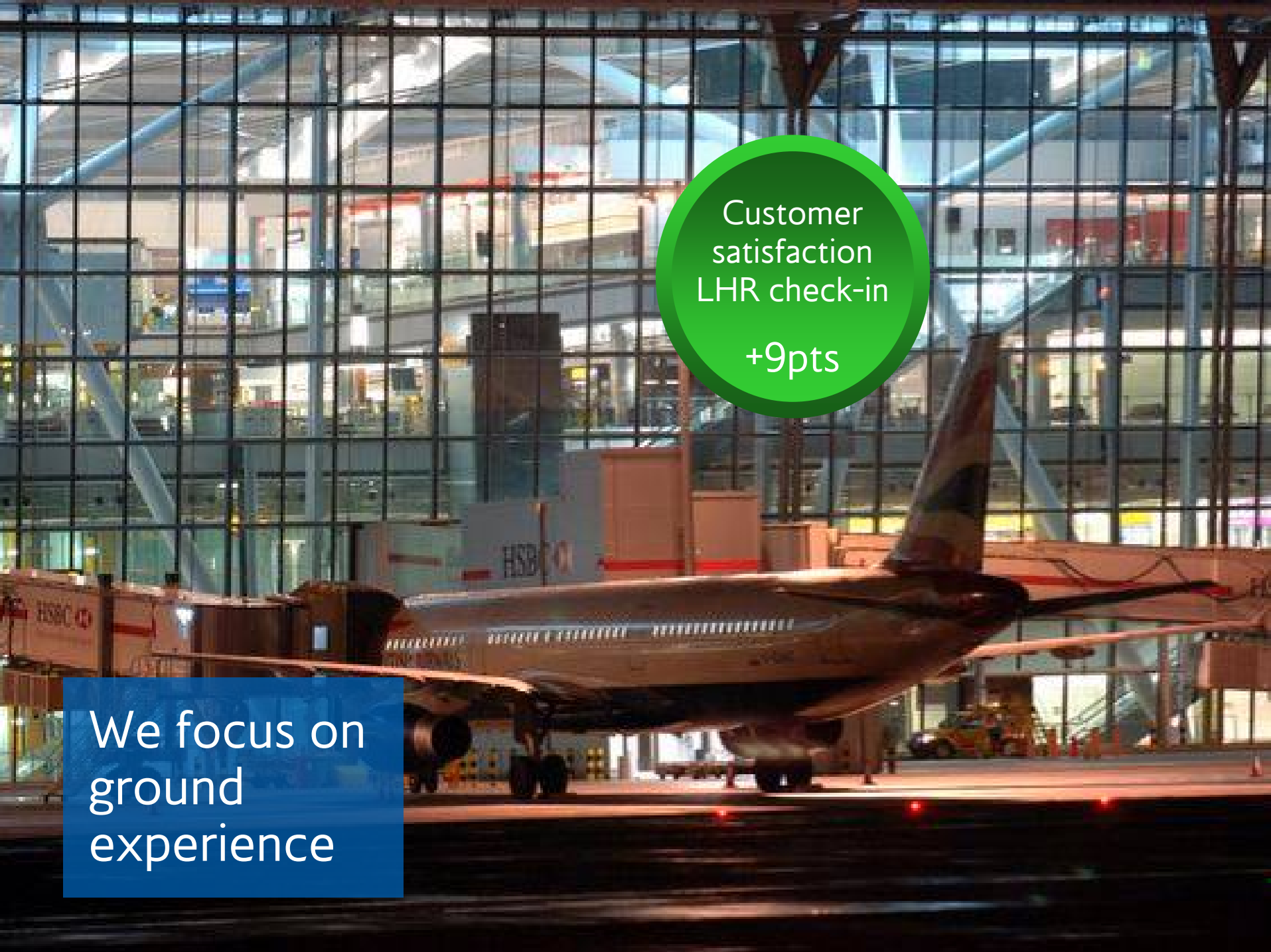
We focus on service style training

CASE STUDY

Charleen Pipkins, customer service representative at Seattle airport, was one of the first to undertake the training.

'The best course I've ever been on'

We focus on choice for our customers


Customer satisfaction LHR check-in
+9pts
We focus on ground experience

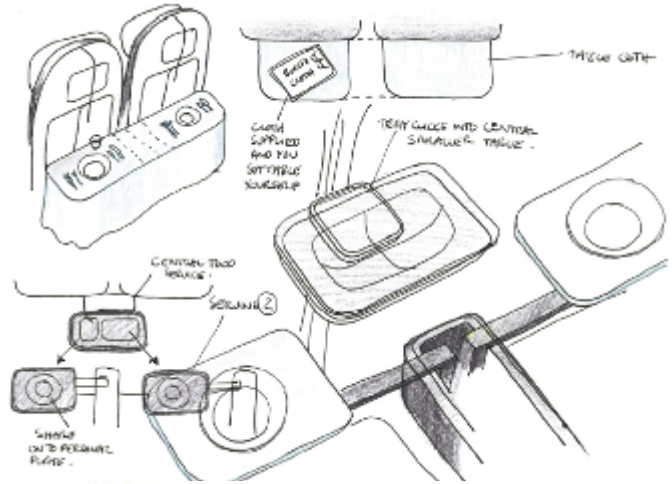
We focus on premium check-in

Customer satisfaction LHR lounges +23pts
We focus on lounges

Customer satisfaction New Club World +23pts
We focus on Club World

We focus on our future

World Traveller Plus



We focus on an upgraded experience for all

World Traveller

BRITISH AIRWAYS
Club World | London City
We focus
on new
experiences

We focus on our customers and our people

BRITISH AIRWAYS

Coffee break

BRITISH AIRWAYS

Andy Lord

Operations Director

Operations

Our Operation – FY 08/09

A take off/landing every 60 seconds

245 aircraft in the fleet

18,000 flight & cabin crew

780 sectors each day

157 destinations

77 countries/territories

34 million passengers p.a.

572,000 tonnes of cargo p.a.

Operational Promise v Delivery

What we promised at Investor Day 2008

Improve punctuality & regularity

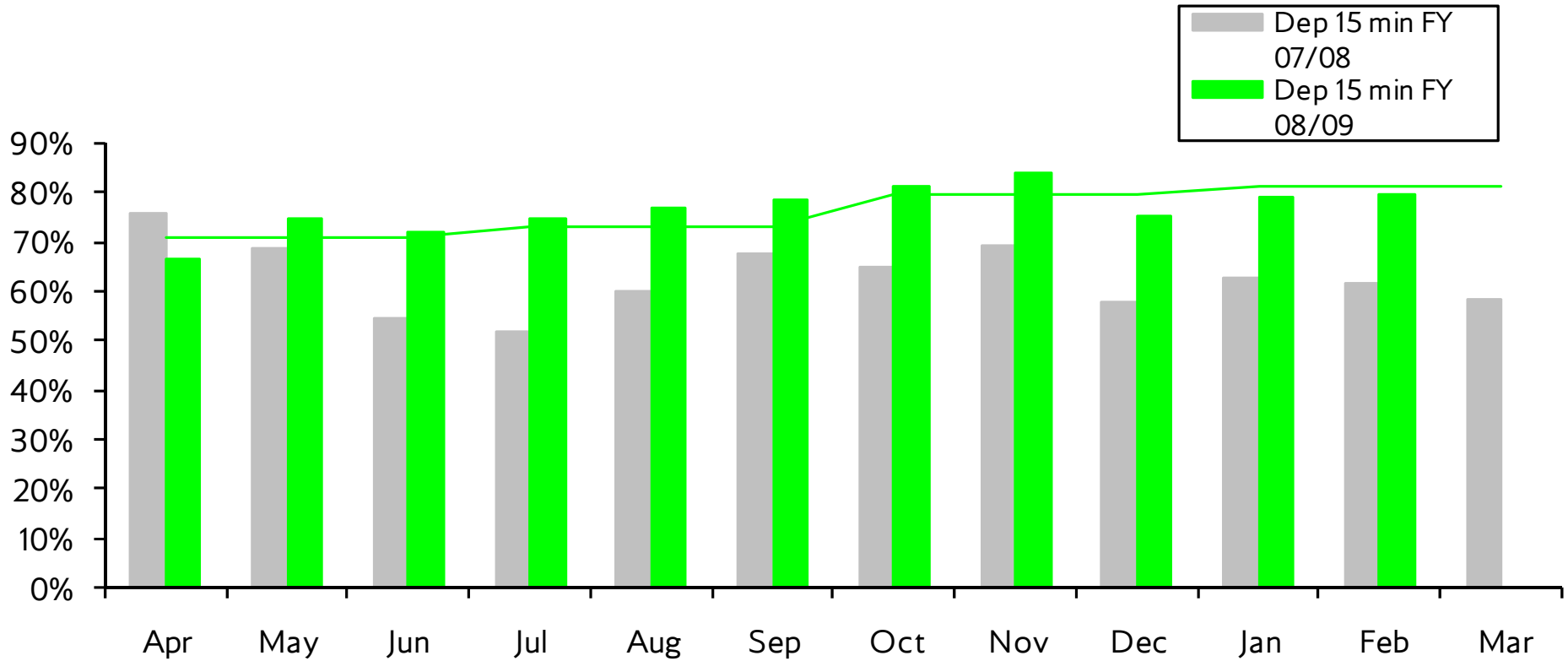
Improve baggage performance

Improve the customer experience

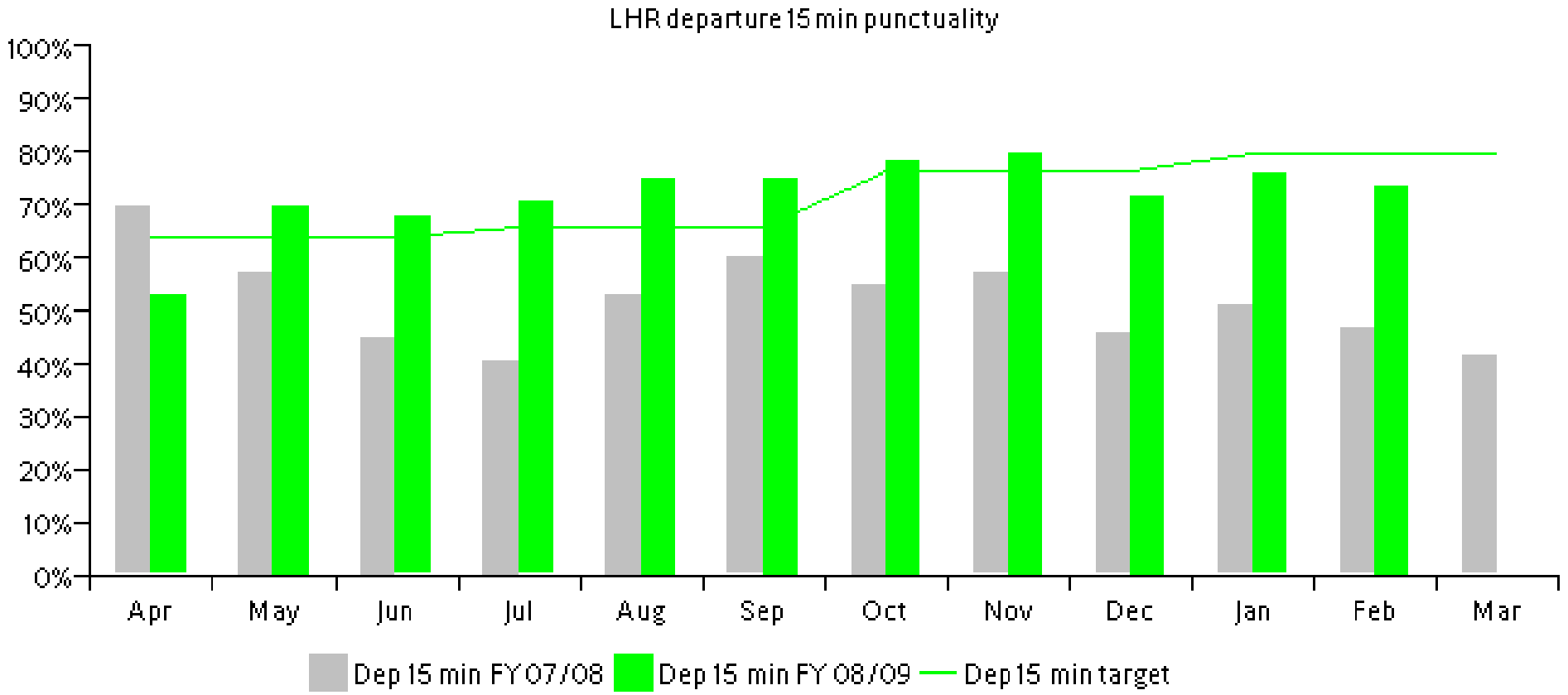
Punctuality

Progress on our promises

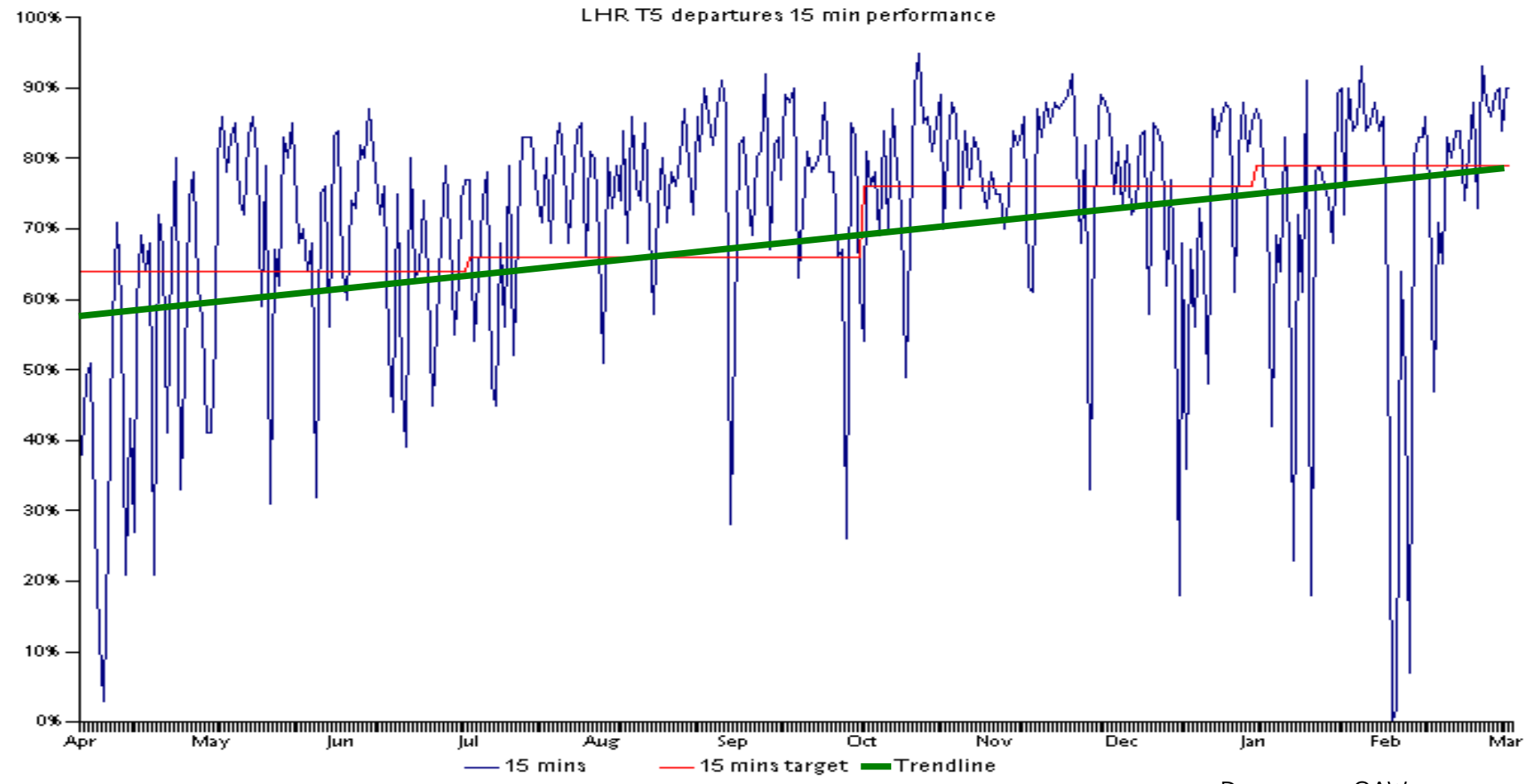
Network 15 minutes



LHR 15 minutes

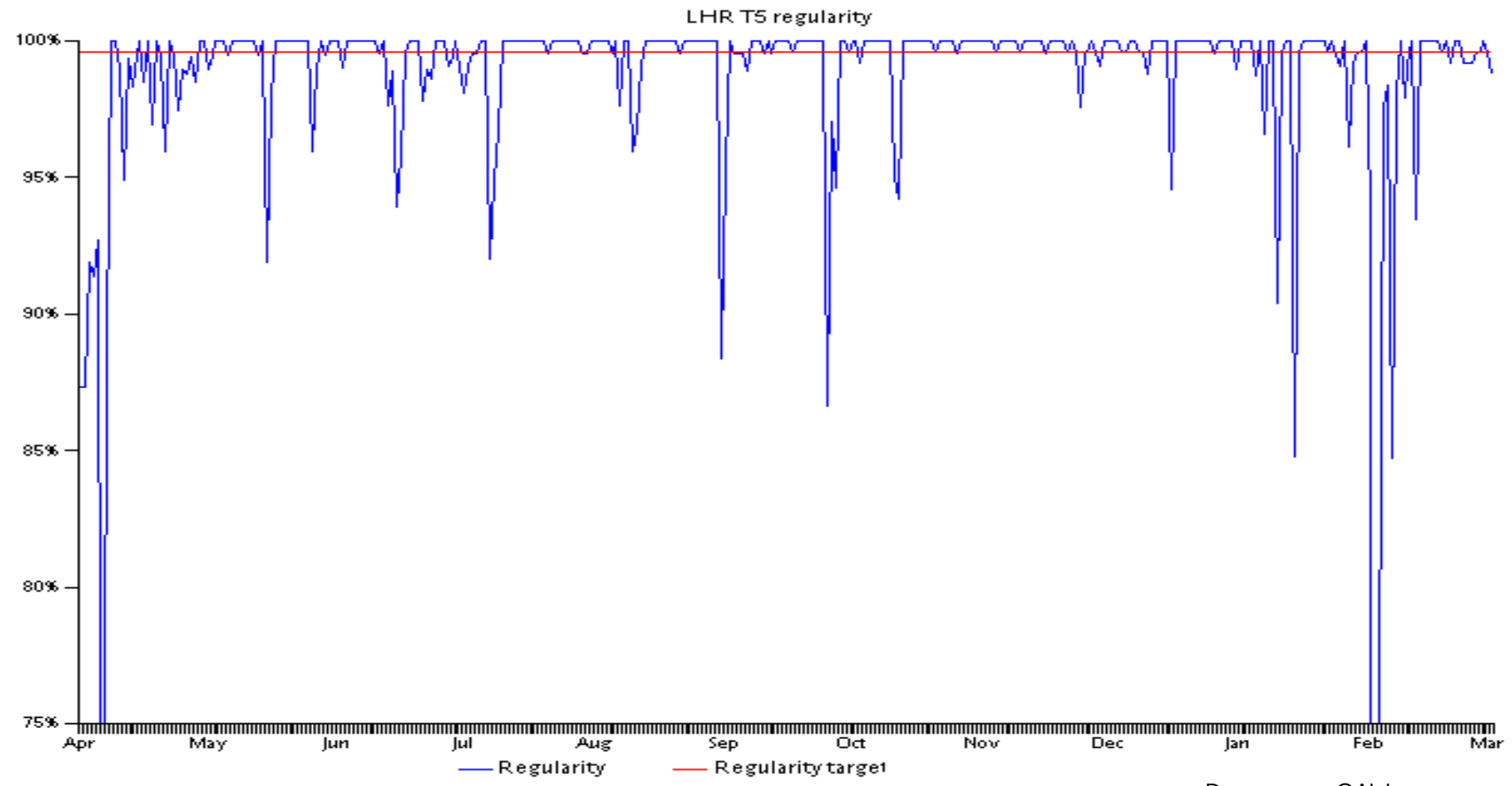


LHR T5 Departures 15 minutes
FY so far



Data source: OAW

LHR T5 Regularity
FY so far



Data source: OAW

Progress on our promises
Best days in T5

Punctuality T5 15 minutes	95% Oct 14, 2008
Punctuality Network	94% Nov 19, 2008
Baggage	5/1000 Feb 7, 2009

Punctuality

Record Breaking Performance!

It's a record breaker! Nov 08

November's performance of **60%** was the highest month ever since records began (1985) & **19 points** up on last year!

An Olympic performance - Aug 25, 08

T5 hits personal best – **66%** on time departures on the day we flew Britain's Olympic heroes back to Heathrow

T5 sets new records tumbling across the network! Jan 1, 09

68% on time and a staggering **87%** for European flights

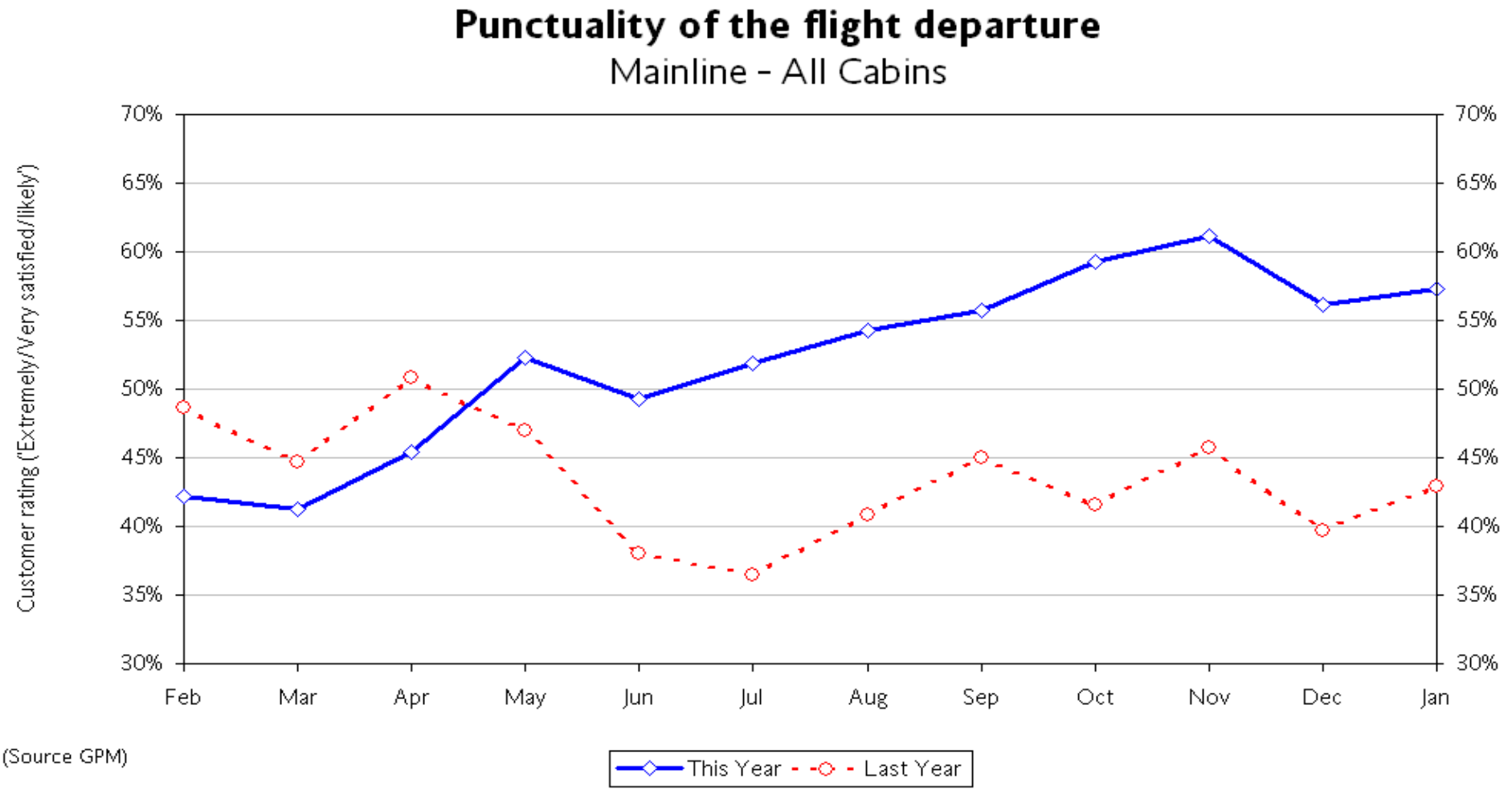
The unbreakable record has been broken! - Feb 23, 09

140 flights out of **263** departing LHR went early!

Punctuality

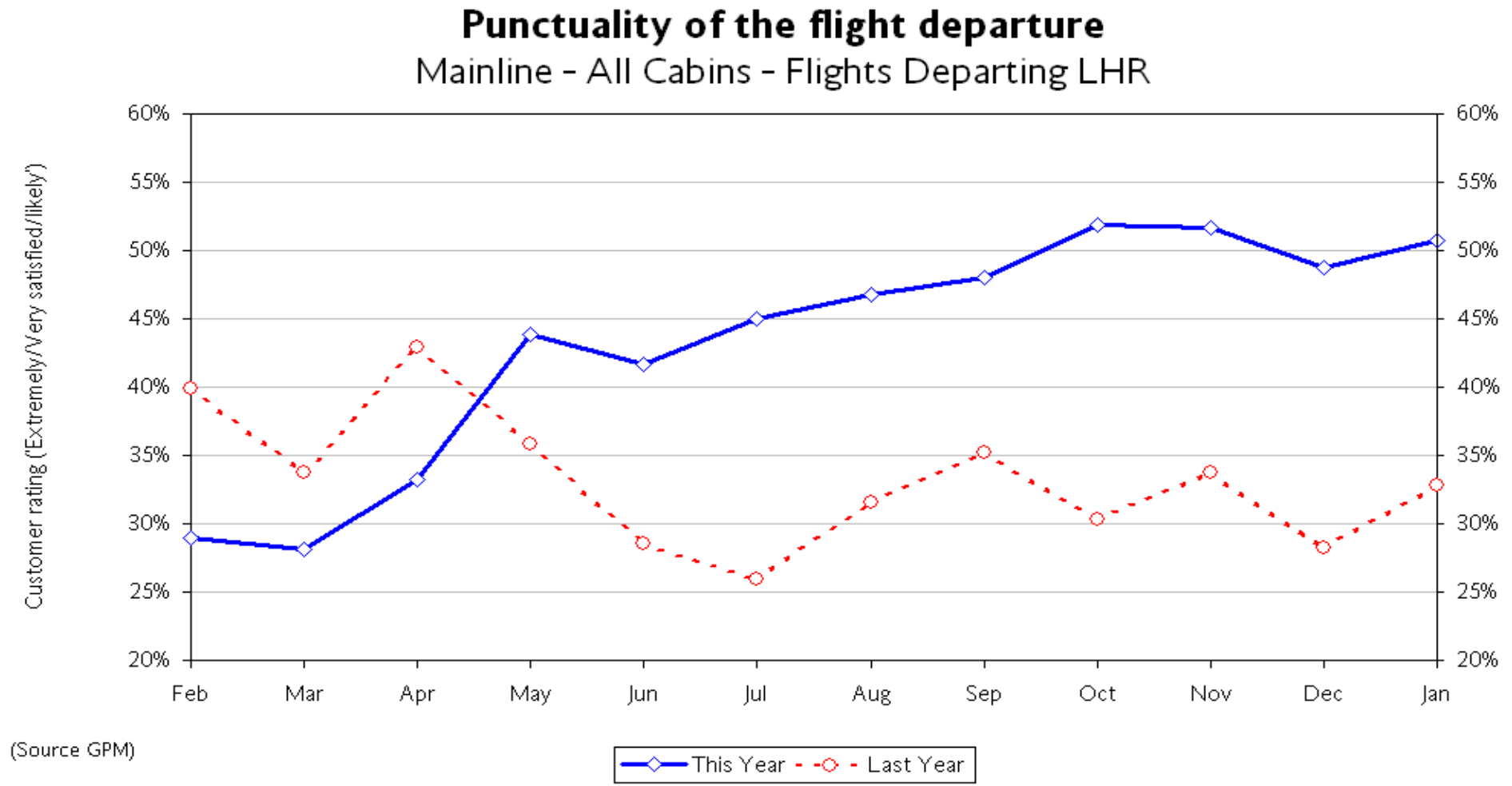
Global Performance Monitor Improvement

Network satisfaction with punctuality up 14% pts vly in Jan 09



(Source GPM)

Heathrow satisfaction with punctuality up 18% pts vly in Jan 09



(Source GPM)

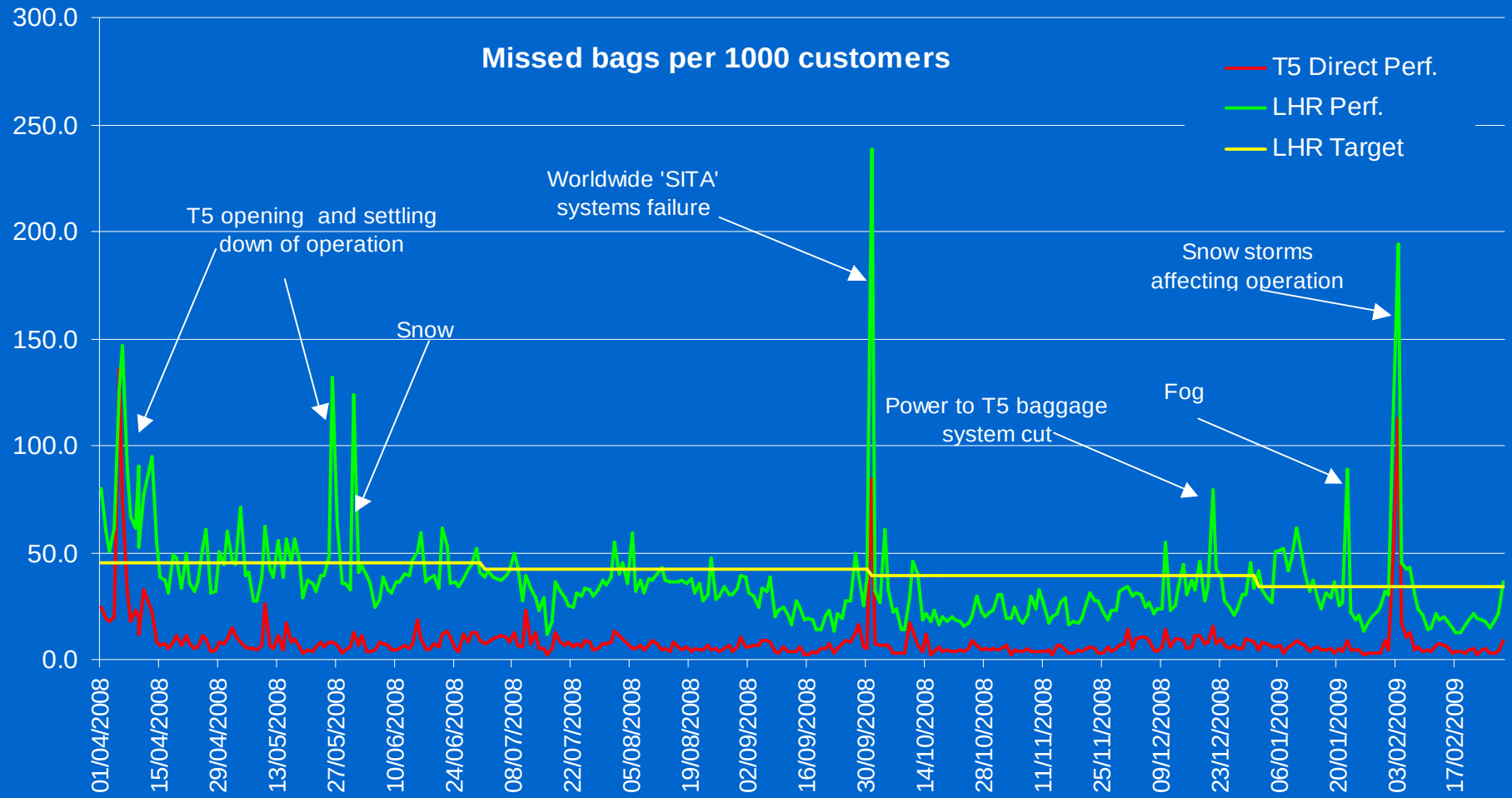
Baggage

Progress on our promises

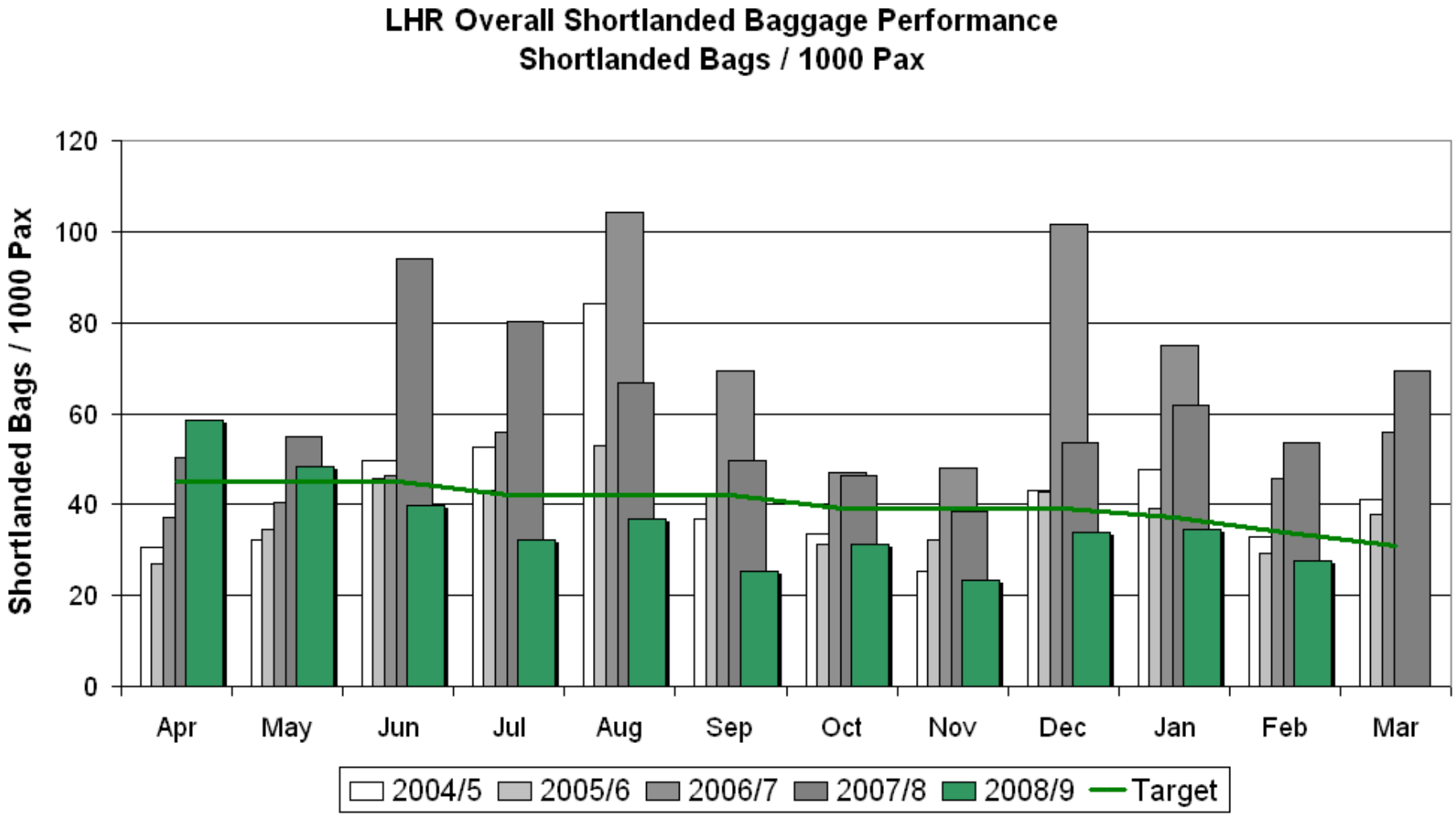
T5 is working

Baggage delivery to carousel

T5 baggage performance - missed bags



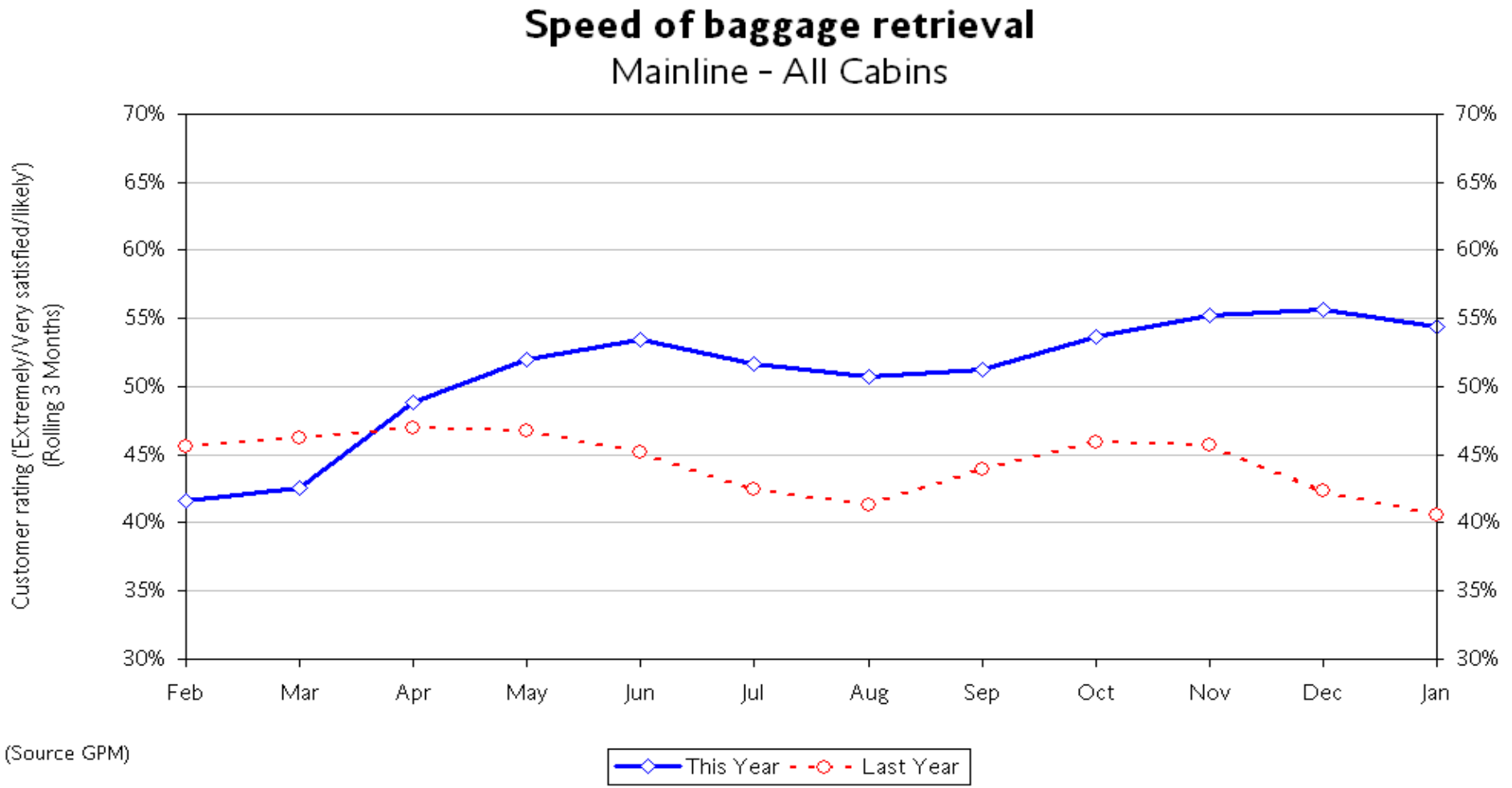
LHR overall short landed baggage performance



Baggage

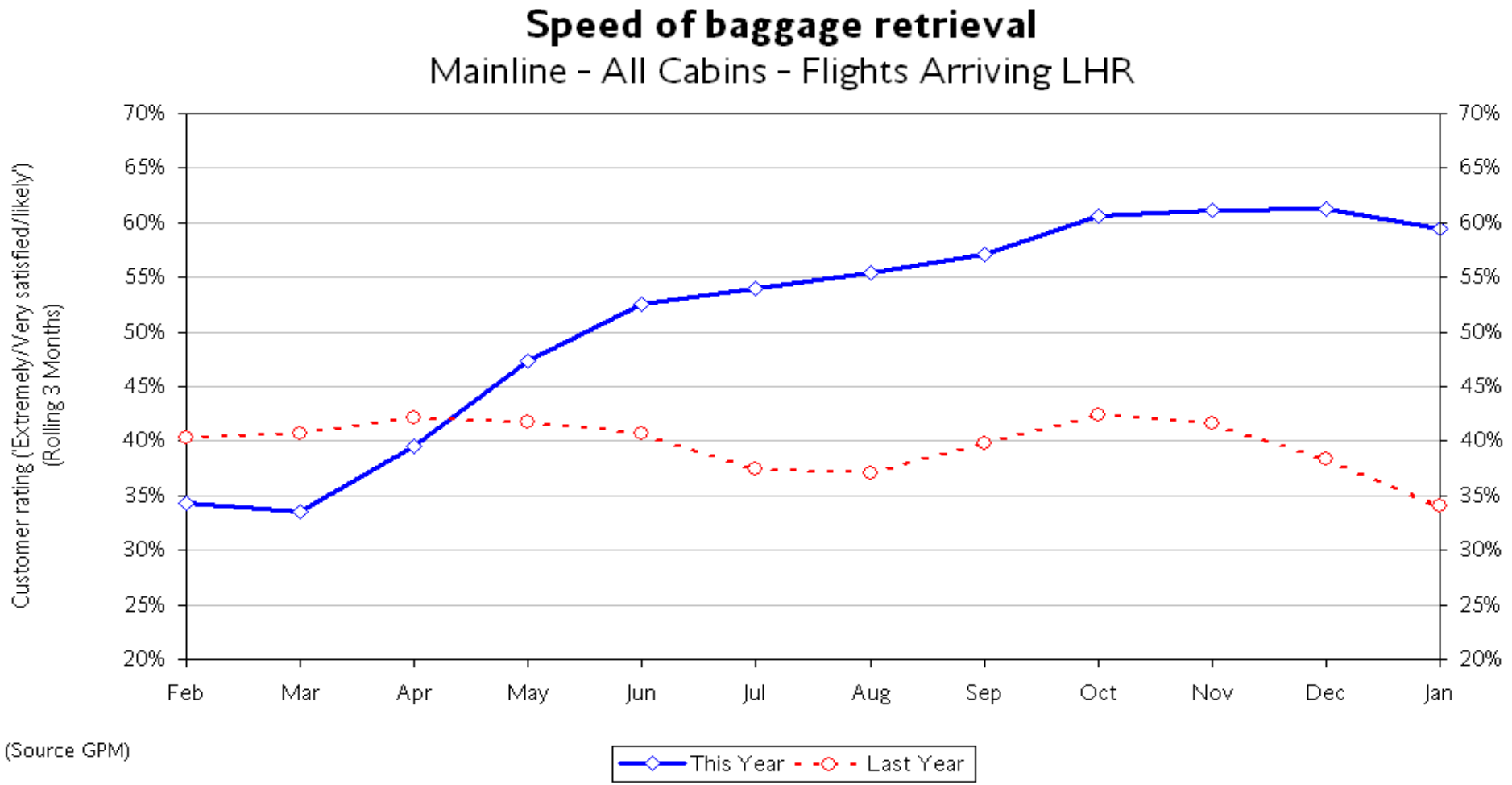
Global Performance Monitor Improvement

Network satisfaction with baggage retrieval speed up 13% pts vly in Jan 09



(Source GPM)

Heathrow satisfaction with baggage retrieval speed up 25% pts vly in Jan 09



(Source GPM)

Some things are still out of our control

Operations - delivering cost reduction through even better performance

- Continue productivity and cost improvements at LHR & LGW
- Readiness planning for new aircraft is underway
- Continual focus on operational improvement
- Review of the premium and transfer customer proposition
- Final LHR Terminal switch
- T5C and T3/T5 baggage tunnel

BRITISH AIRWAYS

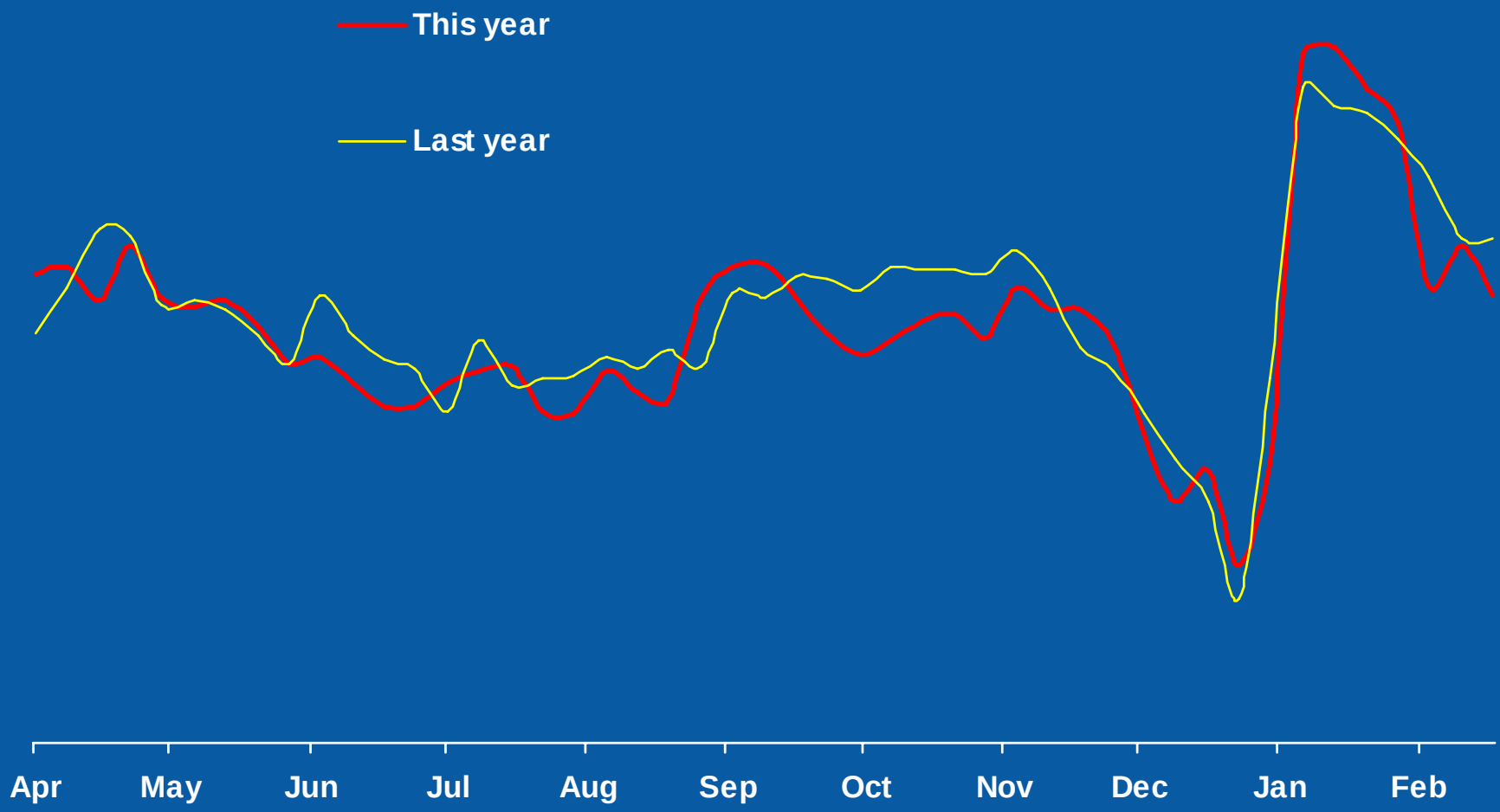
Drew Crawley

Director of Sales and Marketing

Agenda

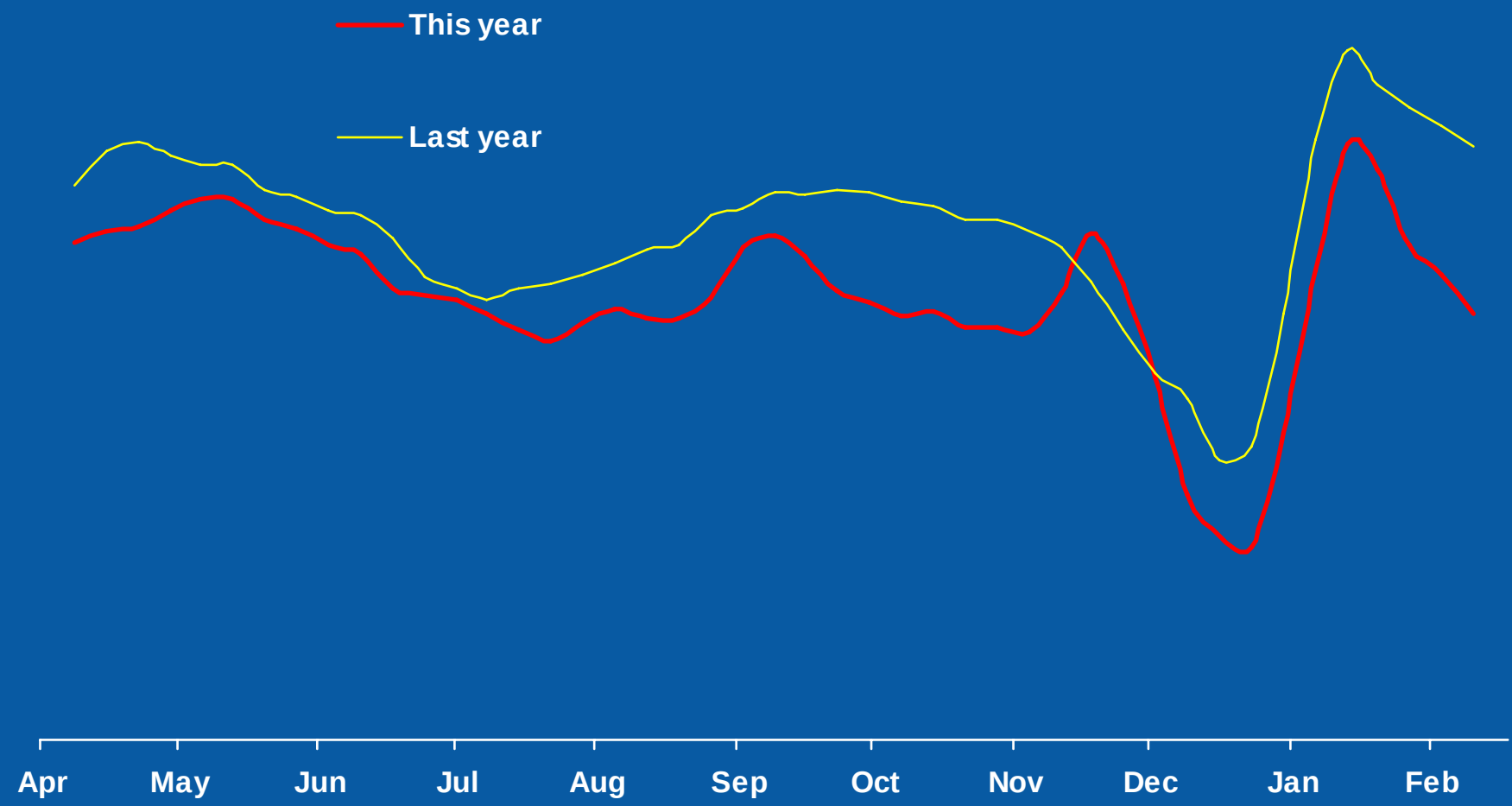
- Revenue outlook
- Market share and transfer performance
- Market trends and insights
- Maintaining momentum

Total volume holding up



Note: Net new booking volumes

Decline in Premium bookings



Note: Net new booking volumes, 3 week moving average

Strong Non-premium bookings

Note: Net new booking volumes, 3 week moving average

Transfers providing some mitigation

Note: Net new booking volumes

Dynamic revenue management model

Operating configuration

First	Club	World Traveller +	World Traveller

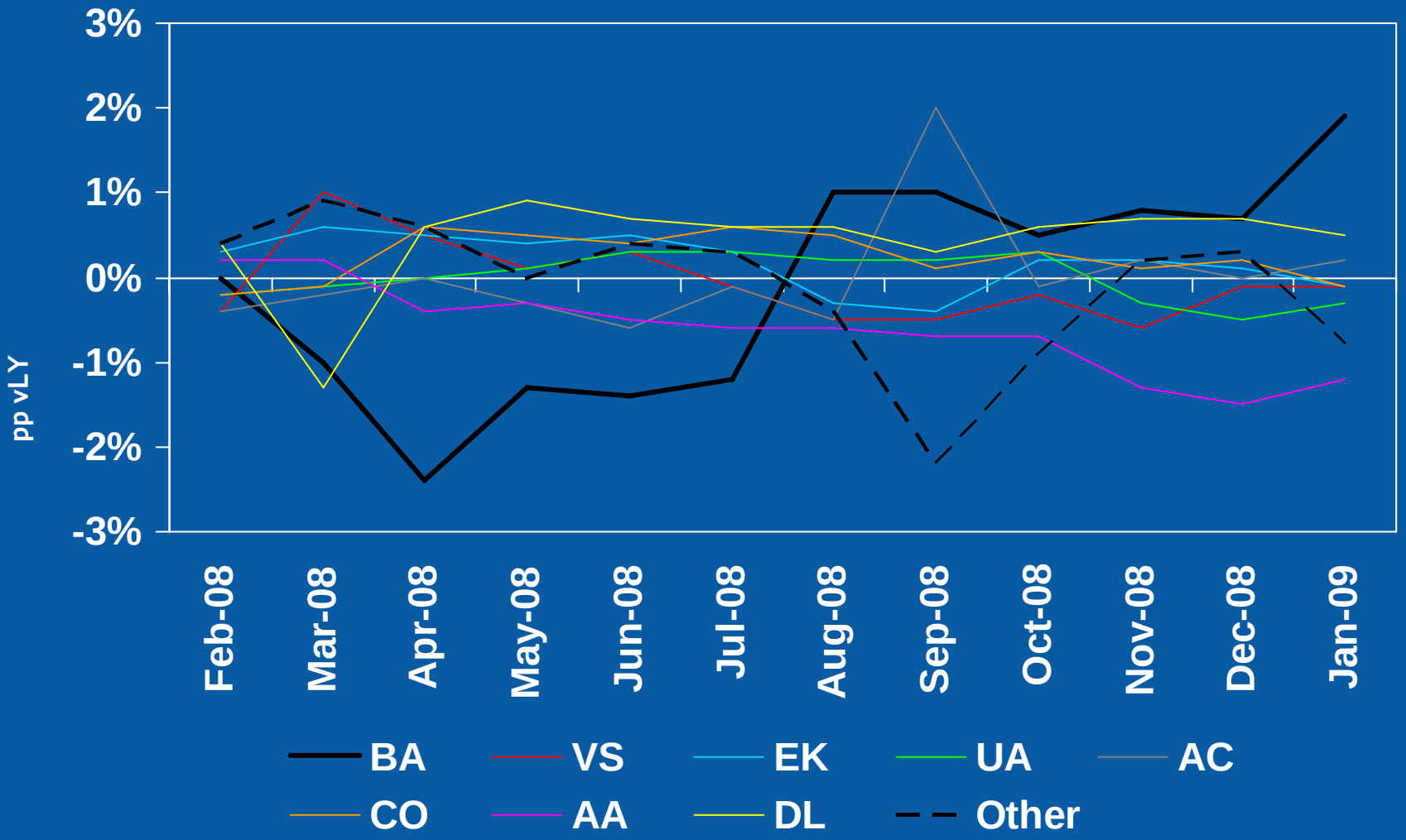
Selling configuration

First	Club	World Traveller+	World Traveller

- Low levels of premium demand creates increased virtual selling capacity for non-premium demand

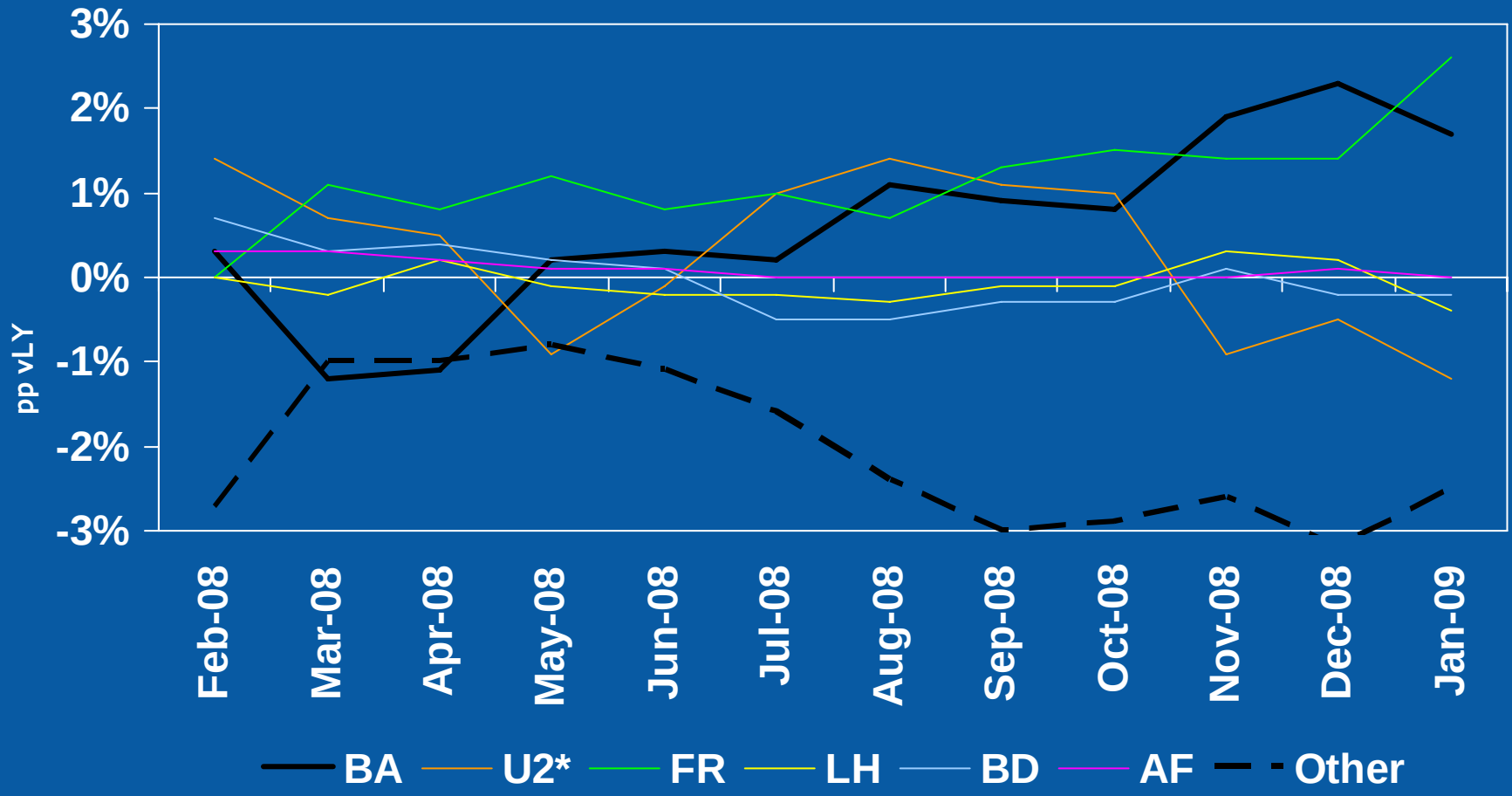
Market share performance

BA Longhaul Network Share



Share is for all BA served cities, from all BA served UK cities. Source is TMS.

BA Shorthaul Network Share

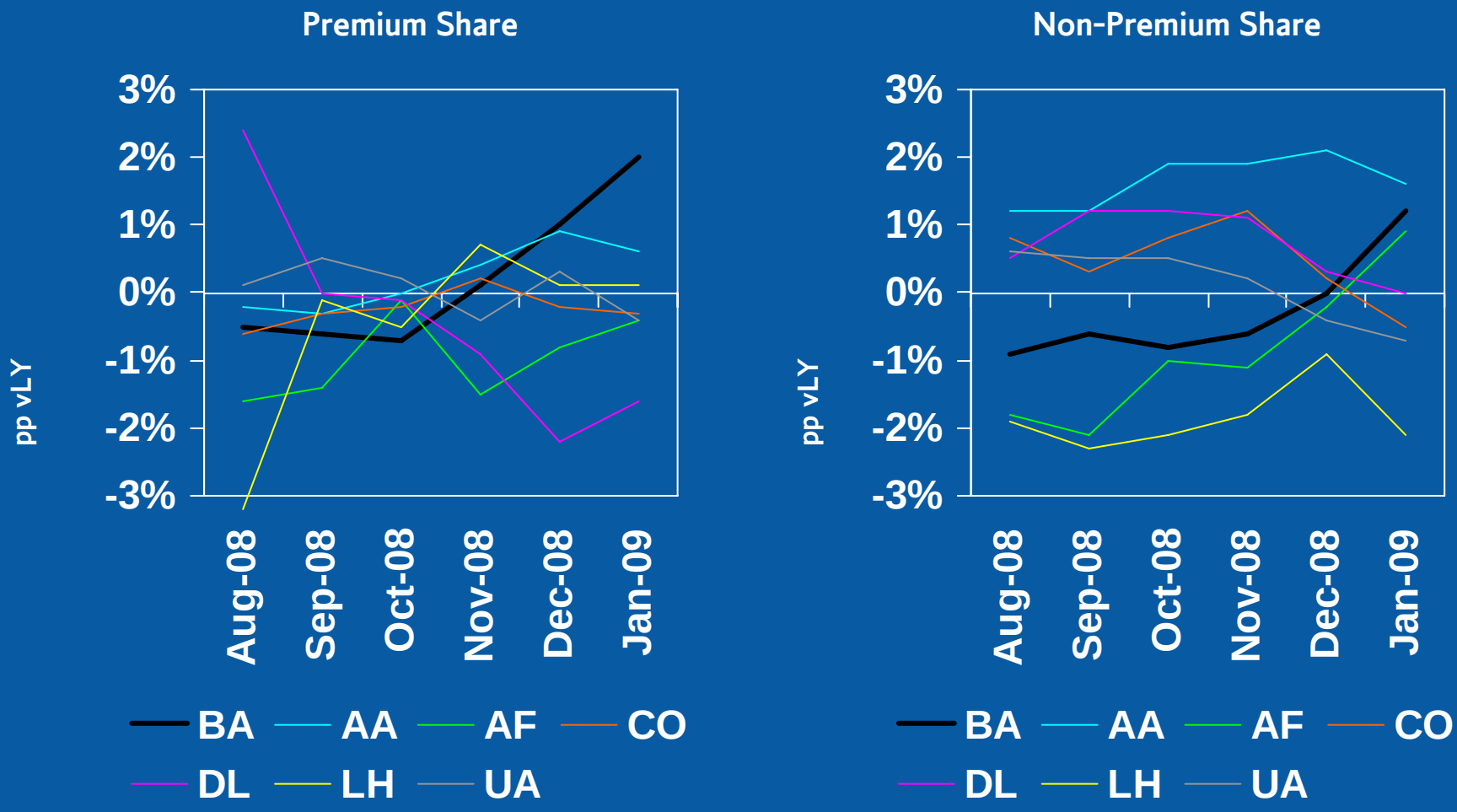


Share is for all BA served cities, from all BA served UK cities. Source is TMS.

* U2 numbers include GB Airways figures

Europe Sales

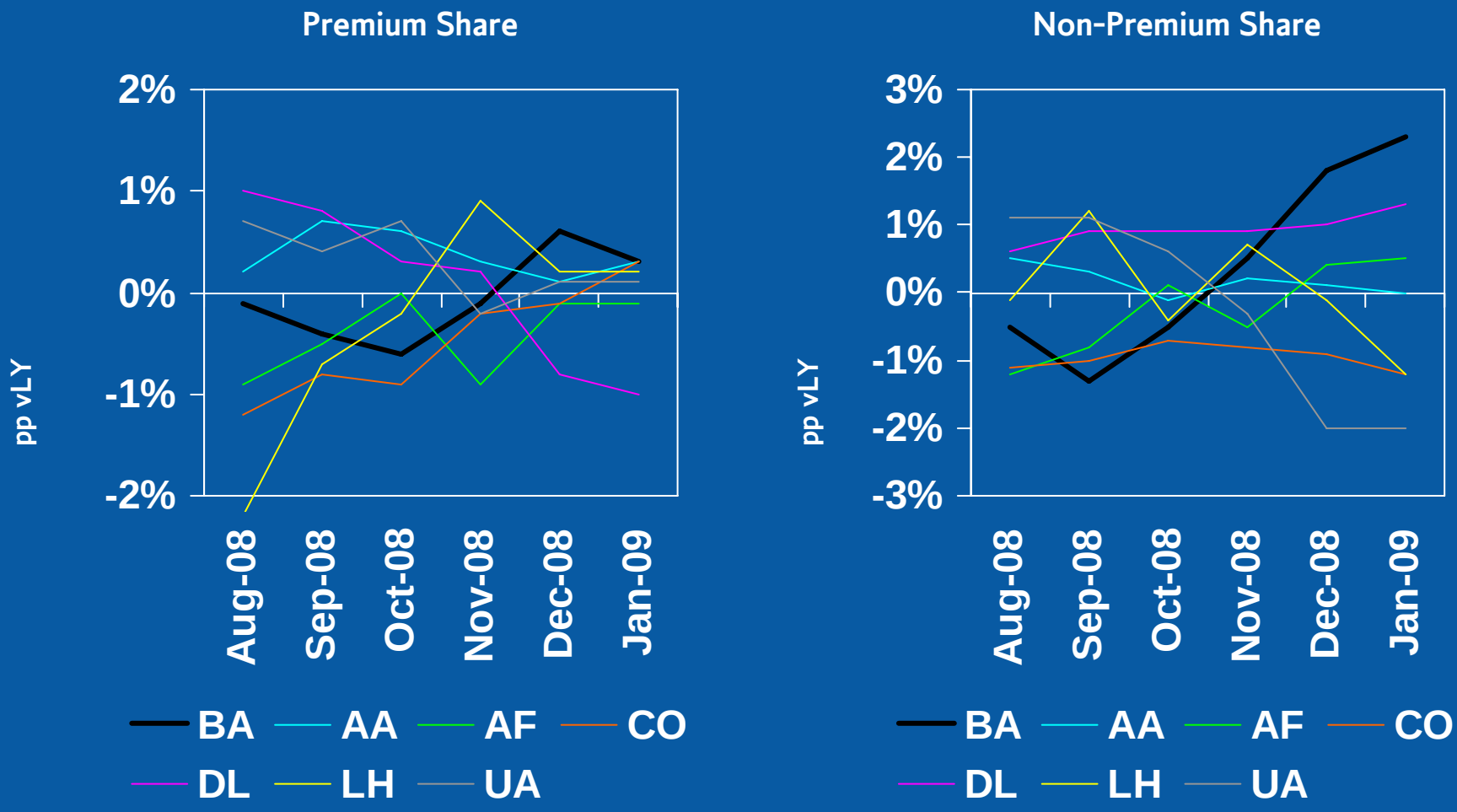
US Journey Group



* Share is for all BA served cities, in Europe and USA. Source is CRS.

N. America Sales

Europe Journey Group



* Share is for all BA served cities, in Europe and USA. Source is CRS.

Corporate Market under pressure

- One in five businesses plans to implement an outright ban on their employees travelling abroad
- 47 per cent of executives will be taking fewer trips in the next 12 months
- 38 per cent of business travel buyers said that they would have less to spend this year

Source – ITM Survey

Consumer behaviour in a downturn

- Brand strength plays a critical role
- Heightened role & importance of digital communities
- Holiday spend continues to be prioritised…
- … but consumers are looking for value

Source: Euromonitor

Challenging times, but BA is well placed

- Two thirds of UK Executive Club members really care about the future of our company
- Trust in BA is increasing – two thirds of UK flyers trust us
- More than 1 in 4 UK flyers love BA
- Almost half of the UK public think in the current environment it is better to choose a well-established airline, even if they cost a bit more

Sources: Competitor Monitor (Dec 08)
Brand Monitor (Jan 09)

Conclusions

- Corporate travel market under significant pressure
- Non premium tough but responsive
- Consumers seeking to protect holidays
- Brand strength and value are key to the purchase decision in a downturn
- Opportunity in upgrades
- Transfer markets a natural hedge

Moving Forward

- Our focus is to continue retain and grow market share by
  - Reinforcing our Brand heritage and leadership
  - Helping Our Customers through difficult times
  - Acquiring new customers
  - Building on T5 experience to attract and retain new customers
  - Exploiting our existing and new ba.com capabilities to drive new revenue streams

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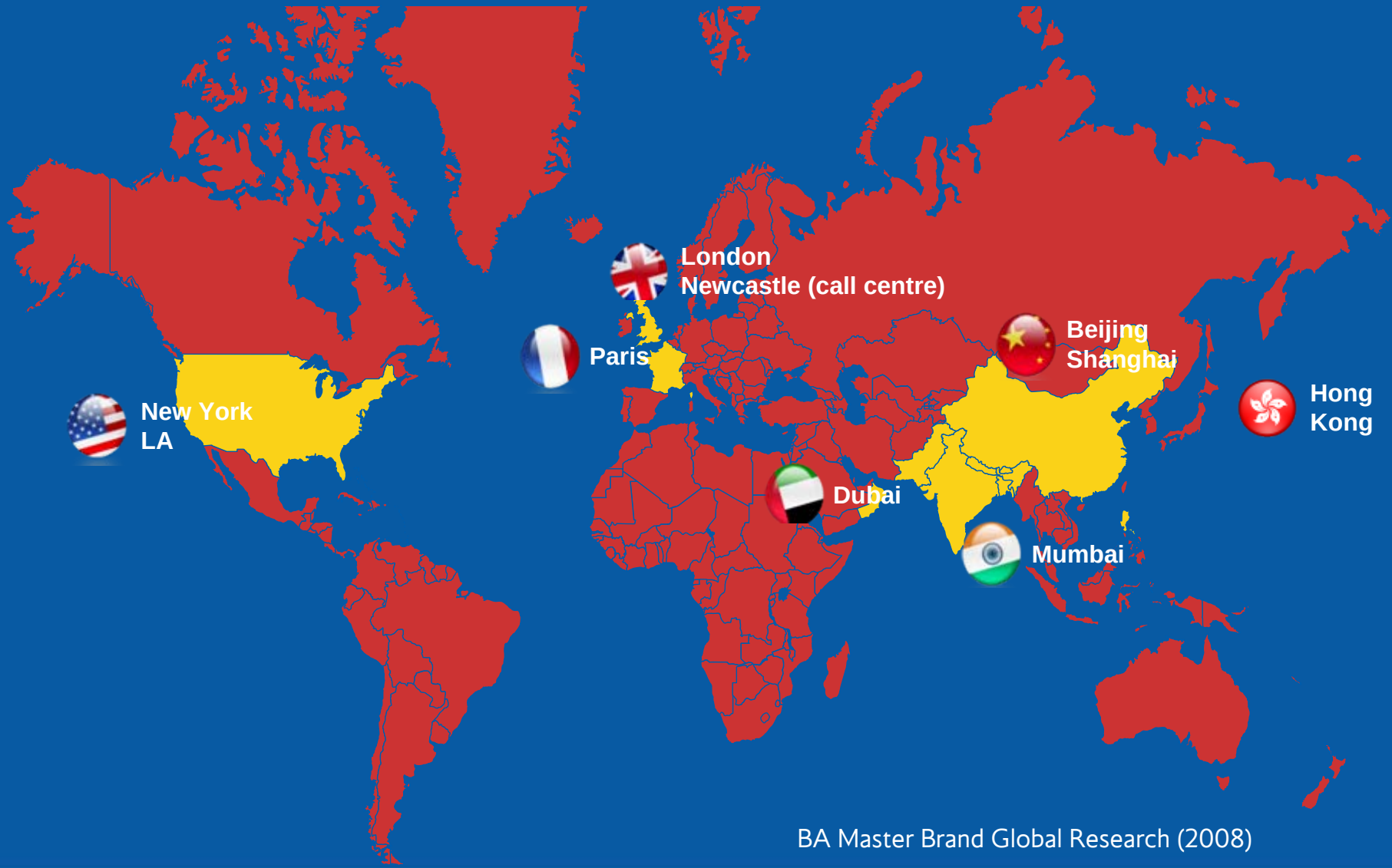
We've talked with customers globally...



BA Master Brand Global Research (2008)

… to define a unique brand position for BA

The experts that fly our customers with style

PLAY BRAND FILM
"STYLE & EXPERTISE"

BA Brand film

What makes this unique to BA?

- Our "Expertise"
  - our heritage – an iconic brand
  - decades of flying experience
  - our people
  - our scale and network (a big brand with strong global presence)
- Our "Britishness"
  - quality of product & service, our contemporary understated style
  - desirable and aspirational globally

Making it real – brand activity for 09/10

OVERALL TASK

To provide an upgraded experience to all as experts that fly our customers with style

OBJECTIVES

1. Establish positioning

2. Reassert Leadership

3. Build Pride

EXAMPLE WORK STREAMS

- Bringing the brand to life at key touchpoints
- Brand leadership during the recession
- Engage our people in the vision through practical behaviours

Keep promises.

If I say I'll do something, I'll do it

Look
the part.
A contemporary,
understated style.

Do things properly.

I do the right things for the right reasons and to a high standard

Find solutions.

I solve any problems inventively and work flexibly within a framework.

Treat everyone as an individual.
As an individual, I respect differences and add my personal touch to make the difference.

Moving Forward

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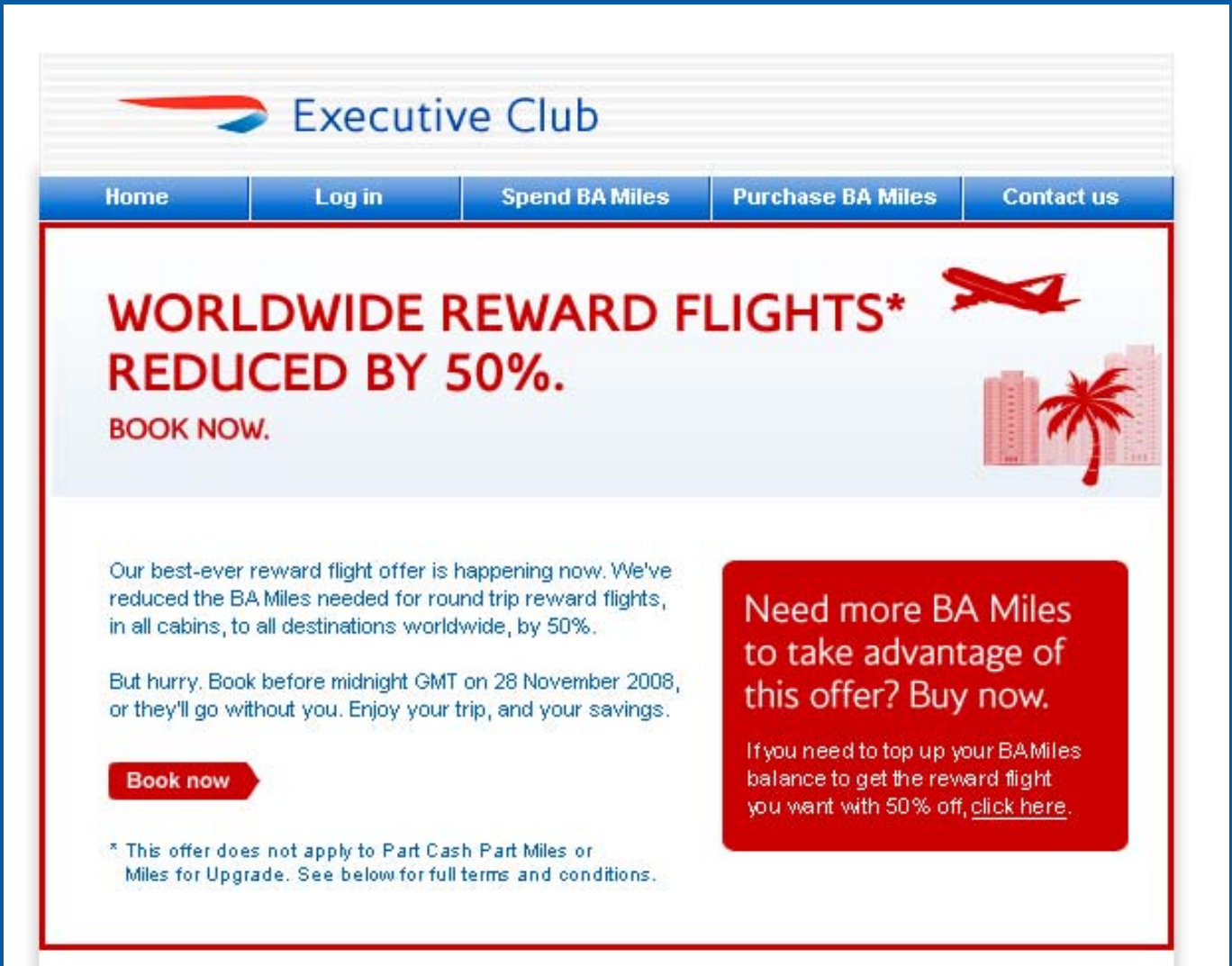
Customer Retention - Corporate

- Deeper partnerships
- Use of First upgrade
- Competing in new channels – agency nets
- Focus on regions

Customer Retention – Executive Club

- We've fixed the No.1 issue
  - Priority Reward for Gold members
- Tier Points on every flight – deployed tactically
- More flexibility
- Part Cash Part Miles
- Miles for upgrade on trade bookings
- More ways to earn with more partners
  - AMEX Membership Rewards
  - AVIS
  - Accor Hotel Group

The Executive Club Sale



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  - Exploiting our existing and new ba.com capabilities to drive new revenue streams

Customer Acquisition

- Tactical sales and promotional activities
- Data mining and analysis
- Changes to onBusiness programme recruitment
- New price products to attract specific customer segments
  - Marine
  - Partnerships

Moving Forward

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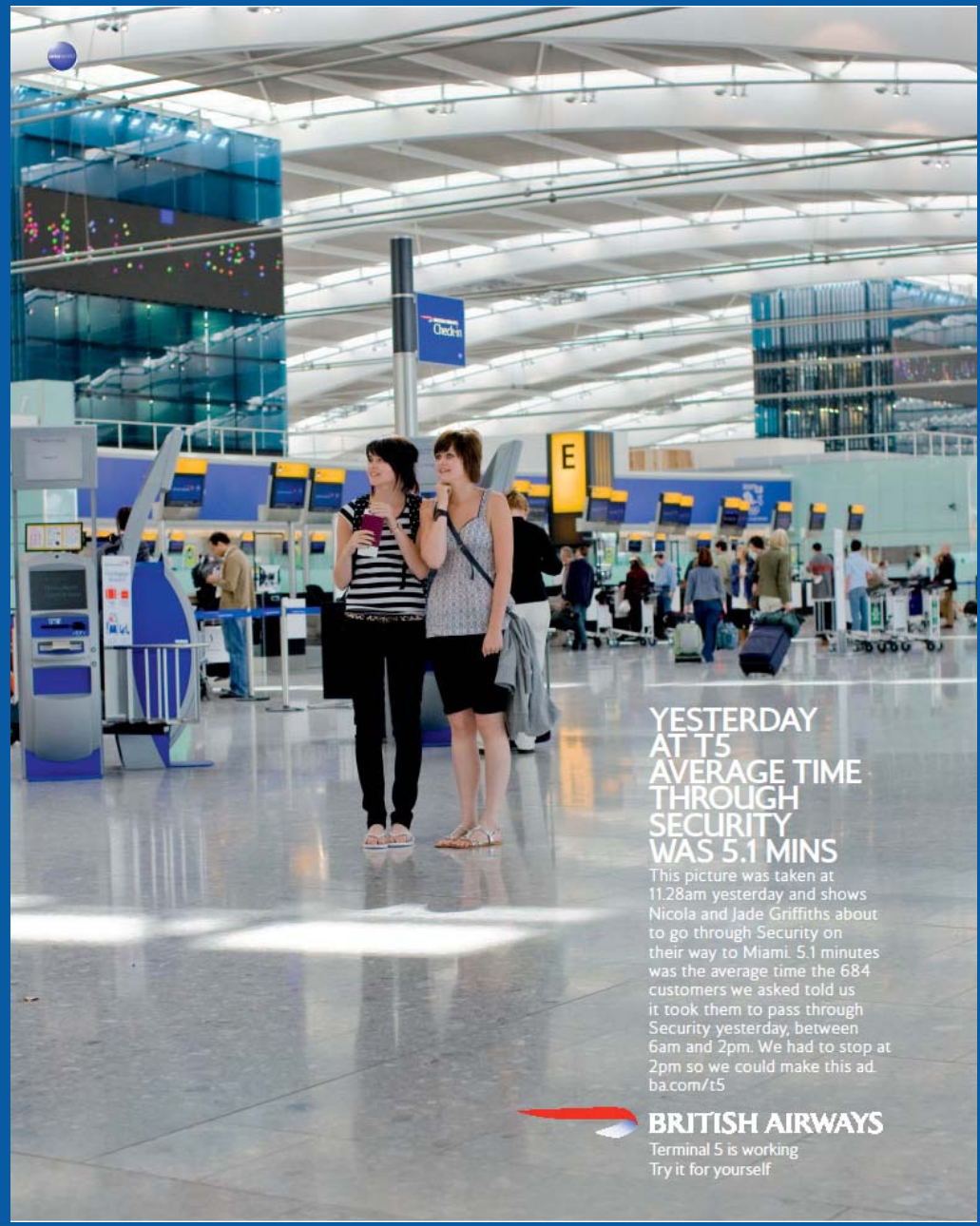
Selling T5


E
YESTERDAY AT T5 AVERAGE TIME THROUGH SECURITY WAS 5.1 MINS
This picture was taken at 11.28am yesterday and shows Nicola and Jade Griffiths about to go through Security on their way to Miami. 5.1 minutes was the average time the 684 customers we asked told us it took them to pass through Security yesterday, between 6am and 2pm. We had to stop at 2pm so we could make this ad.
ba.com/t5
BRITISH AIRWAYS
Terminal 5 is working
Try it for yourself

Selling T5

GLIDE THROUGH
LONDON HEATHROW
TERMINAL 5
Upgrade to
BRITISH AIRWAYS

Moving Forward

- Our focus is to continue retain and grow market share by
  - Reinforcing our Brand heritage and leadership
  - Helping Our Customers through difficult times
  - Acquiring new customers
  - Building on T5 experience to attract and retain new customers
  - **Exploiting our existing and new ba.com capabilities to drive new revenue streams**

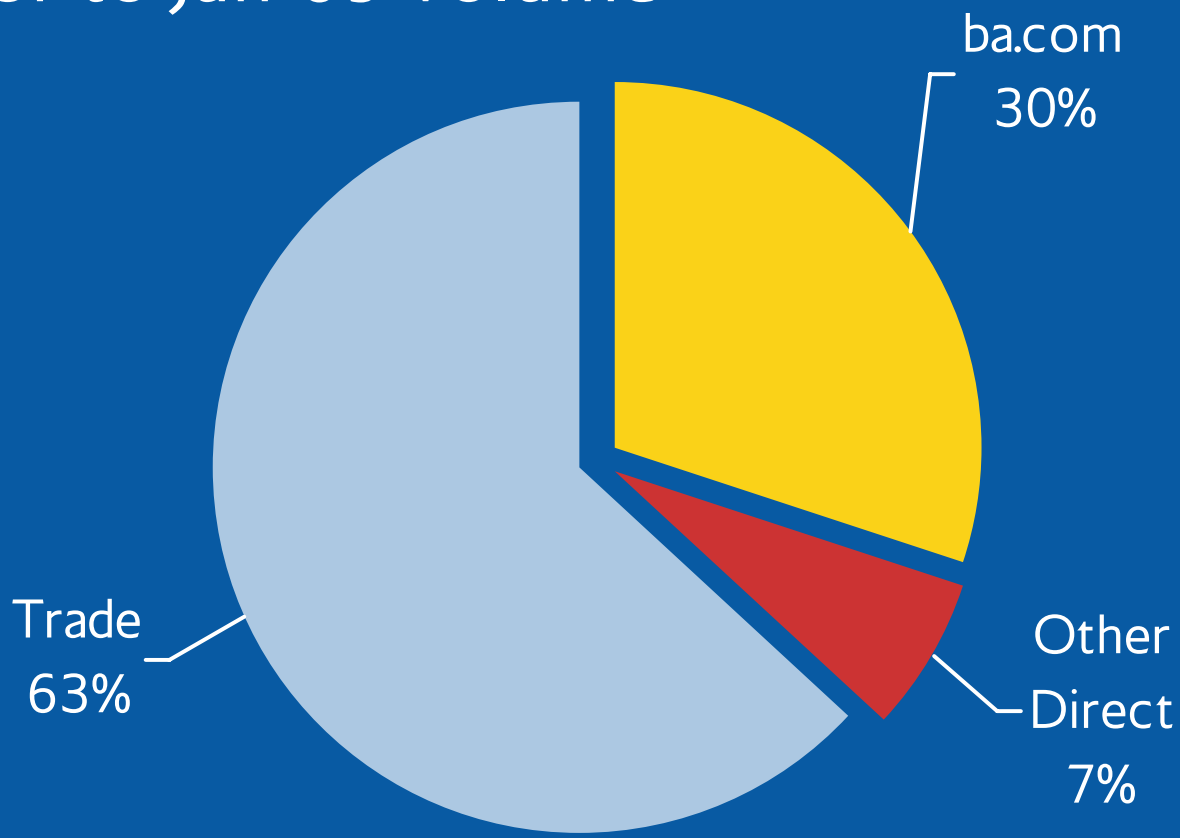
Exploiting ba.com

Key Messages:

- How channel has grown
- We know our customers
- New products
- Techniques in use
- Digital Innovation

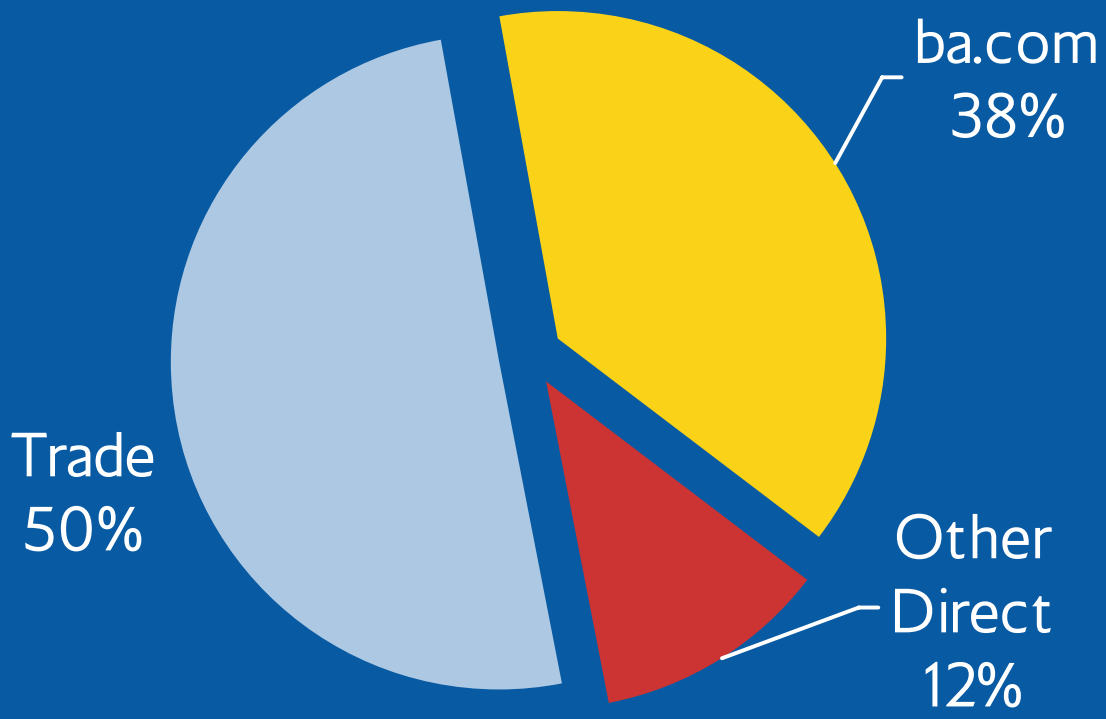
Direct channel continues to grow

Apr to Jan 09 volume

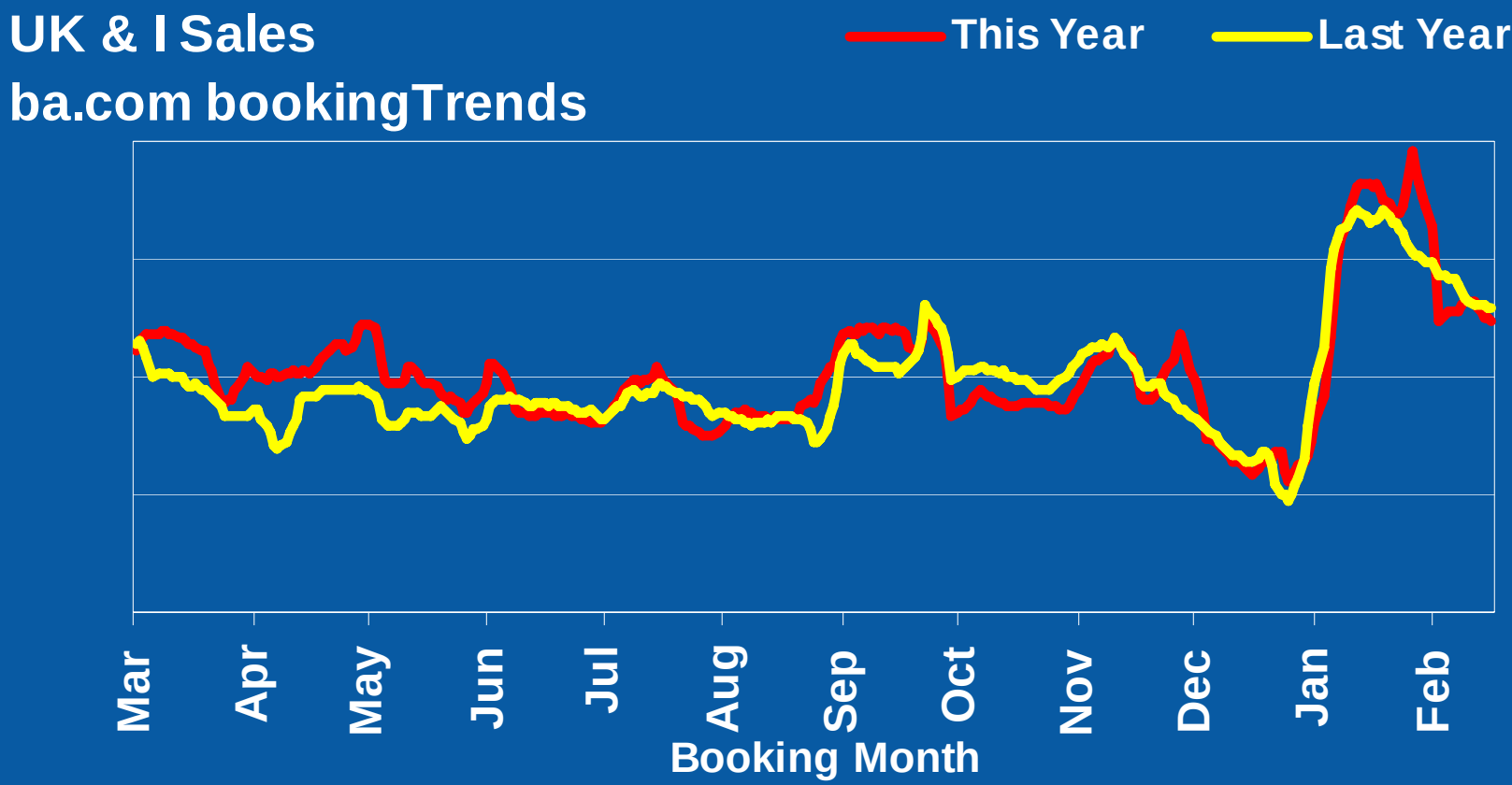


50% of UK&I Sales now direct

Apr to Jan 09 Volume

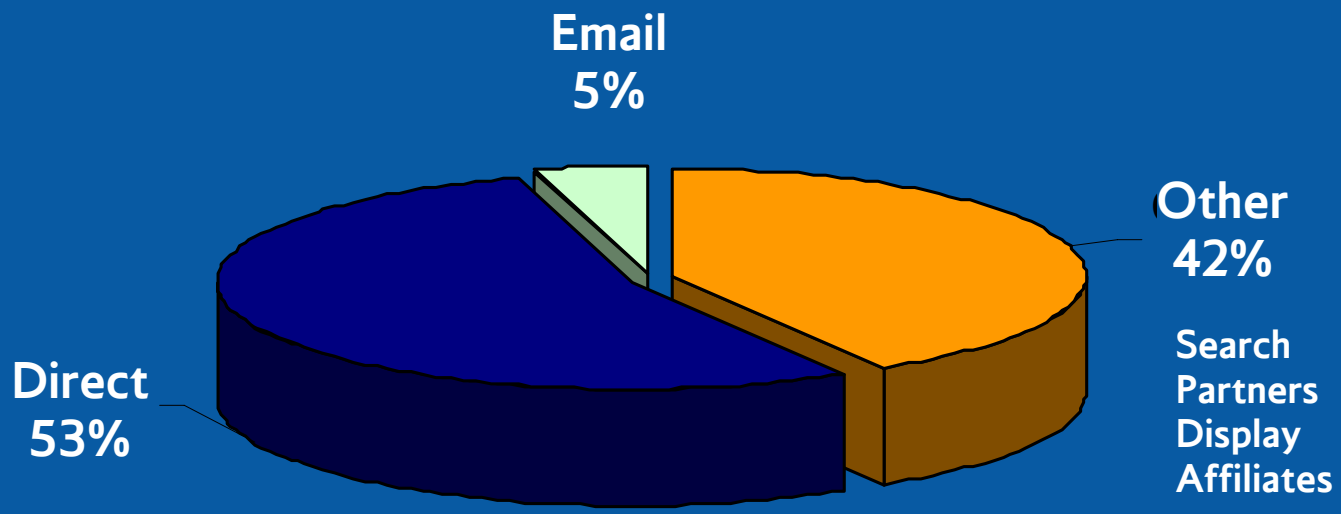


UK & I Sales – ba.com Trends



Volume keeping pace or outstripping last year while other channels show decline

Knowing our customers on ba.com



Data for Jan-09
Last click to ba.com
Omniture tracked data

Attracting and converting sales

Look

Quote

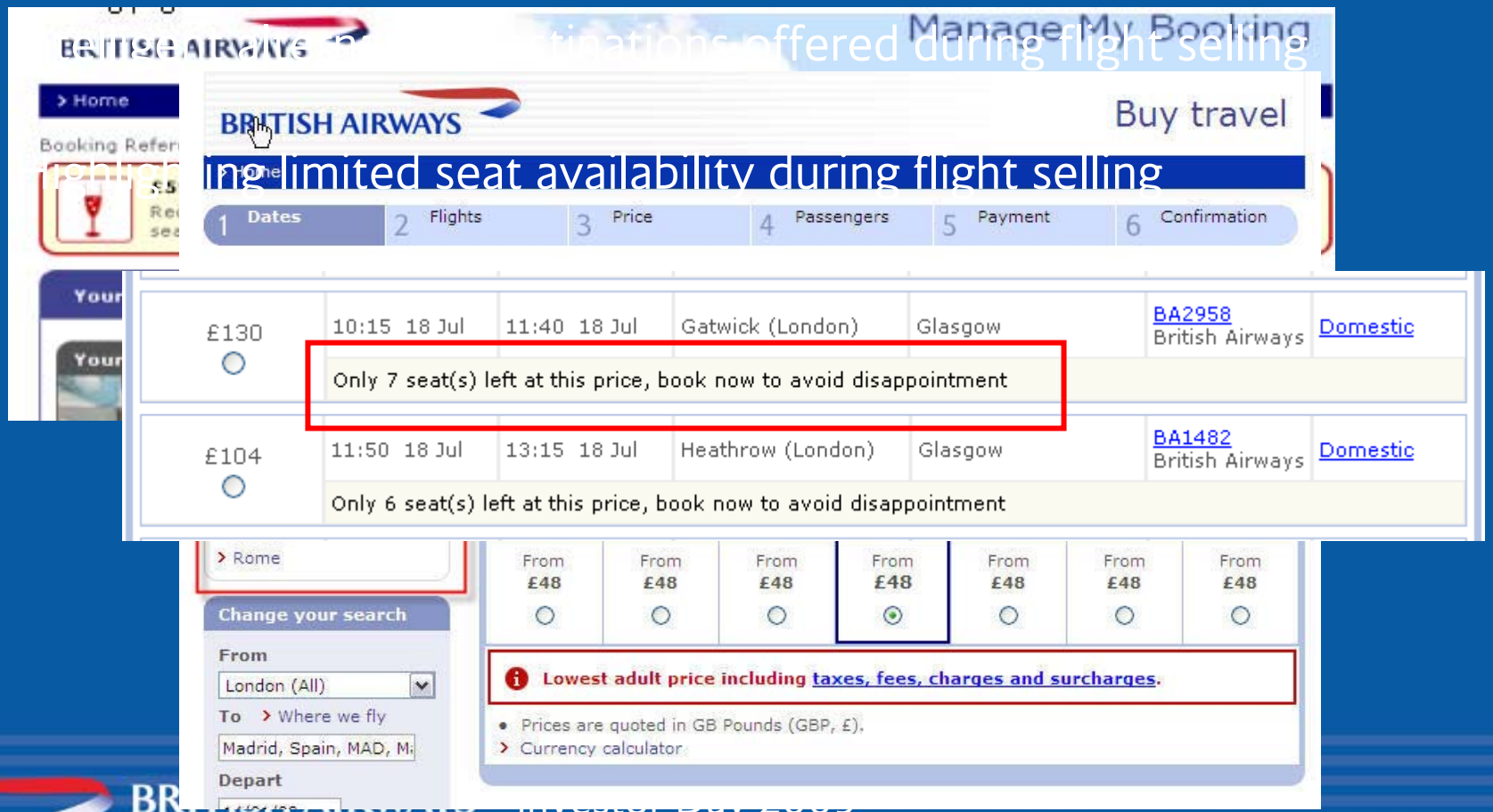
Payment

Confirm

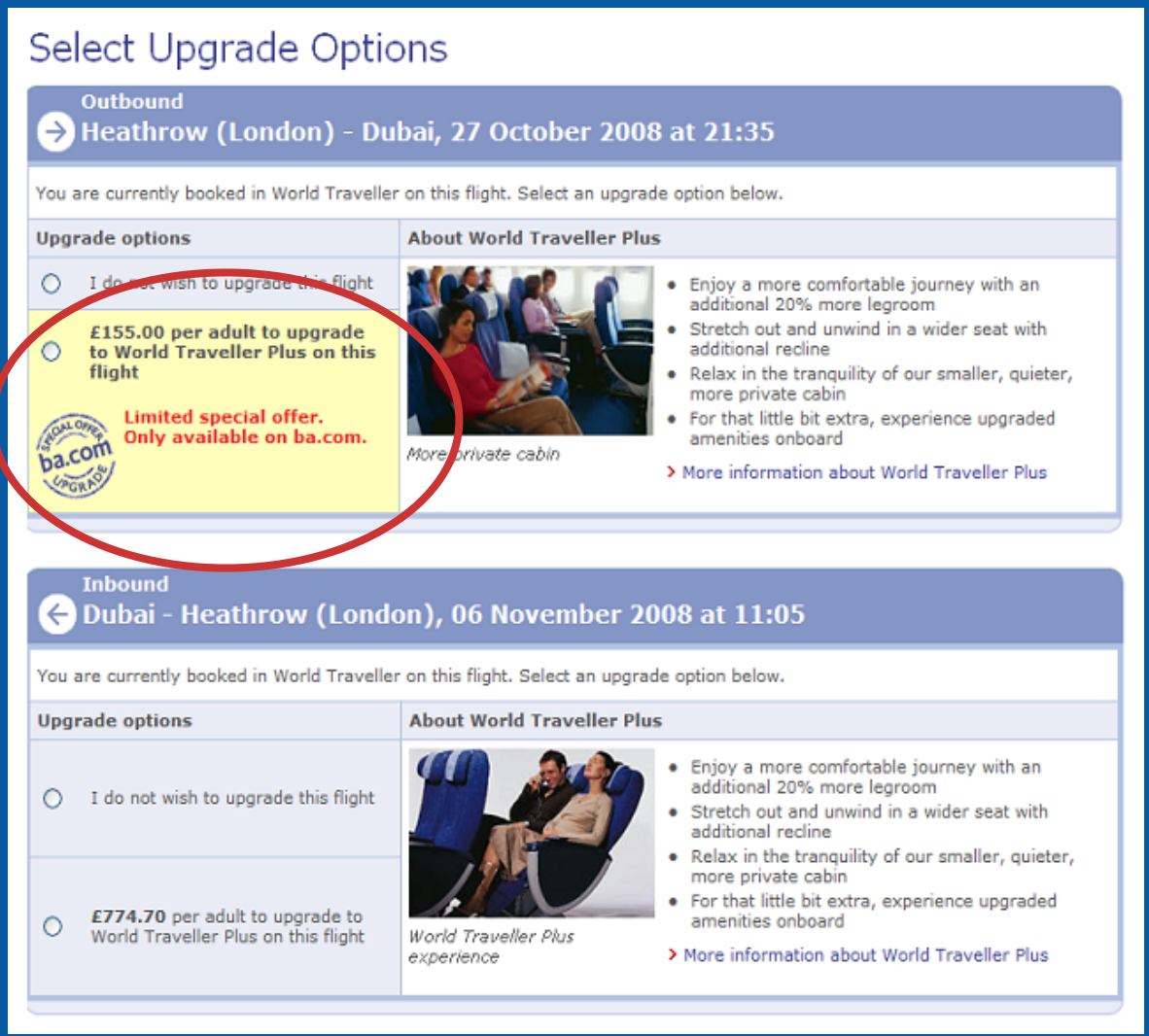
- Tactical offers and promotions
- SEO and affiliate programmes
- Everyday selling
- Dynamic packaging
- Intelligent / personalised sales
- Proactive upgrades
- Test-and-learn

ba.com selling enhancements – new

- Proactive online upgrades
  - in selling process and Manage My Booking



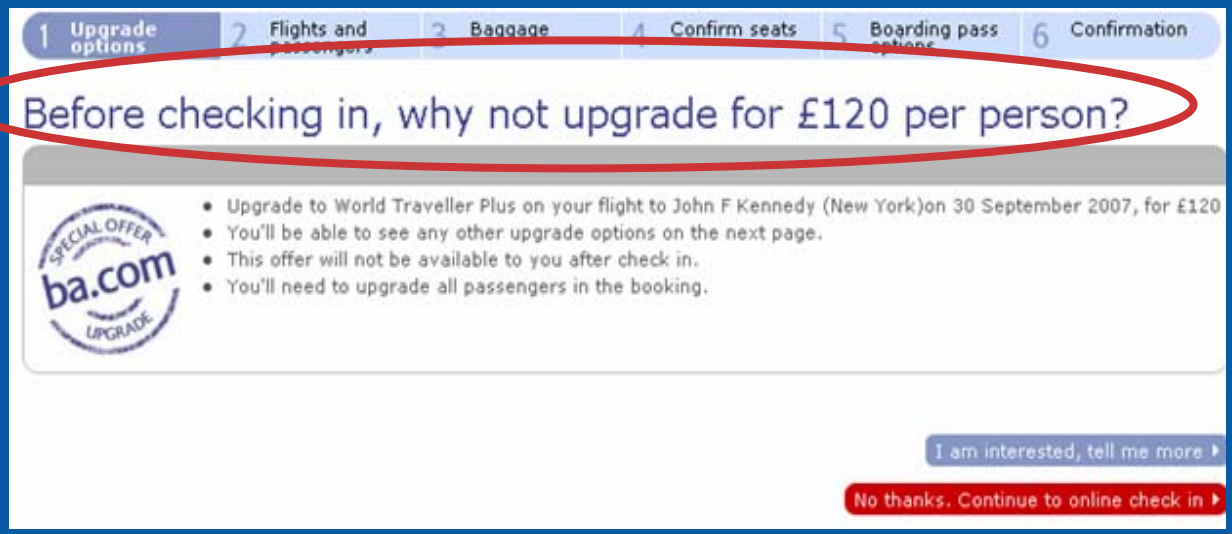
Enhanced up-sell opportunities post booking

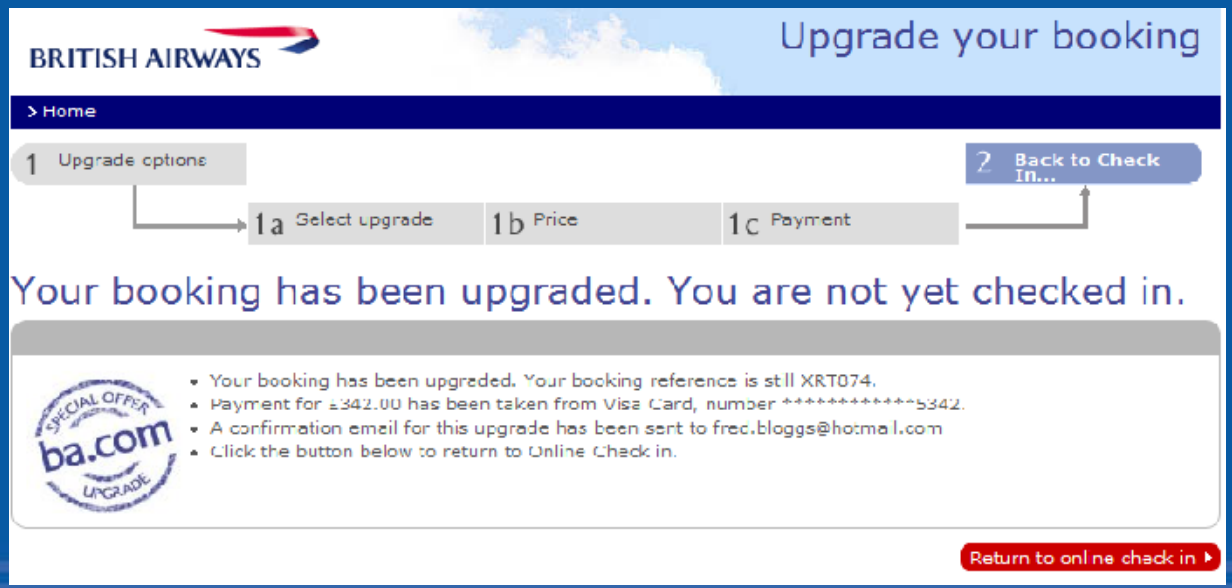


Upfront price & benefit information = improved customer experience

Upgrade can be selected on outbound, inbound, or both sectors

Enhanced up-sell opportunities at check-in





'Online Check-In'

Message is displayed to passenger where next unflown sector is eligible for POU

Once customer upgrades they are prompted to complete check-in

ba.com selling enhancements – upcoming

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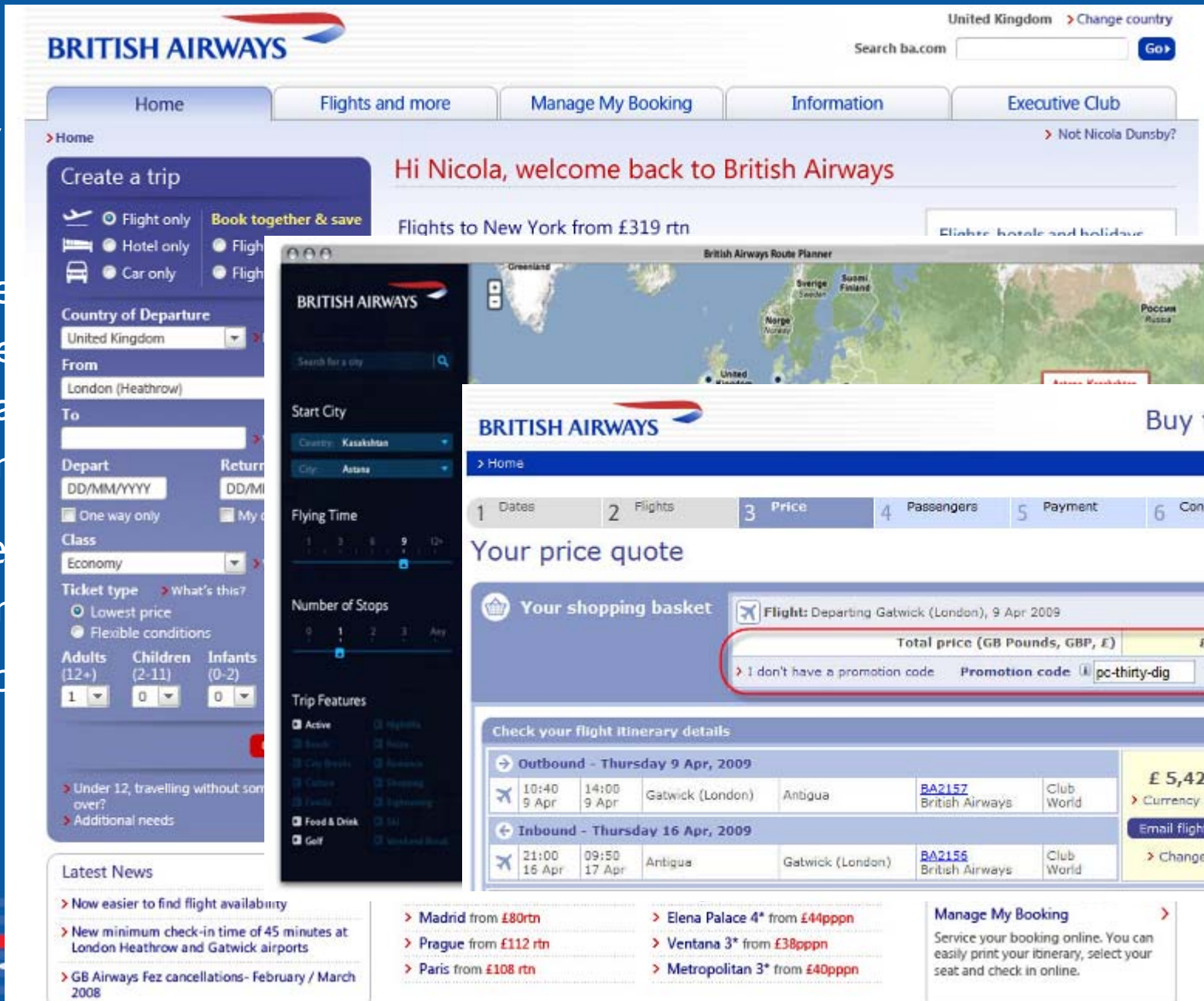


Metrotwin.com

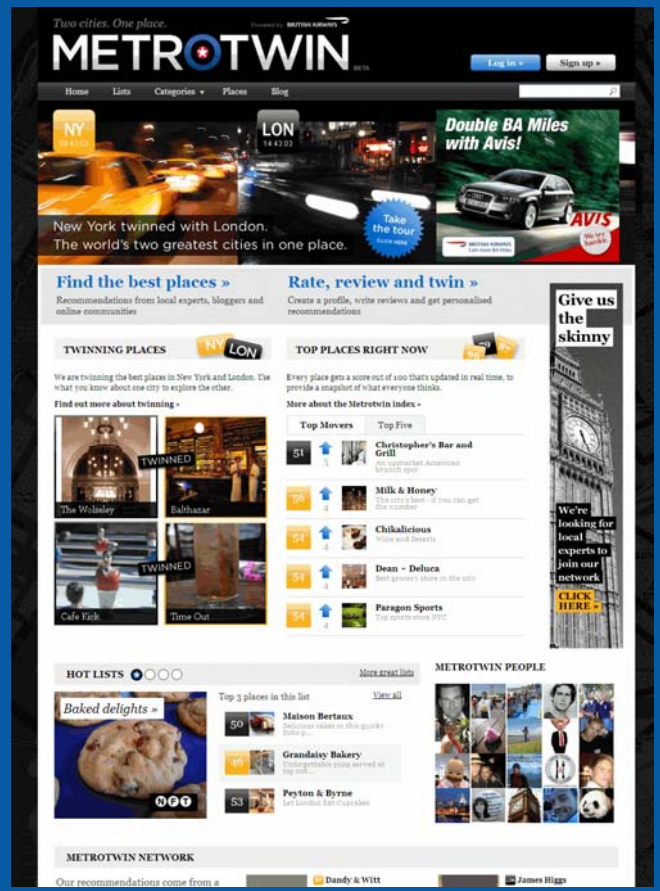
- A community web site offering the best of London and New York in one place

- London - New York is the most important route for BA
  - 62 flights a week from Heathrow and Gatwick to JFK and Newark

- Both cities are twinned in commerce, media, finance, fashion
  - The site also twins places in both cities

- The site attracts a new audience for BA
  - They are young, affluent travelers
  - They are opinionated, mobile and influential

- Launched: September 2008



Marketing prioritisation

- New centralised global budget prioritisation process
- Prioritise tactical sale activity using brand substantiations, loyalty proposition & offers and digital channels
- Look for partner contribution
- Use of globally consistent marketing assets and metrics
- Create flexible agency remuneration models
- Culture of test and learn informing future investment
- Resulting in 20% efficiency in marketing expenditure year on year

Summary

- Revenue outlook very challenging
- Our brand is well positioned to deliver against market insights
- Market share currently growing
- T5 – great asset for transfer hedge
- Our plans maintain momentum
- Flexibility and efficiencies built into Sales & Marketing process

BRITISH AIRWAYS

Tony McCarthy

Director People and Organisational Effectiveness

People

Driving value through our colleagues

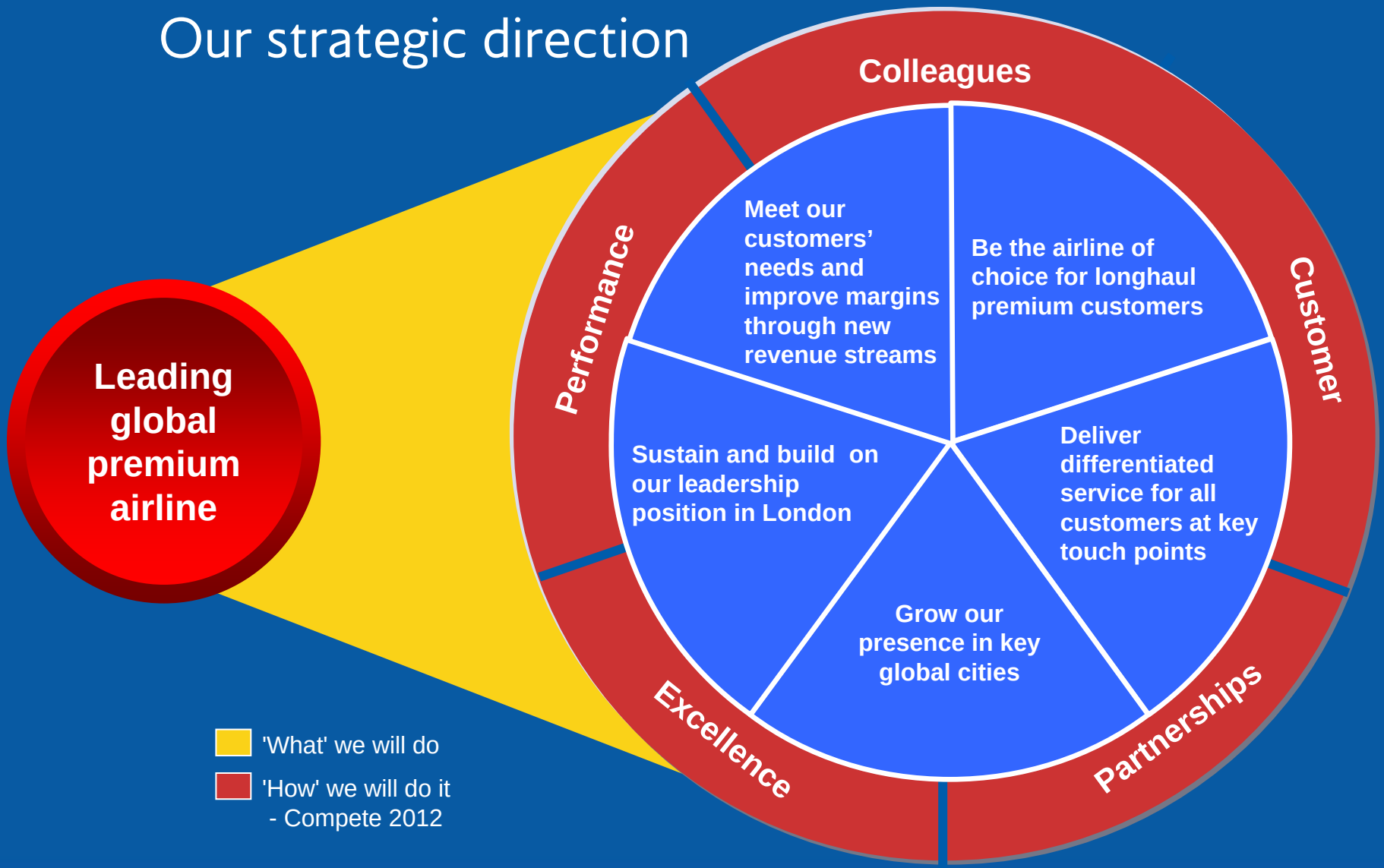
Who are we?

some facts:

- 42,900 colleagues worldwide (Feb 09)
  - 36,400 UK colleagues
  - 6,500 overseas colleagues
  - 54% male
  - 46% female
- Average length of service
  - 15 years
- Key manpower areas:
  - 3,200 pilots
  - 14,300 cabin crew
  - 5,000 engineers
- Employee costs £2.1 million (07/08)

Driving value through our colleagues

Our strategic direction



Driving value through our colleagues

Our longer term change plan – Compete 2012

- To enhance shareholder value by setting a vision for where we wish to be in 2012 by working on 5 key areas that we value

-colleagues
-partnership
-performance
-excellence
-customer

- Each "value" has measures and activities to deliver the vision – deep behavioural change

Driving value through our colleagues

Our change plan – Compete 2012

To enhance shareholder value by setting a vision for where we wish to be in 2012 by working on 5 key areas that we value

	1	2	3	4	5
Activities	**Colleagues-** **I'm proud to give more** **-Fix the basics** **-Create strong leadership capabilities** **-Engage our colleagues** **-Stimulate cross-functional collaboration** **-Improve the way BA manages talent**	**Customers-** **I think customer** **-Customers for all** **-Management engagement** **-Customer investment** **-Customer engagement**	**Partnerships** **We win together** **-Transform our relationships with airline partners** **-Transform our relationships with supplier partners**	**Performance-** **I make it happen** **-Design and implement a consistent business performance management system in BA** **-Increase accountability**	**Excellence-** **I set the standard that others aspire to** **-Establish foundations for excellence** **-Embed continuous improvement throughout BA** **-Create and promote innovation processes**
Leaders	Tony McCarthy	Silla Maizey Drew Crawley	Robert Boyle	Keith Williams	Garry Copeland

Each "value" has measures & activities to deliver the vision – deep behavioural change

Driving value through our colleagues

Key areas of short term focus

1 Face the radical changes in the market
- Continue to increase flexibility of the workforce
- Speed of change
- Continue to increase the variability of the cost base
- Continue to improve customer focus

2 Radical improvement in productivity
- Eliminate restrictive practices
- Engaged workforce
- Lean operations
- Cost base reduction
- Improve customer service

Driving value through our colleagues

Key areas of short term focus….continued

3 Prepare for growth
- Flexibility to deploy without restrictions
- Remove bureaucracy

4 Leadership & Talent development
- Focused performance management
- Focused development & talent spotting

Driving value through our colleagues

Our short term imperatives

1 Leadership & Talent:

- Fundamental organisation – redesign
  - Remove duplication
  - Clear accountabilities
  - Clear at "handover" points
  - Non replacement of leavers
  - Now 1090……1/3 less managers

Driving value through our colleagues

1 Leadership & Talent……..continued

Developing the talent:

- Despite the financial challenges we are investing in our leaders to manage the significant short term challenges and to be prepared for the future

  - Behavioural skills training
    - Communicating a common vision
    - Agreeing accountabilities
    - Motivating & inspiring others
  - Lean thinking
  - Customer first
  - Graduate recruitment re-start
  - Fast track talent identification & development

  Supported by

  - Coaching
  - Mentoring

Very targeted, internally developed, heavily performance focused

Driving value through our colleagues

2 Management of Performance:

- Very clear objective setting
  - "What" has to be delivered
  - "How" (behavioural) it is to be delivered
- Very clear consequences – positive and negative
  - Forced distribution
  - Learning, development
  - Linked directly to reward, share plans etc
  - Exit if underperformance

Driving value through our colleagues

3 Pay, Productivity, Performance & Redundancy:

Significant challenges in each area of business

- Engage people in the changes
  - Target improvements vary by area
  - Removal of restrictive practices
    - does it work for the customer
    - is it safe
    - is it legal
- 6 separate union bargaining groups
  - Negotiations are underway
    - Pilots
    - Cabin crew
    - Admin/check-in
    - Junior managers
    - Ramp
    - Engineering

Driving value through our colleagues

3 Pay, Productivity, Performance & Redundancy:….continued

Specifically…..

Key items

Pay:

"don't envisage pay increase this year"

Productivity:

radical structural sustainable changes in the way we work

e.g new cabin crew terms & conditions of employment

Performance:

Focus on the day to day improvements in operational performance & in the customer experience

e.g. addressing absence, implementing lean thinking

Driving value through our colleagues

3 Pay, Productivity, Performance & Redundancy:....continued

Reorganisation & redundancy

Removal of 1/3 of management		450 - complete
Focused elimination of work	}	
Early structural changes	}	underway
Further reorganisation changes	}	

Plus

All to be followed by the results of the pay & productivity negotiations releasing additional significant headcount reductions

Driving value through our colleagues

Summary – driving value through our people

Radical agenda to introduce

- Additional flexibility in the workplace
- Additional variability in the cost base
- Increased colleague engagement to drive productivity
- Significant cost base reductions facilitated by redundancy
- New methods of working/lean
- Improved customer service

By

- Having a clear strategy & expected behaviours
- Redesigned organisation
- Engaging our people on improving customer service
- Refocused performance management
- Growing highly talented leadership
- Removal of bureaucracy & best practice

BRITISH AIRWAYS

Lunch

BRITISH AIRWAYS

Keith Williams

Chief Financial Officer

Financial outlook

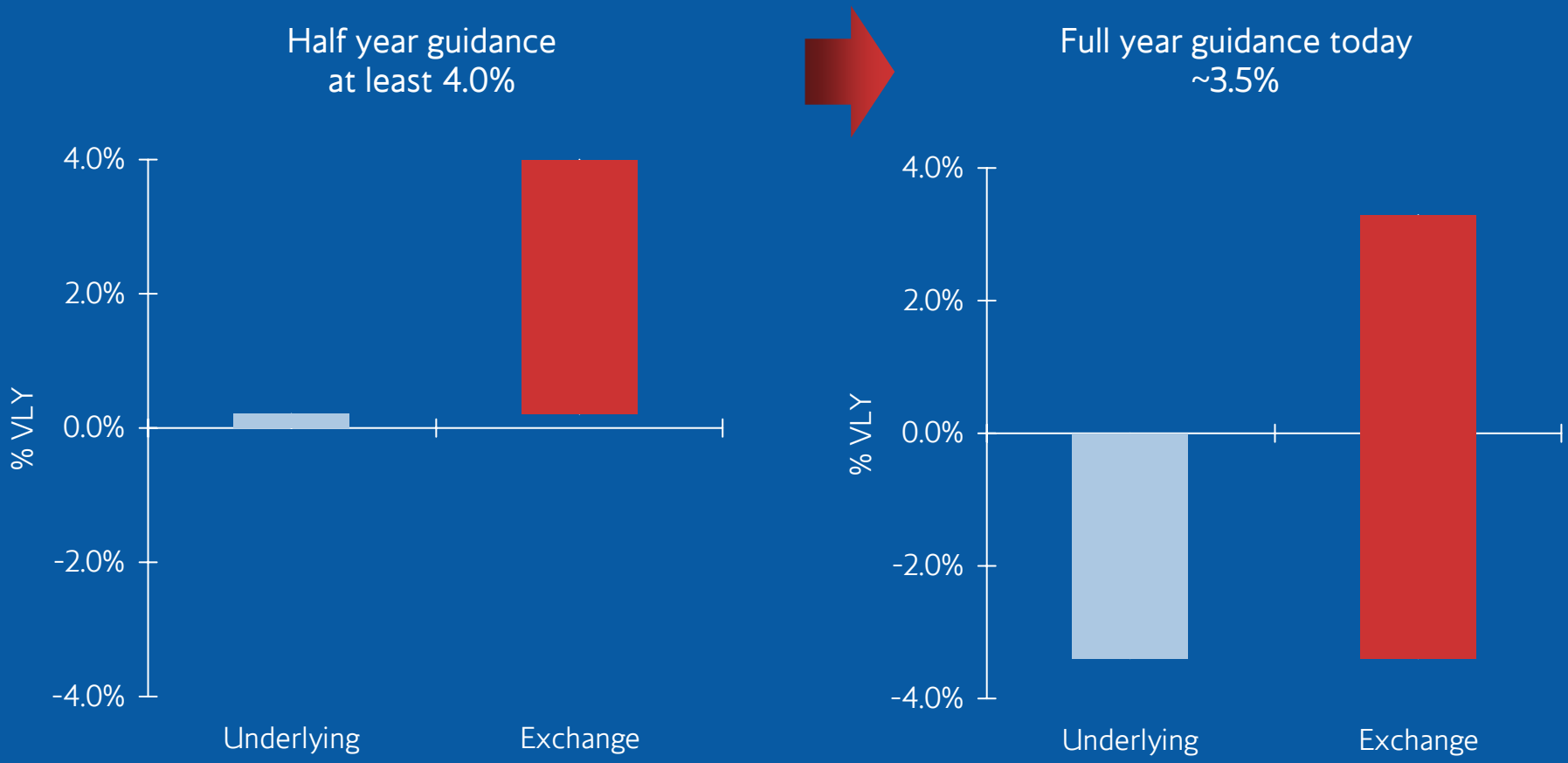
In the eye of the hurricane...

In the eye of the hurricane…

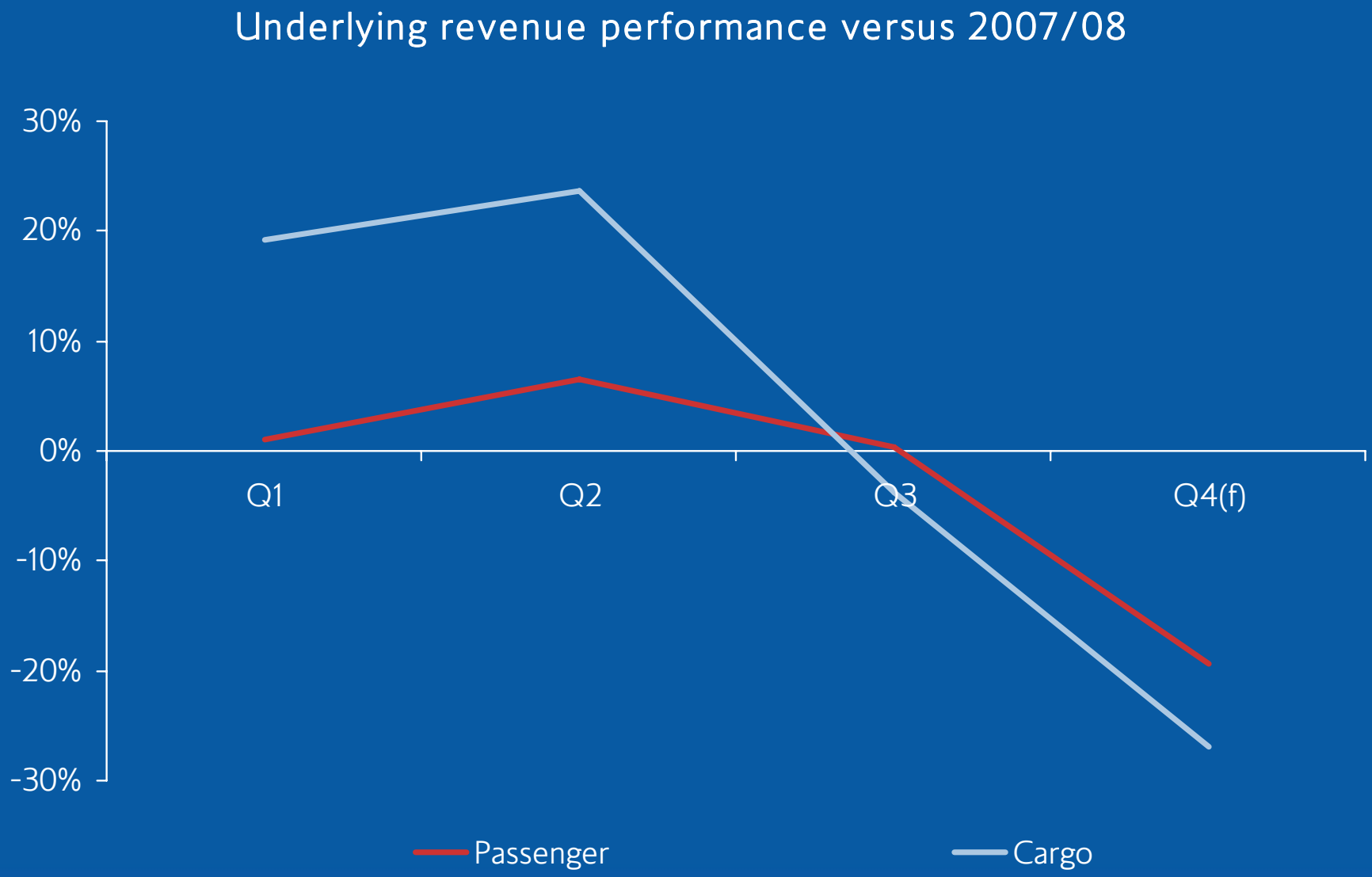
- Revenue outlook as we see it today
- Fuel and currency outlook
- What we have done on costs and what we are planning to do
- The balance sheet position in outline

Revenue

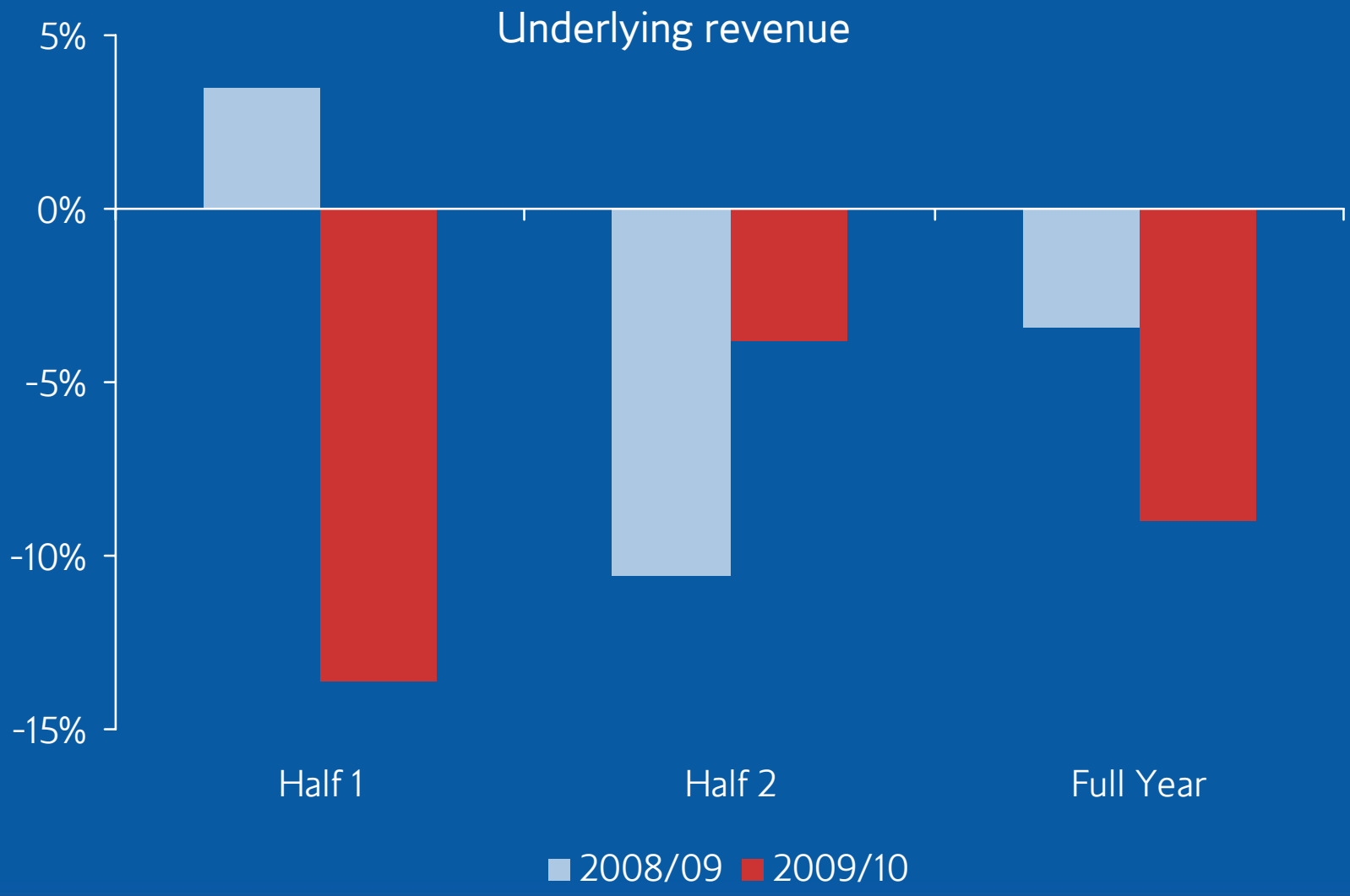
This year's revenue is driven by exchange...



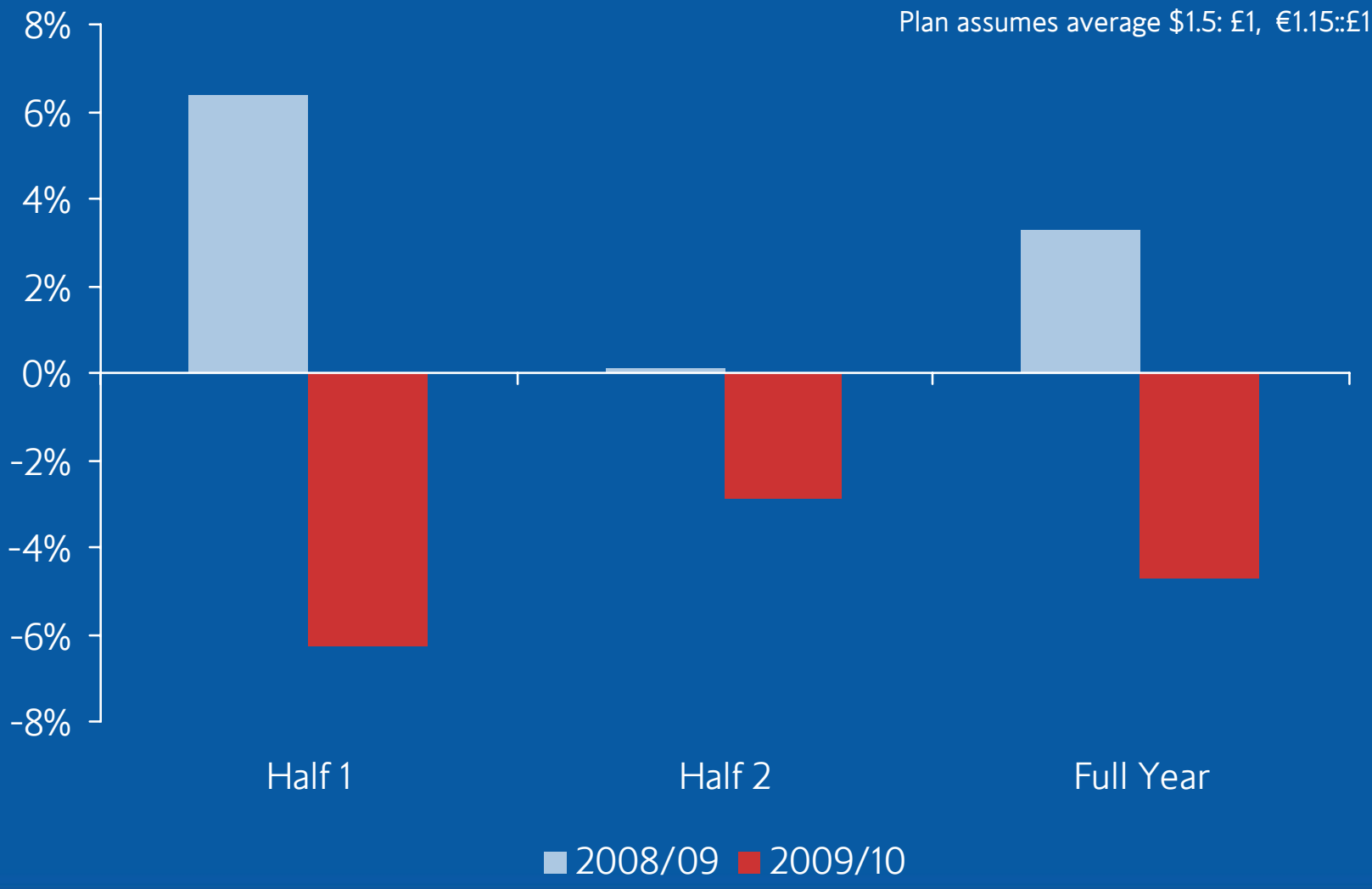
..with steep decline in second half revenue



Trend expected to continue into next year...

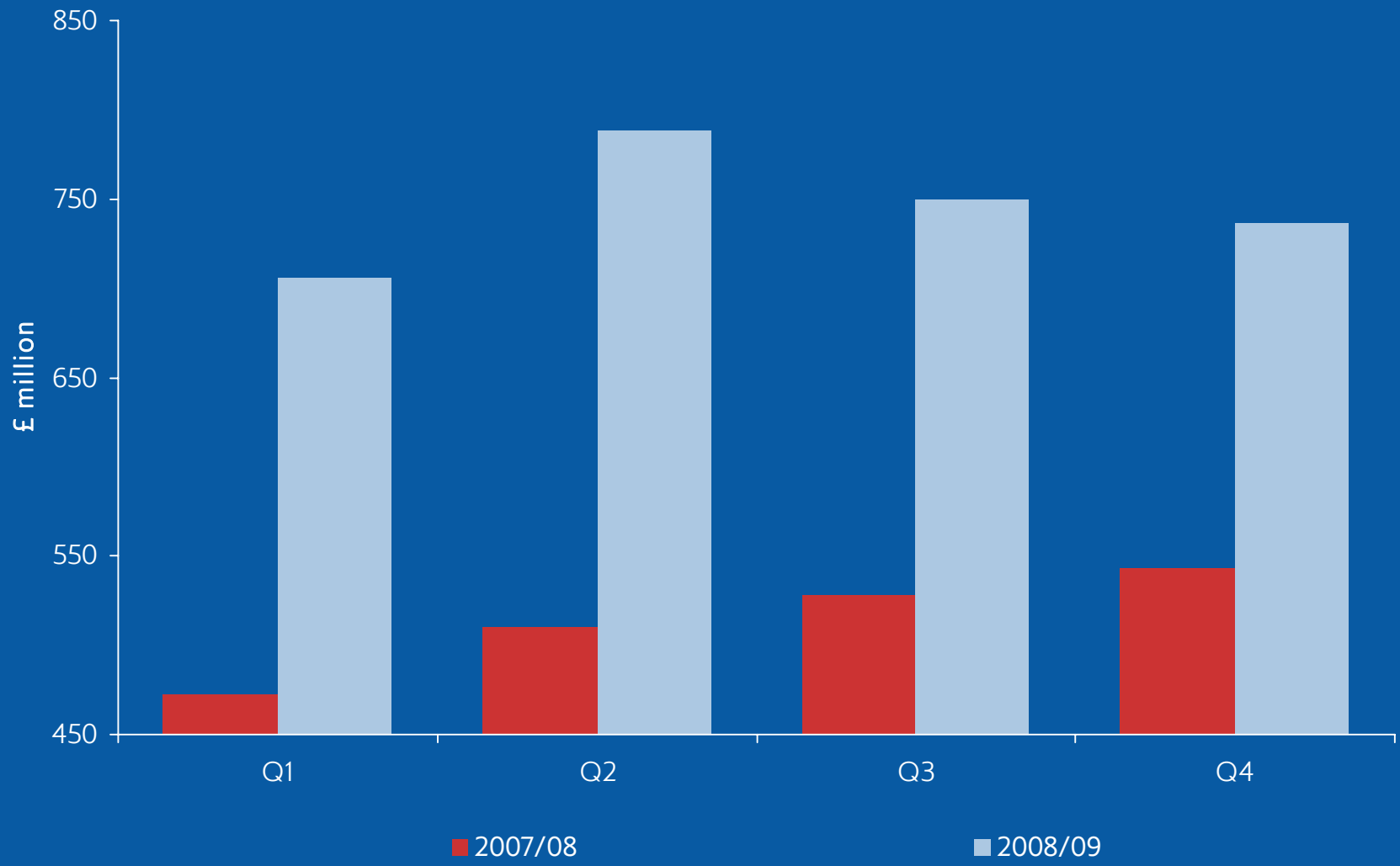


..with exchange benefit reducing impact to ~5.0% overall



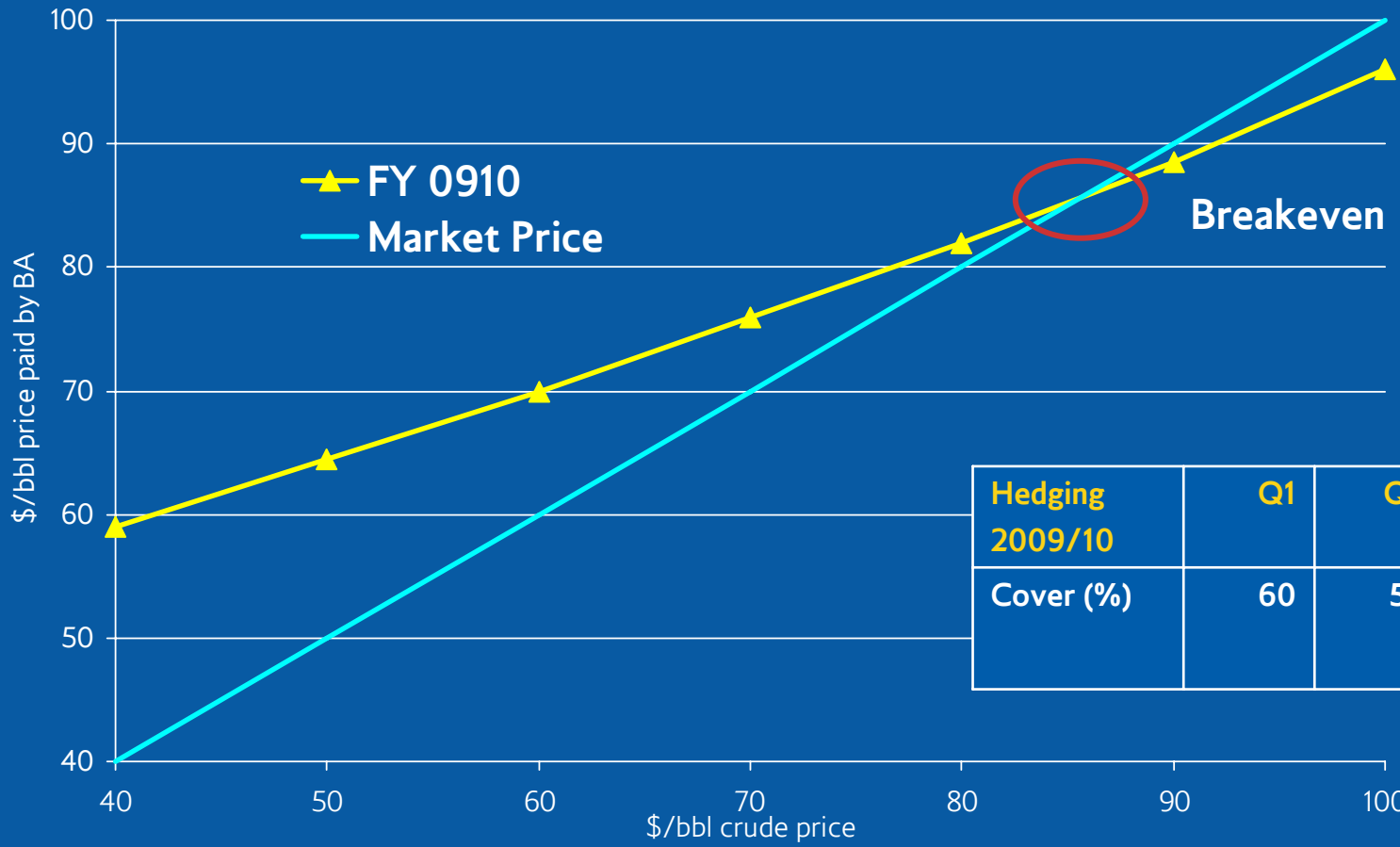
Fuel and currency

Fuel this year up around £950 million



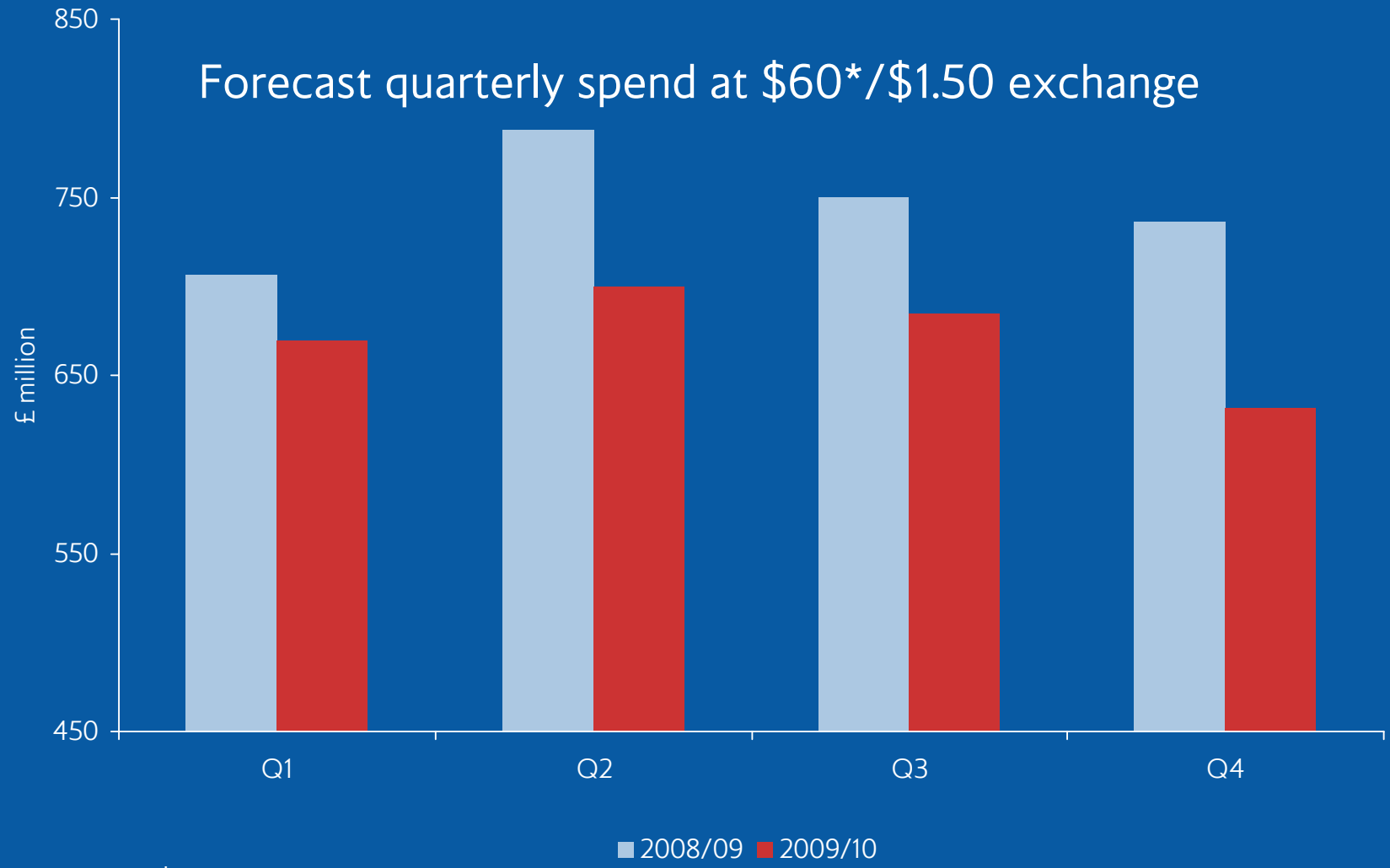
We have a lower hedging position next year

Structured to take advantage of price fall



Hedging 2009/10	Q1	Q2	Q3	Q4
Cover (%)	60	55	55	40

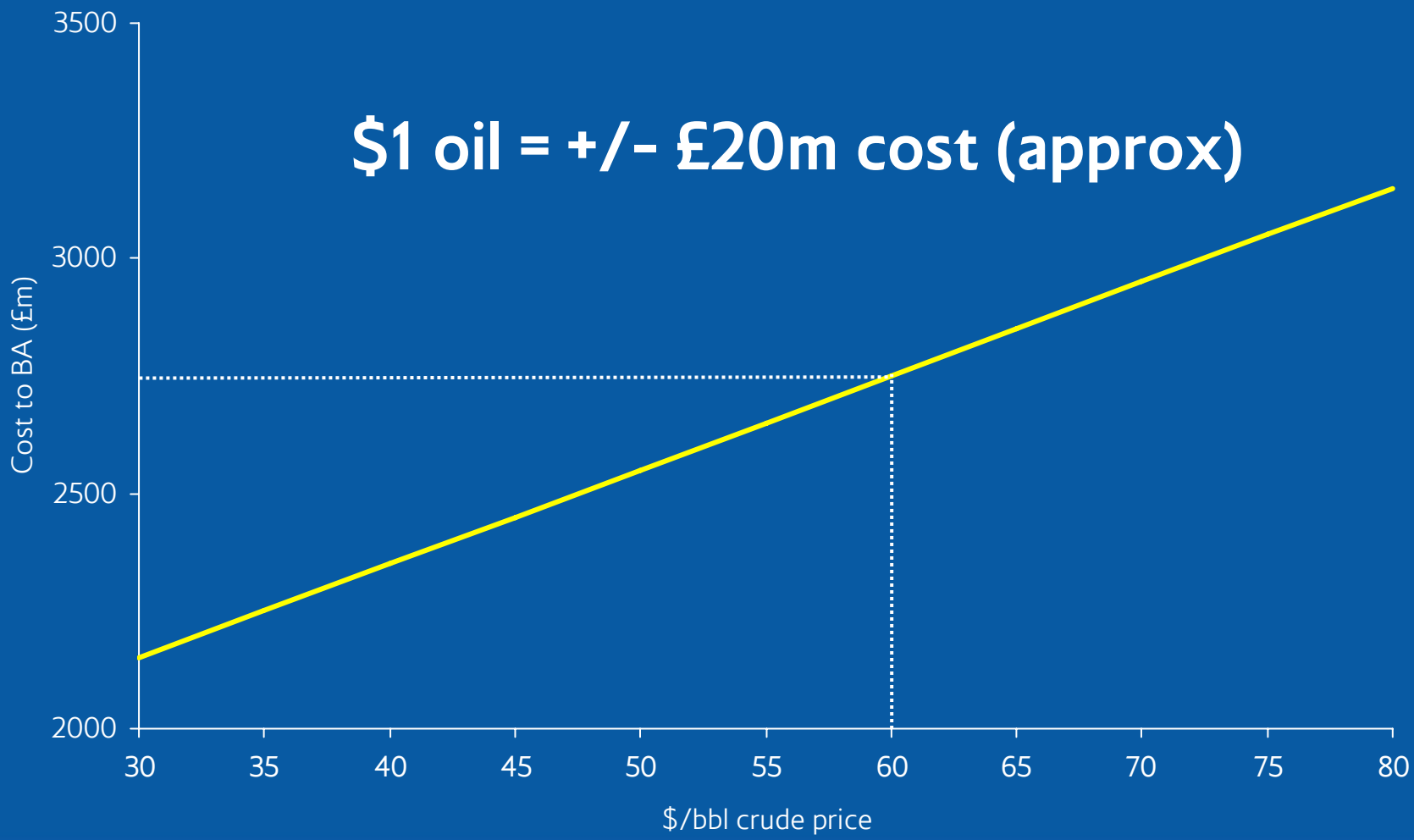
So fuel spend likely to fall next year...



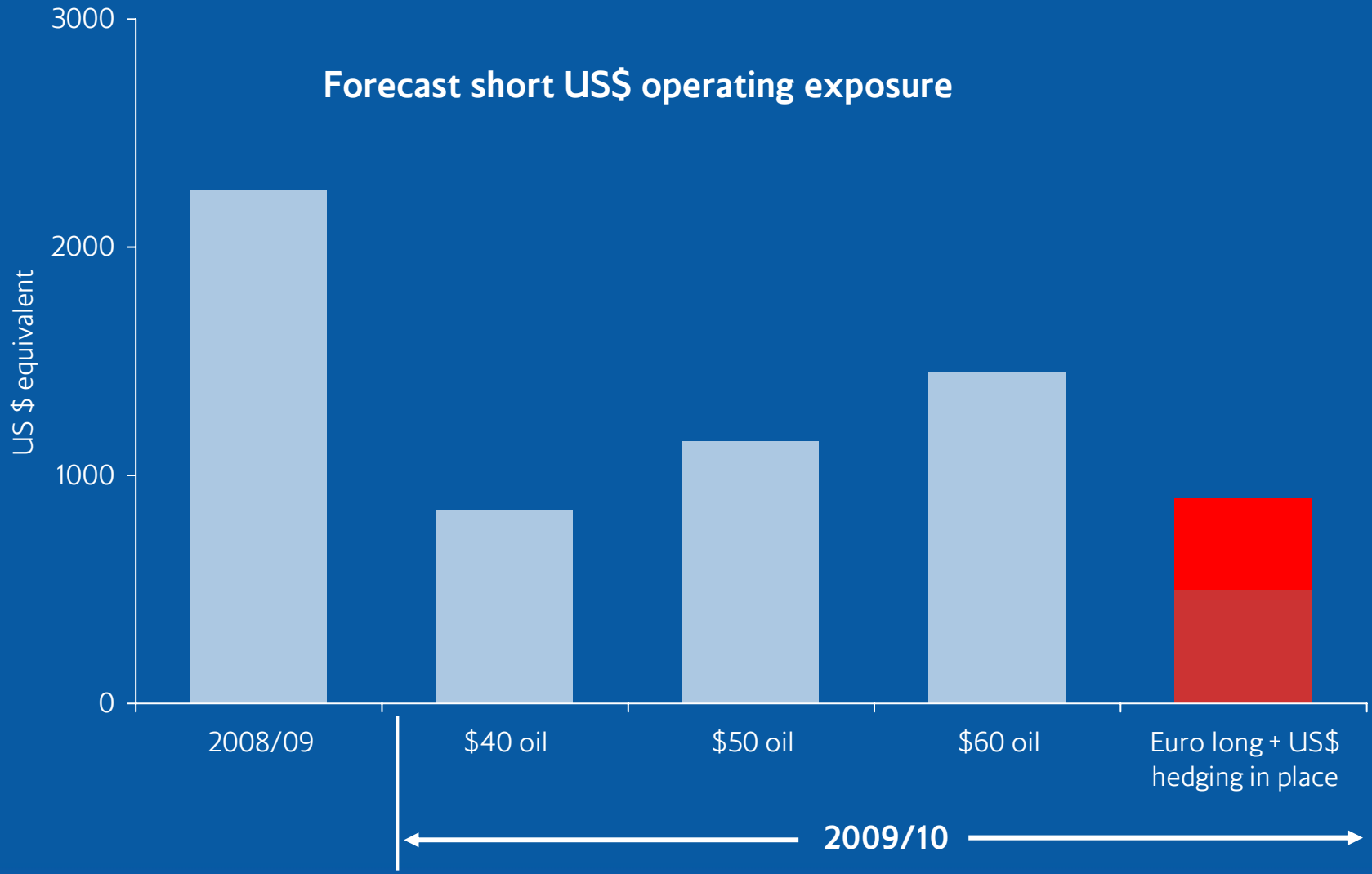
* Q1 assumes $50/bbl crude equivalent

With sensitivity because of lower hedging

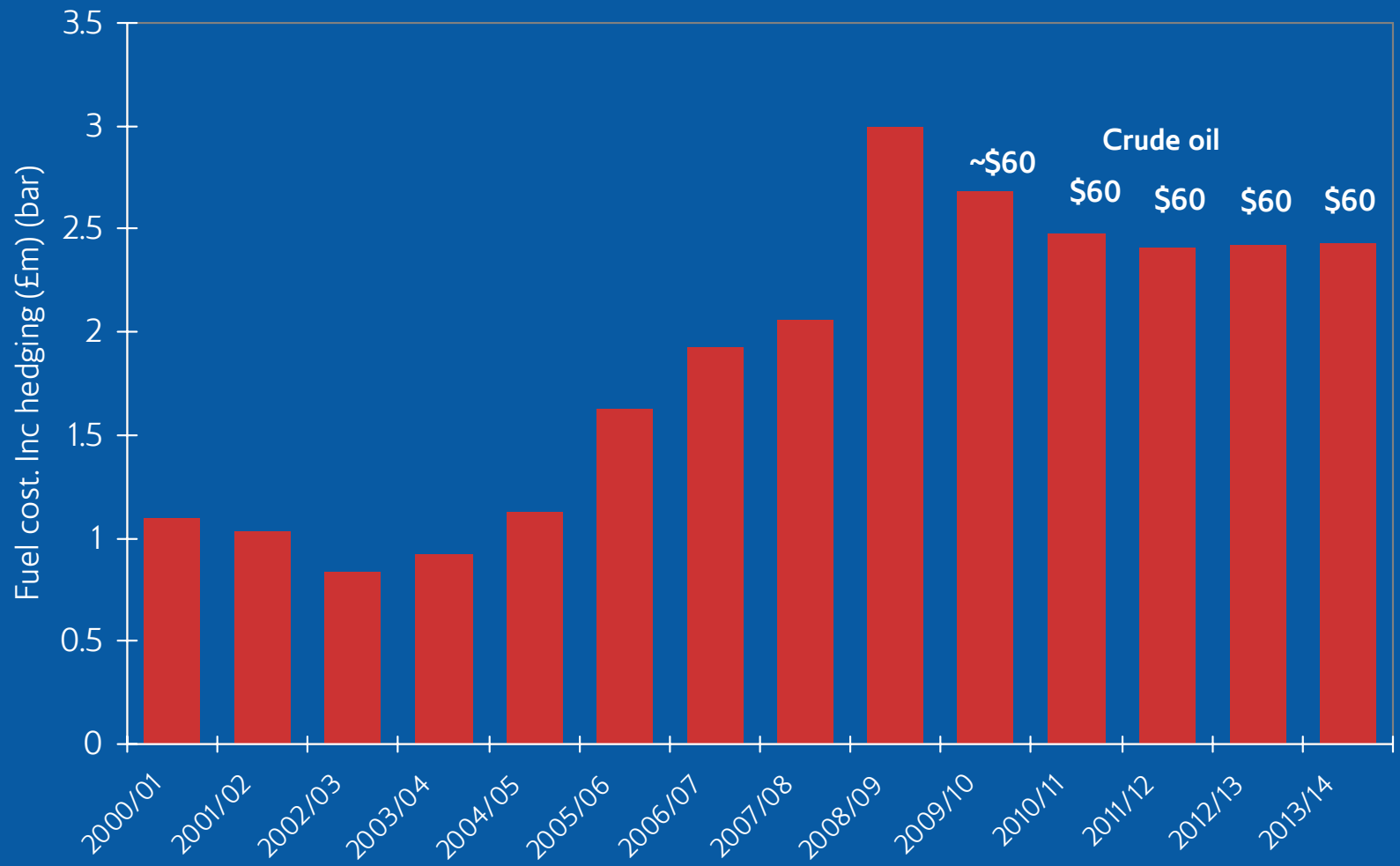
Based on reported hedging position



Exchange risk likely to be lower next year



Fuel cost benefit emerging



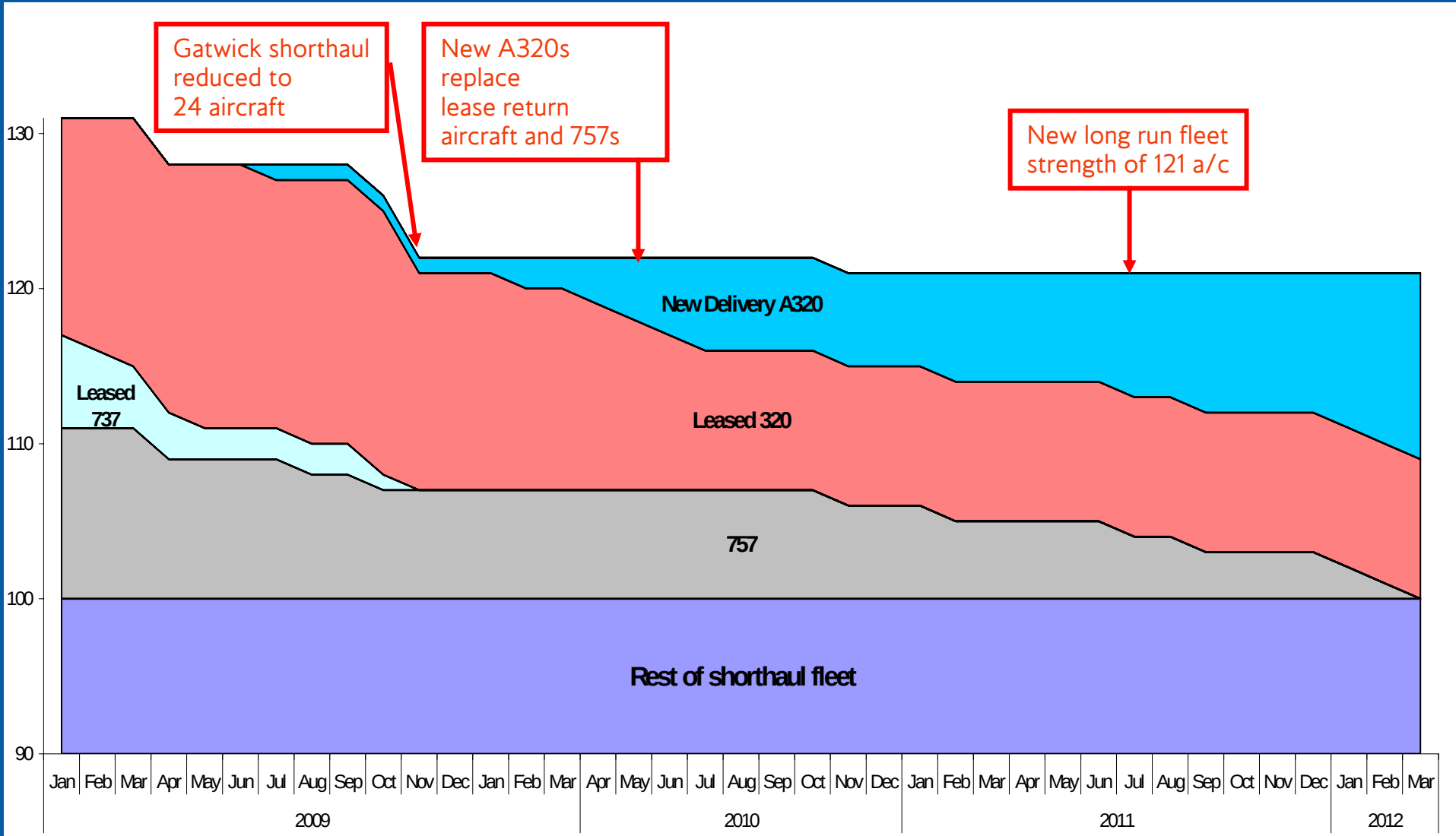
Assumes 2% capacity growth p.a. 2010/11 onwards. Exchange at $1.50:£1

Capital expenditure

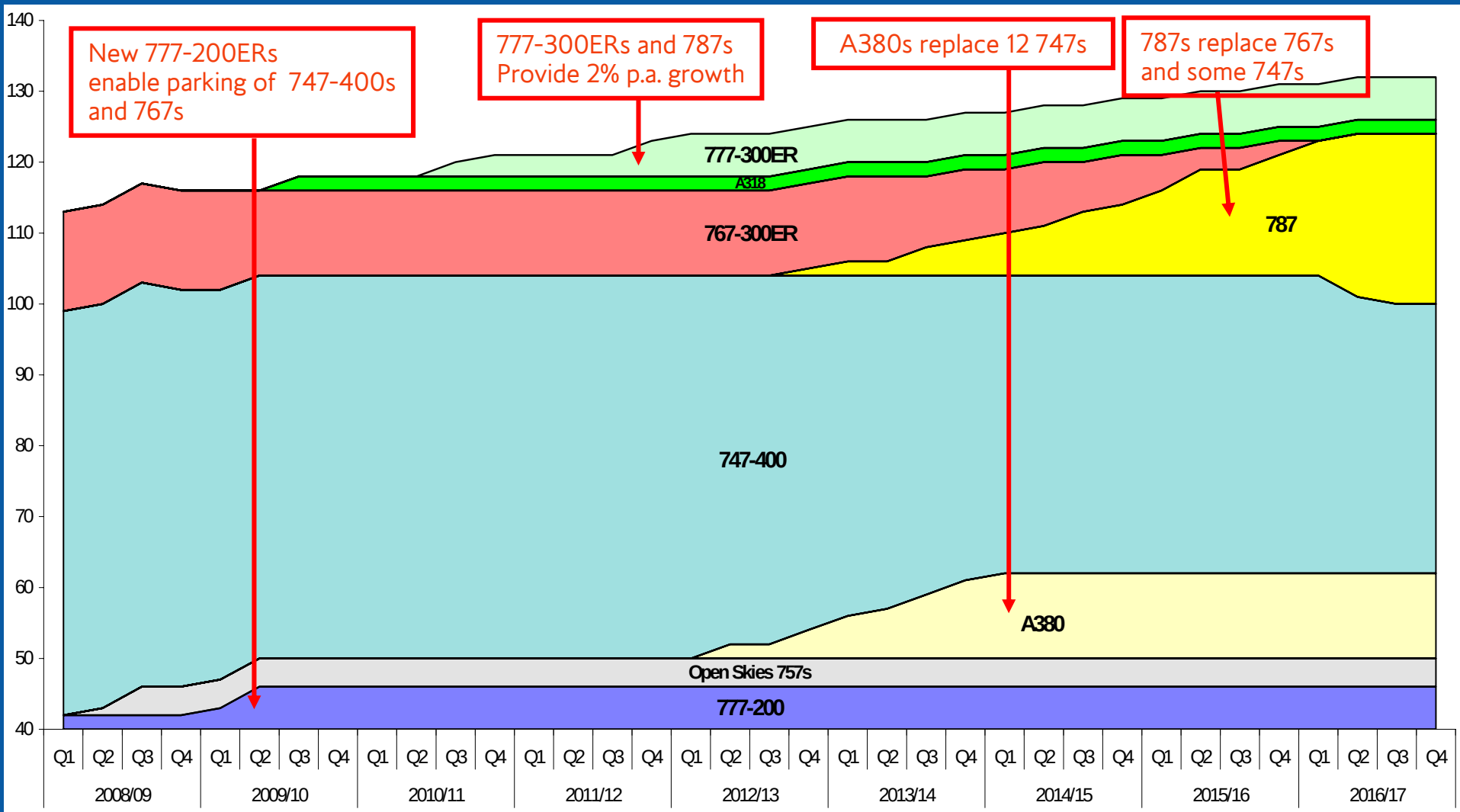
Invest in our future … the airline of choice

Fleet size and shape supports strategic priorities

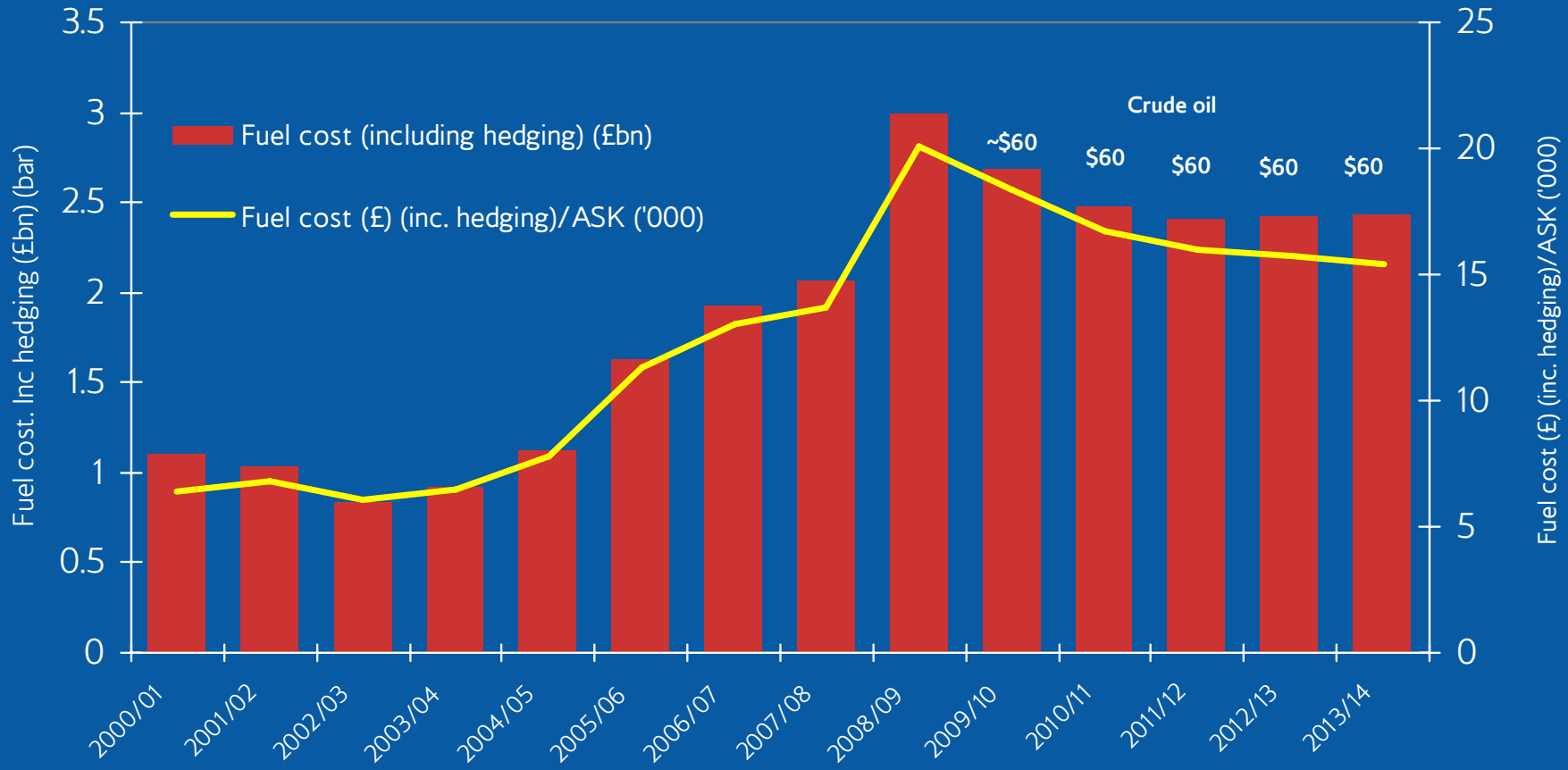
Shorthaul fleet plan – central case



Longhaul fleet plan – central case

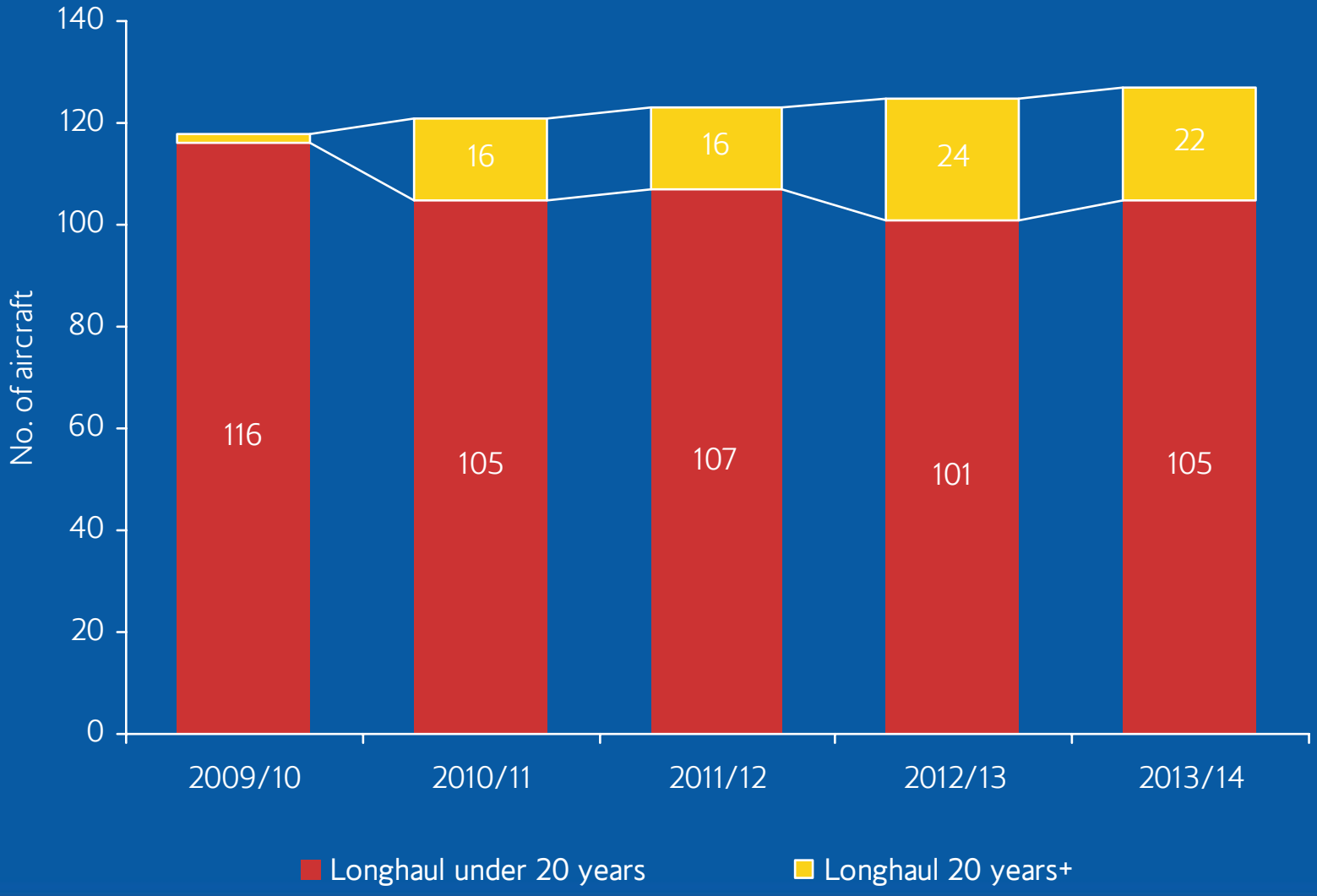


And benefit of efficient aircraft emerging

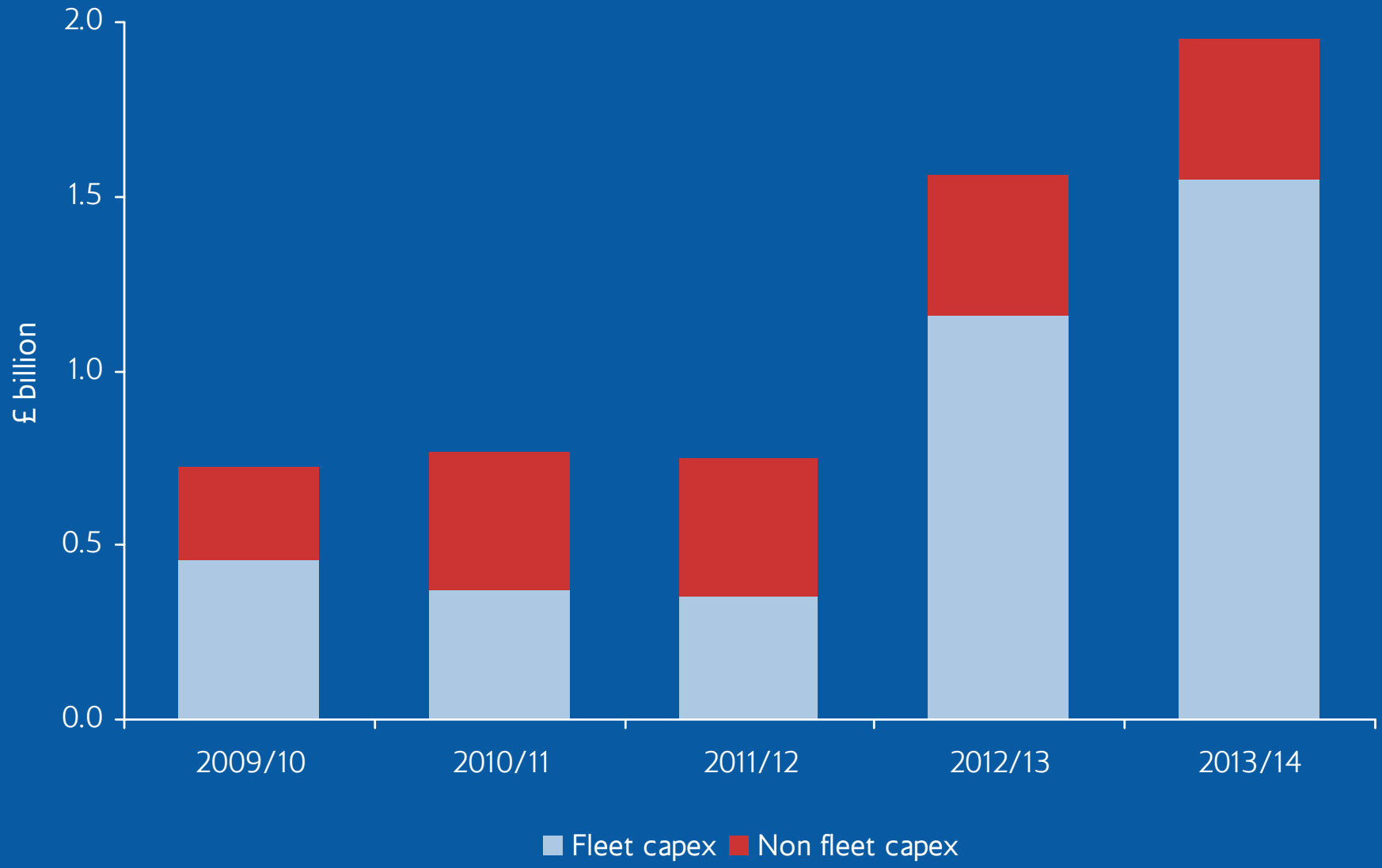


Delivery of new fuel efficient aircraft will result in a saving of around £130 million by 2014 rising to £175 million per year by 2016

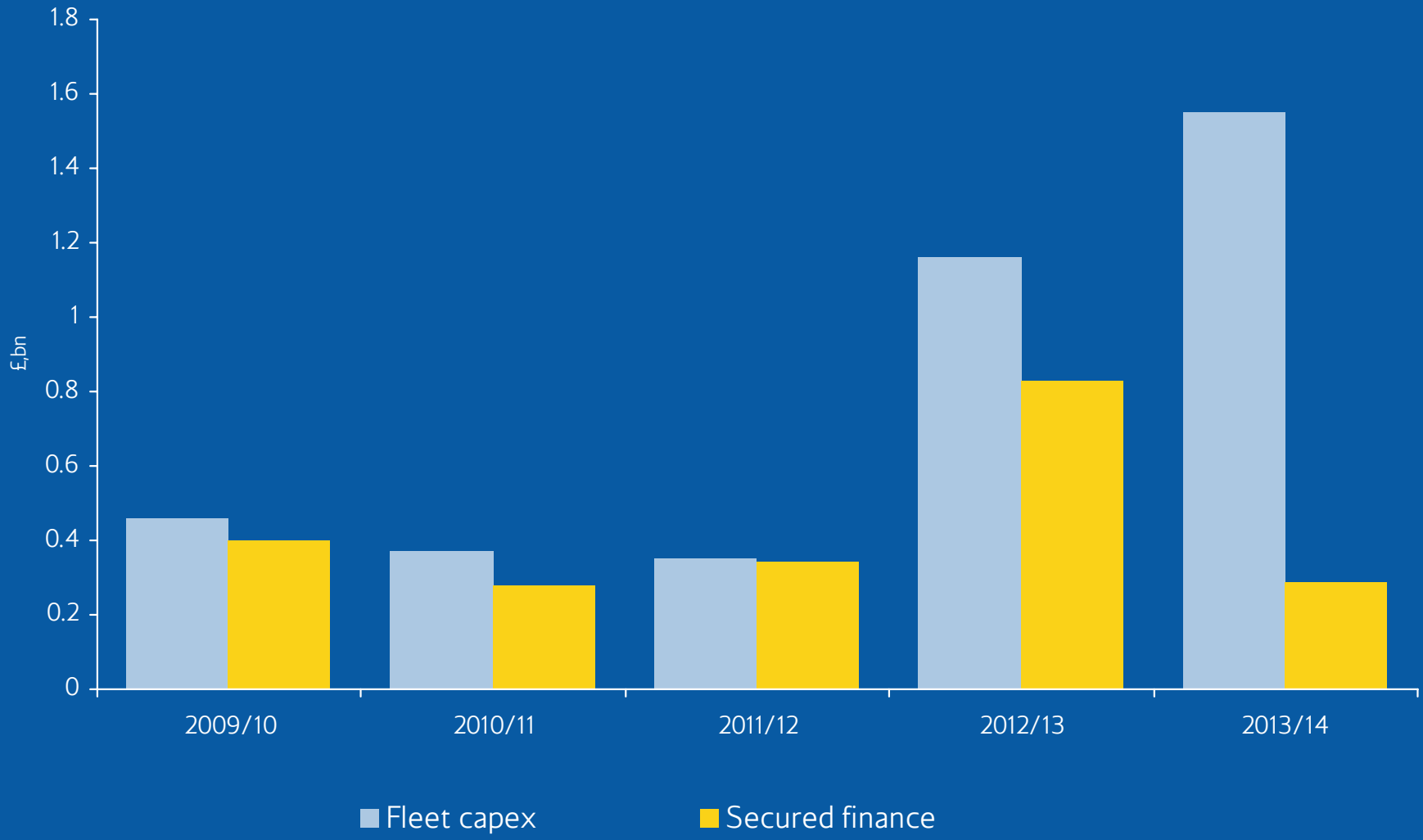
With flexibility to manage our capacity downwards



Capital requirements modest until 2013



With over £3.1 billion of committed facilities



Based on exchange rate $1.5:£1

Balancing the short-term need to preserve cash

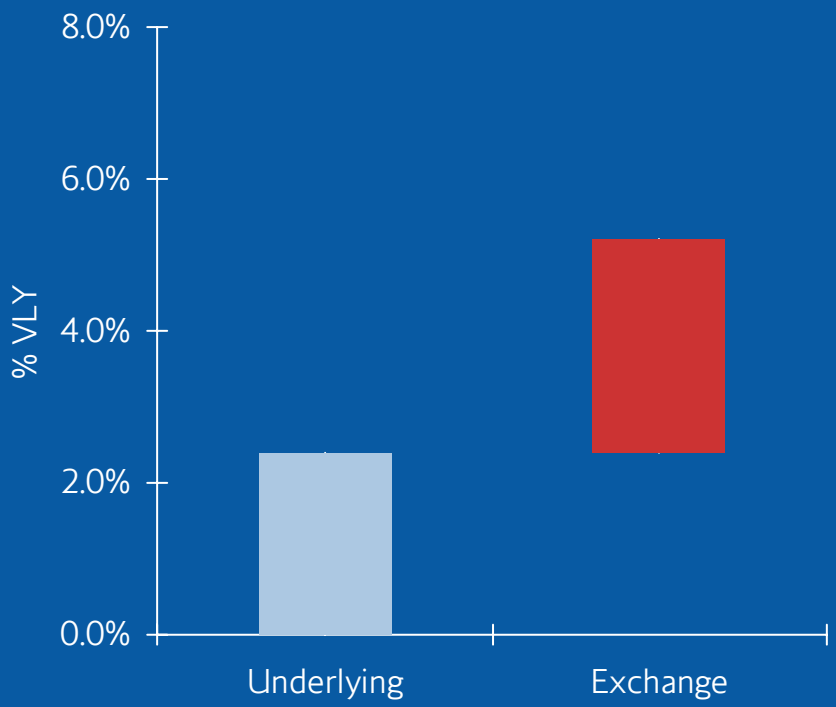
	Plan at Nov 08		Revised target
Capital investment 2009/10	~£760m		~£725m

- Revised business plan and reduced planned capital expenditure by ~£35 million in 2009/10
- Exchange assumption lowered $1.5 : £1
- While continuing investment to improve the customer experience and in efficient fleet

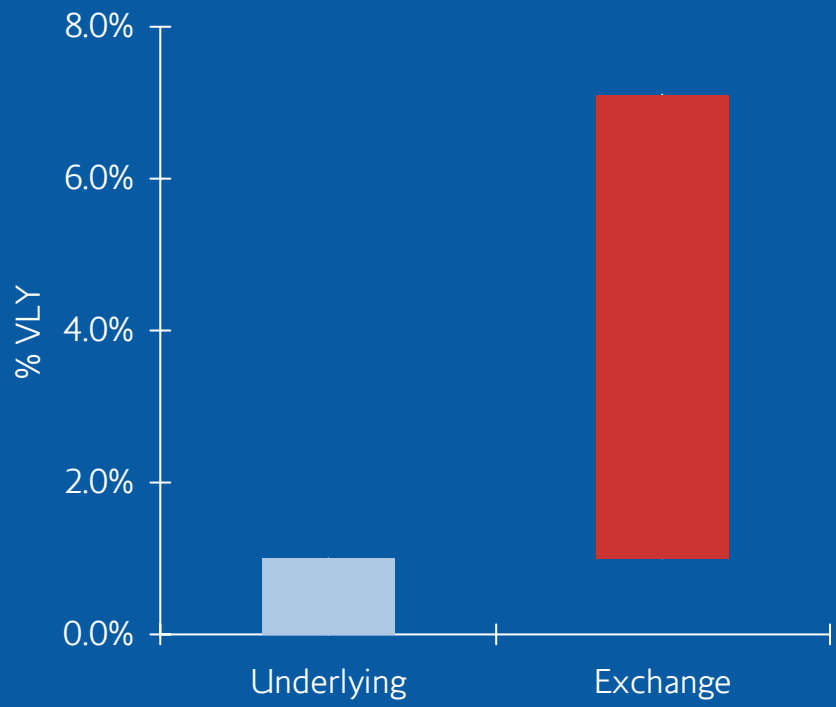
Non- fuel costs

Underlying targets for 2008/09 beaten but exchange has impacted

Half year guidance
up ~ 5.0%

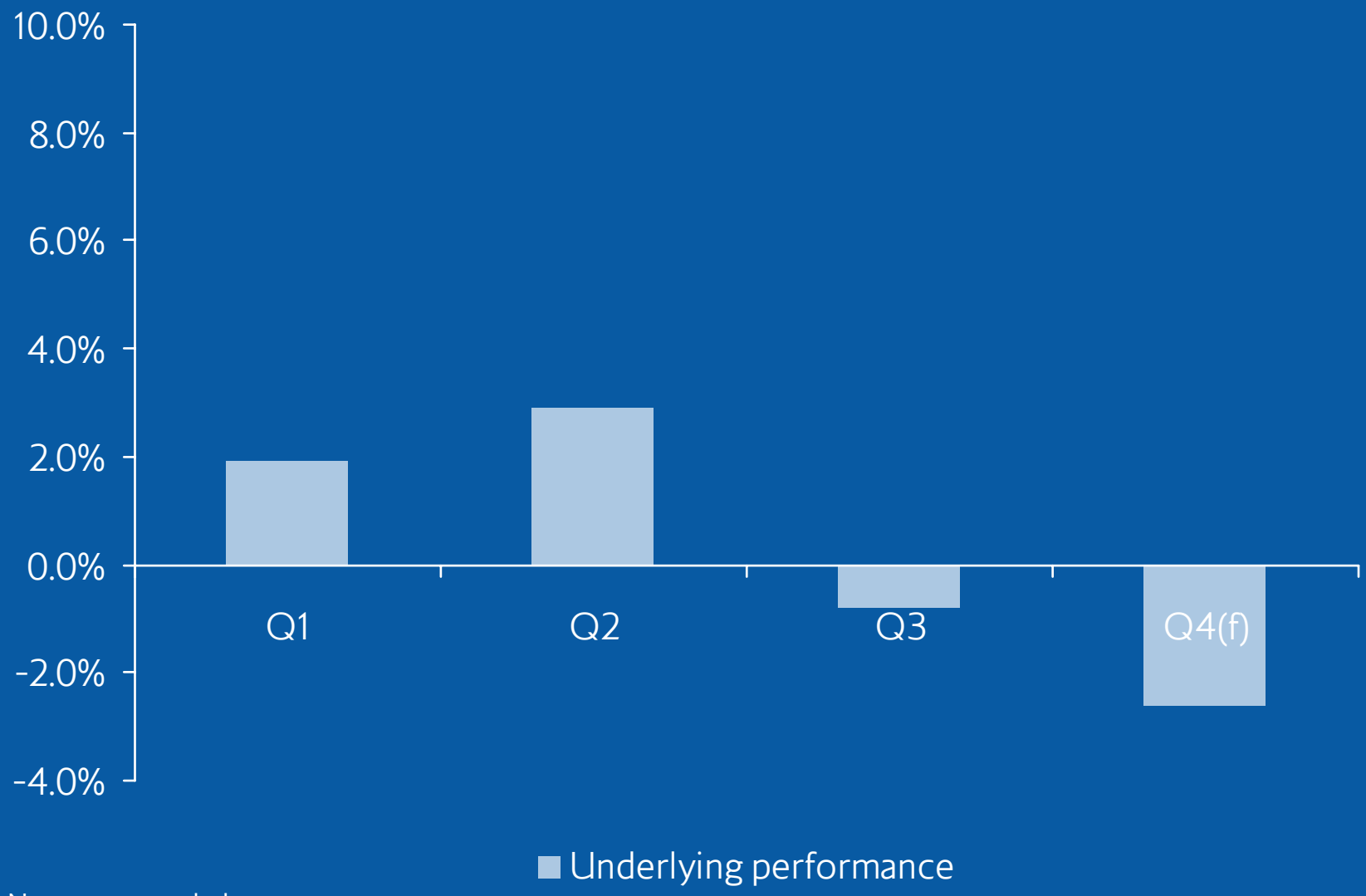


Full year guidance today
up ~7.0%



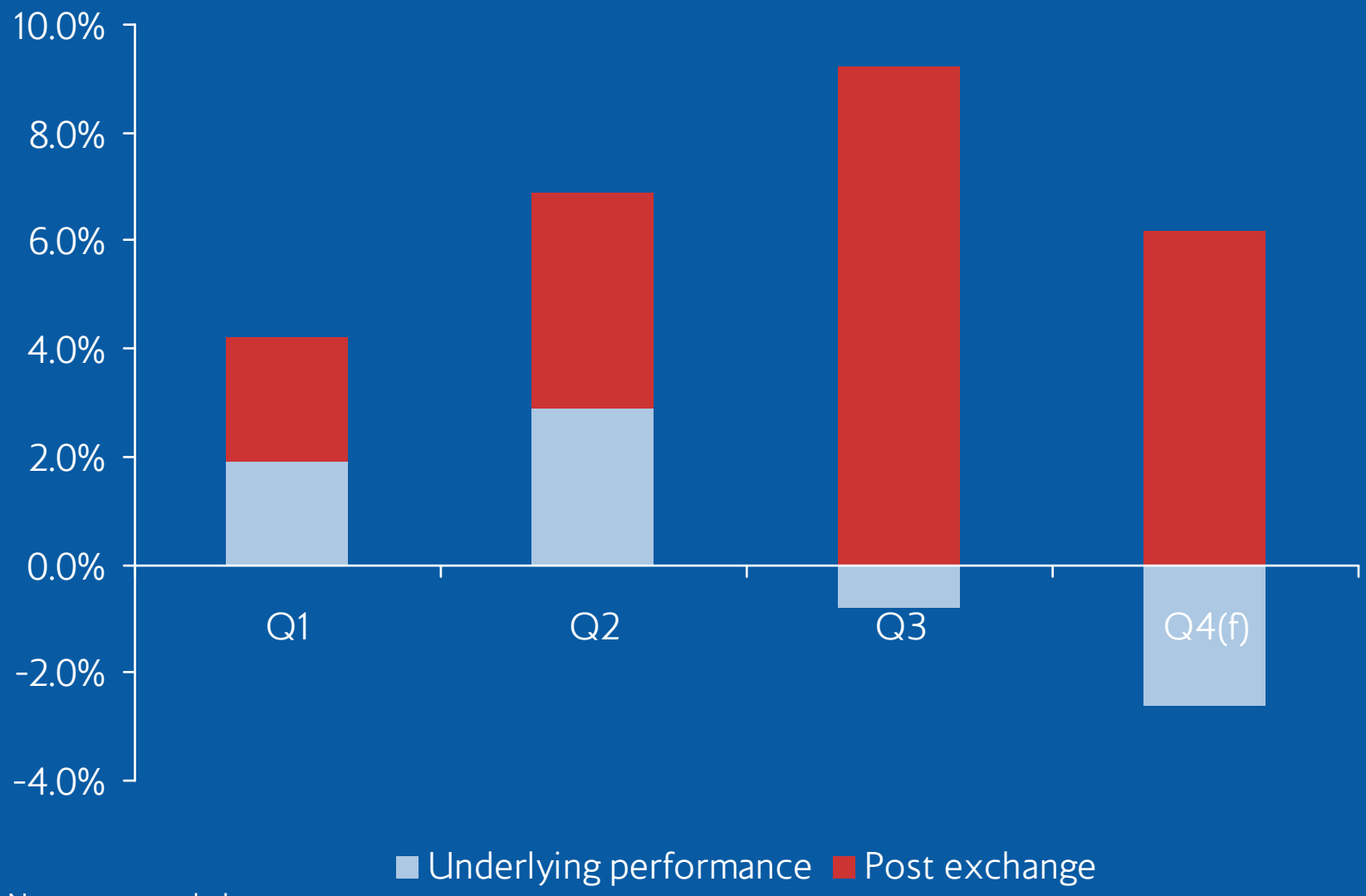
Note: costs exclude severance

Costs starting to come down quickly...



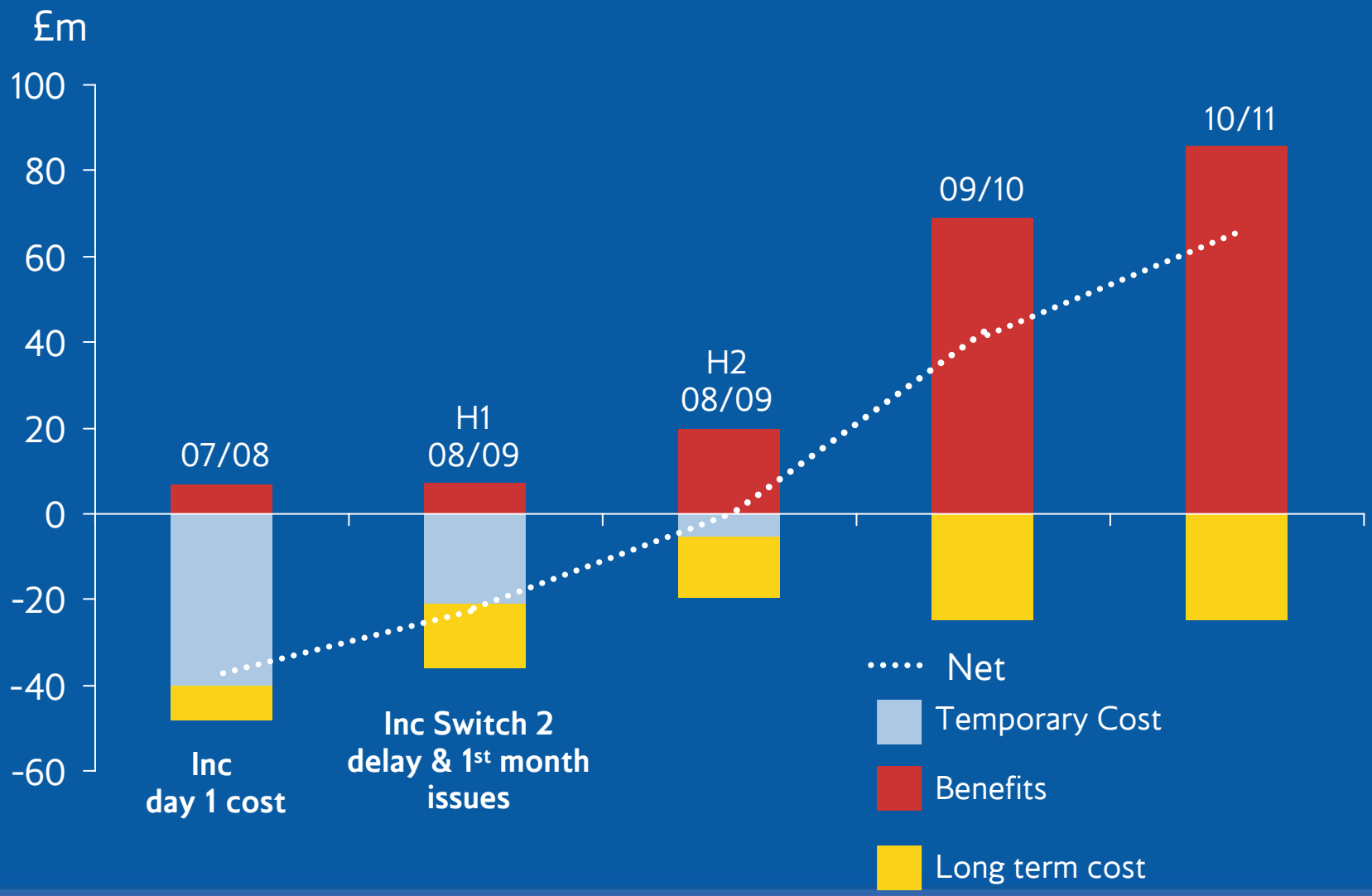
Note: costs exclude severance

...but hidden by adverse exchange

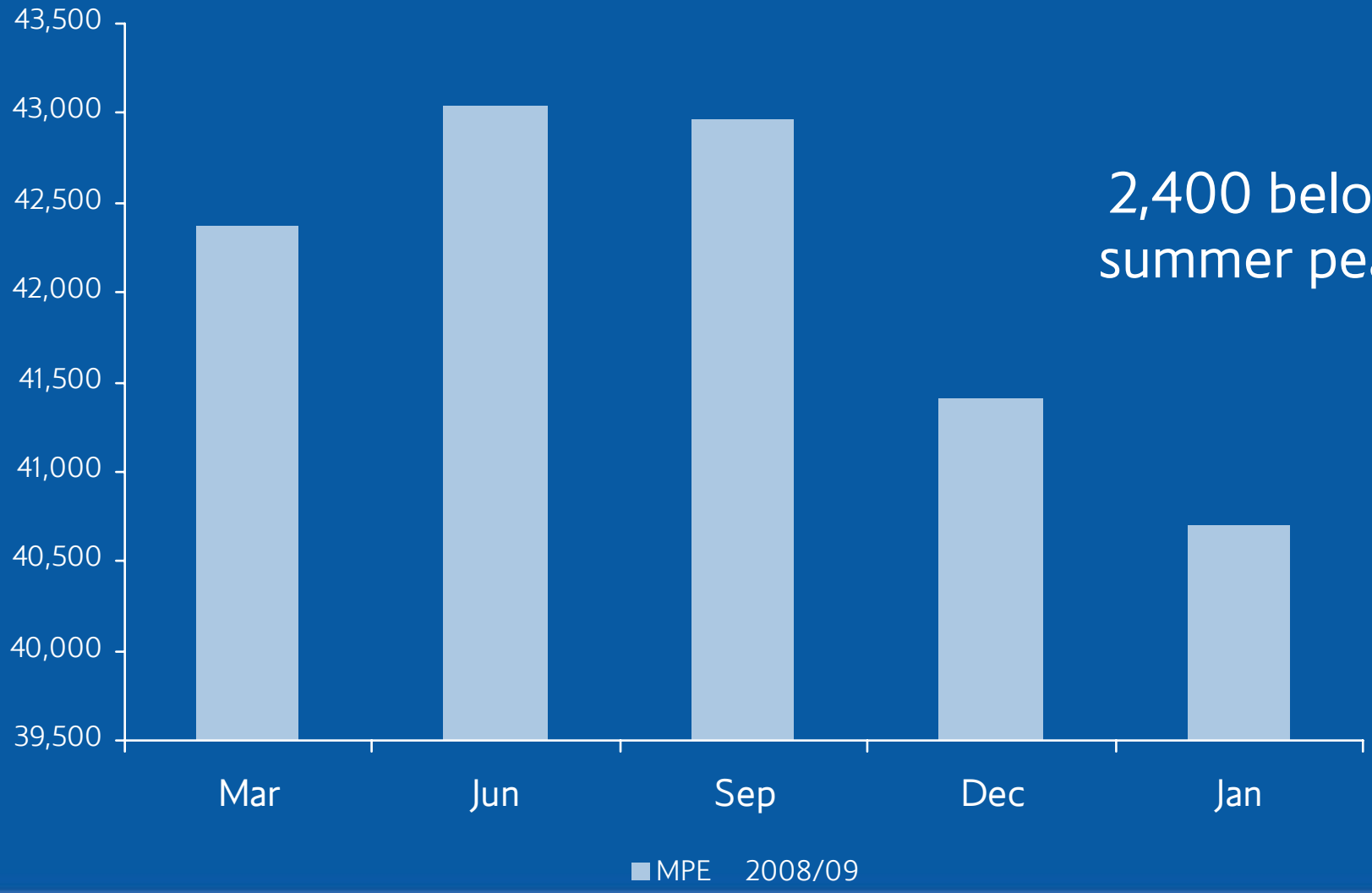


Note: costs exclude severance

T5 exceeding expectations



And overall manpower falling…



2,400 below summer peak

Next year builds on 2008/09 - manpower

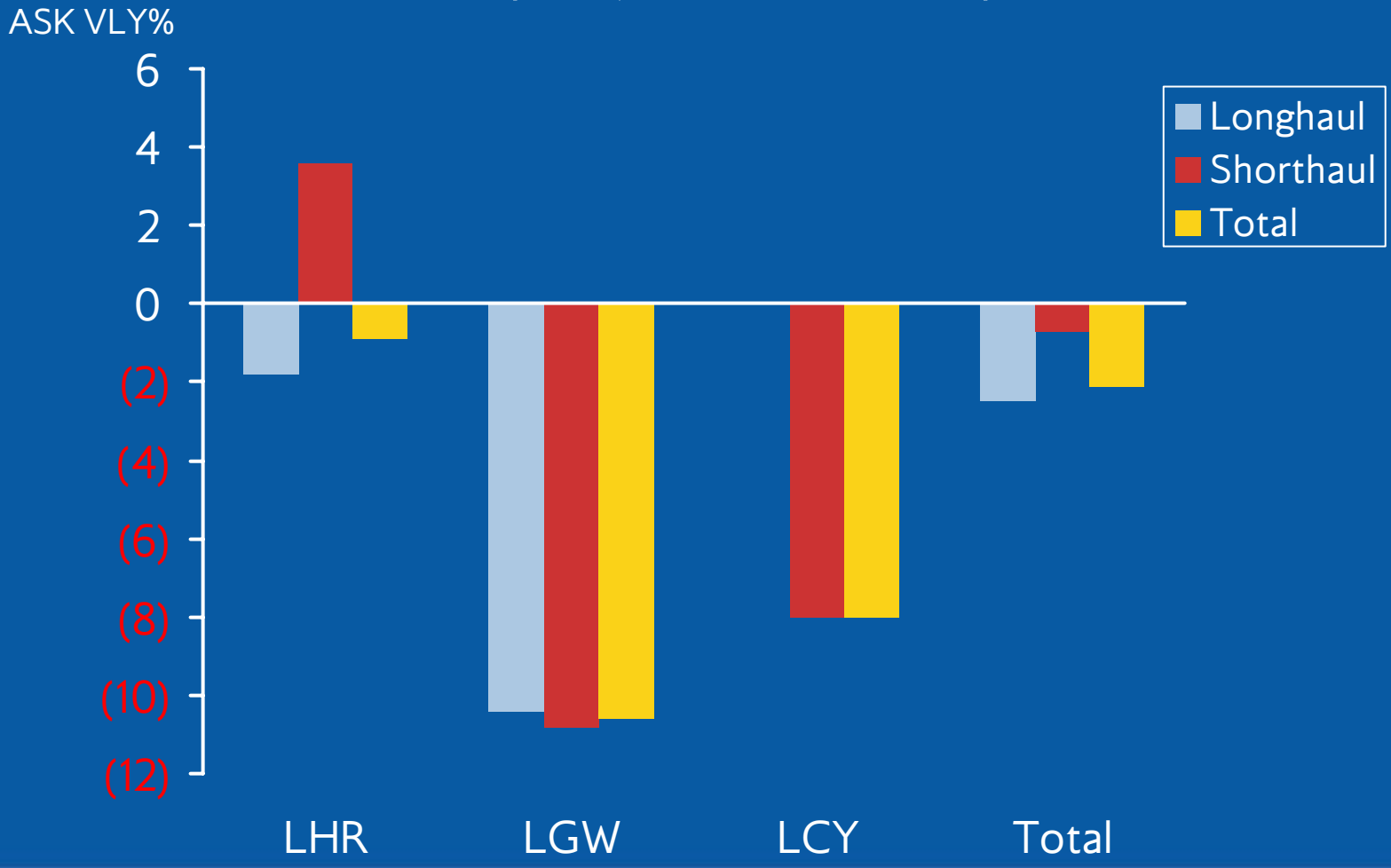
- Assumes base pay flat
- Management bonuses zero for 2008/09
- Long term sustainable change through
  - Working practice changes
  - Headcount reductions
  - Flexibility/role demarcation
  - Rostering efficiencies
- Continuing work of this year

Next year builds on 2008/09 - capacity

- Tactical capacity reductions
  - Manage slot risk
  - Maximise recovery of spilled revenue
  - Competitor response
  - Impact on corporate business and BA market presence
  - Maintain cargo presence in market
  - Fuel price weakness

Modest reductions for summer season – winter season tbd

Overall London capacity down around 2 per cent VLY



With cost improvements in all areas

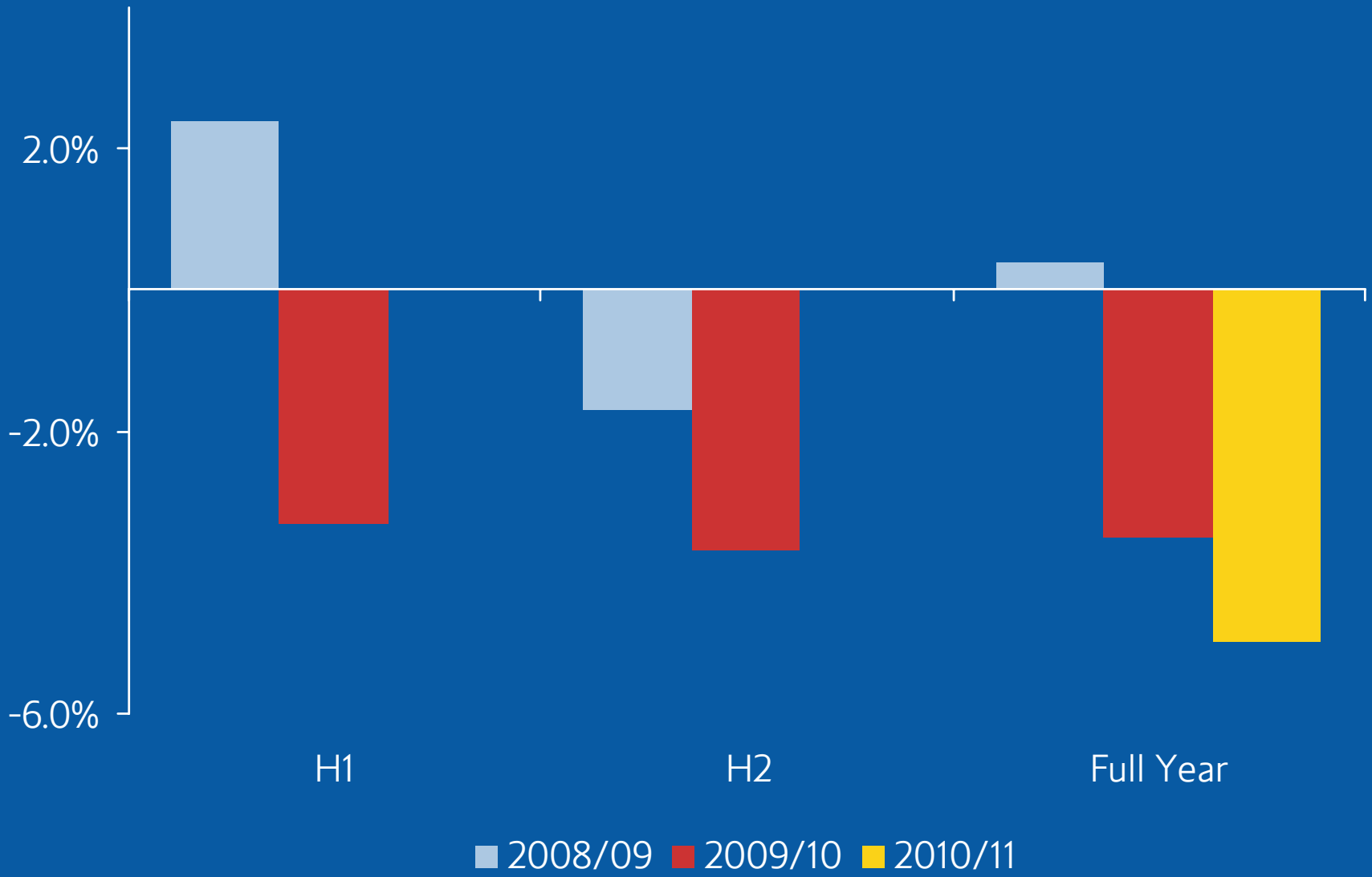
- Pay and productivity improvements
- Savings from capacity reductions
- Reductions in external and discretionary spend

Delivering long term cost reduction

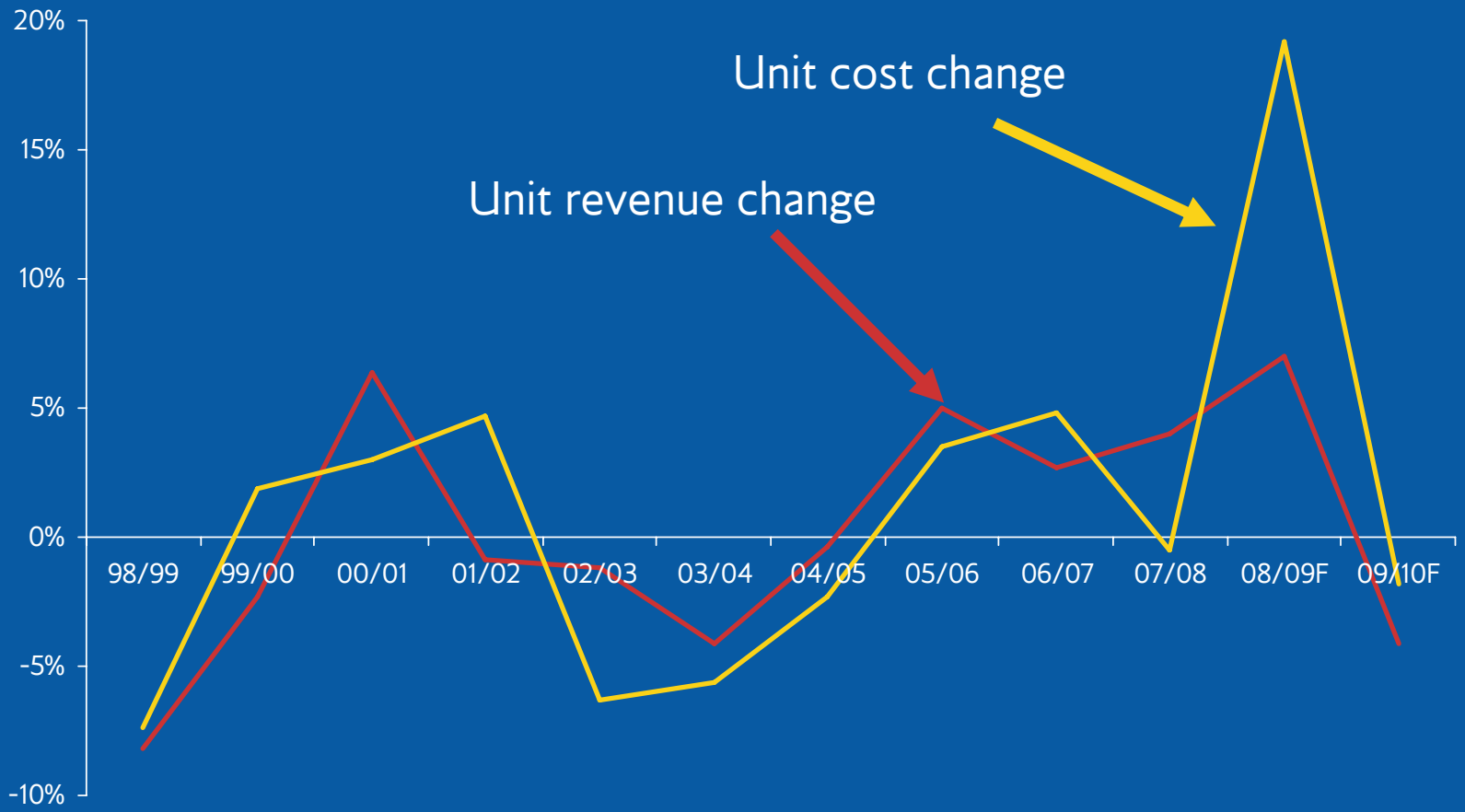
Target £220 million reduction in underlying non-fuel costs pre severance 2009/10

- Reduction of £300 million planned by 2010/11

Underlying non-fuel cost performance



Costs and revenues need to be brought back in line



Cash outlook

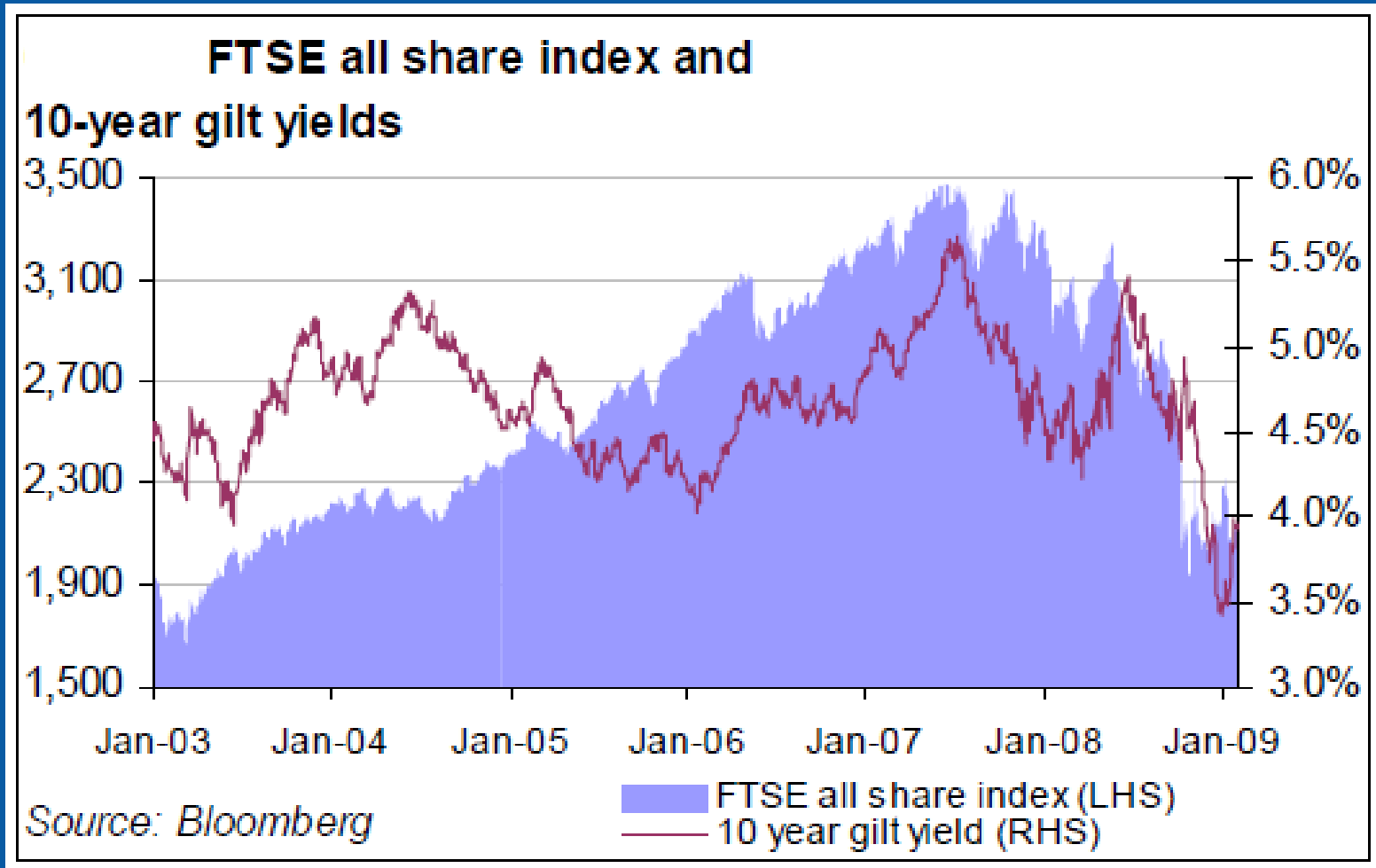
A sound financial position

- Cash of £1.59bn at December 31, 2008
- High level of pre-funding on order book – over $4 bn committed facilities
- Cash balance March 31, 2009 forecast ~£1.35bn
- Outlook March 31, 2010 £1.0bn
- EBITDA to Net Debt ~4.5-5.0

Pensions

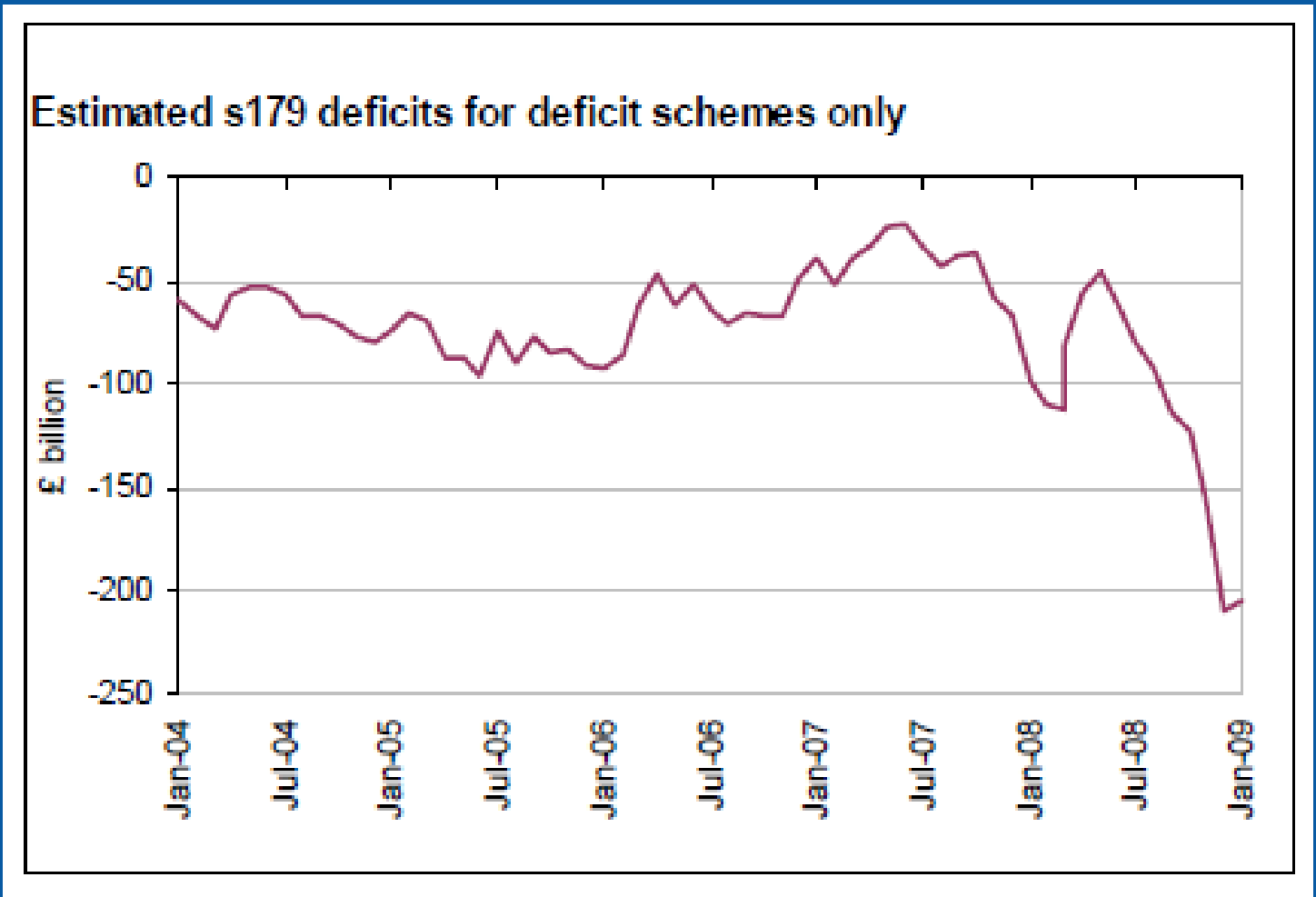
- Valuations at March 31, 2009
- Recovery Plan to be agreed by June 30, 2010
- Affordability is key principle
- Pensions a long term issue

Equity markets and bond yields have fallen



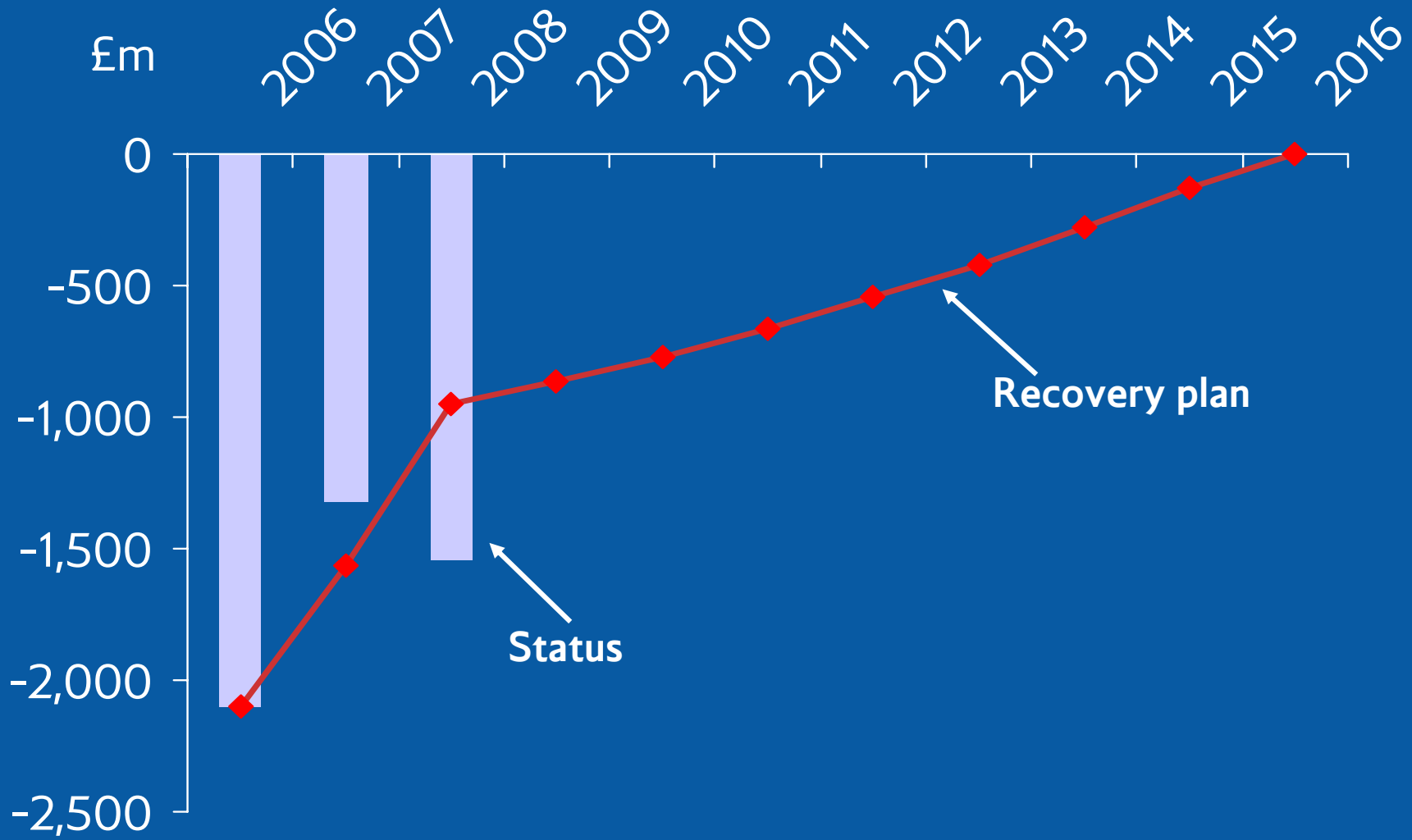
Source: Pension Protection Fund, January 2009 7800 update

Causing deficits to increase



Source: Pension Protection Fund, January 2009 7800 update

Status v NAPS Recovery Plan



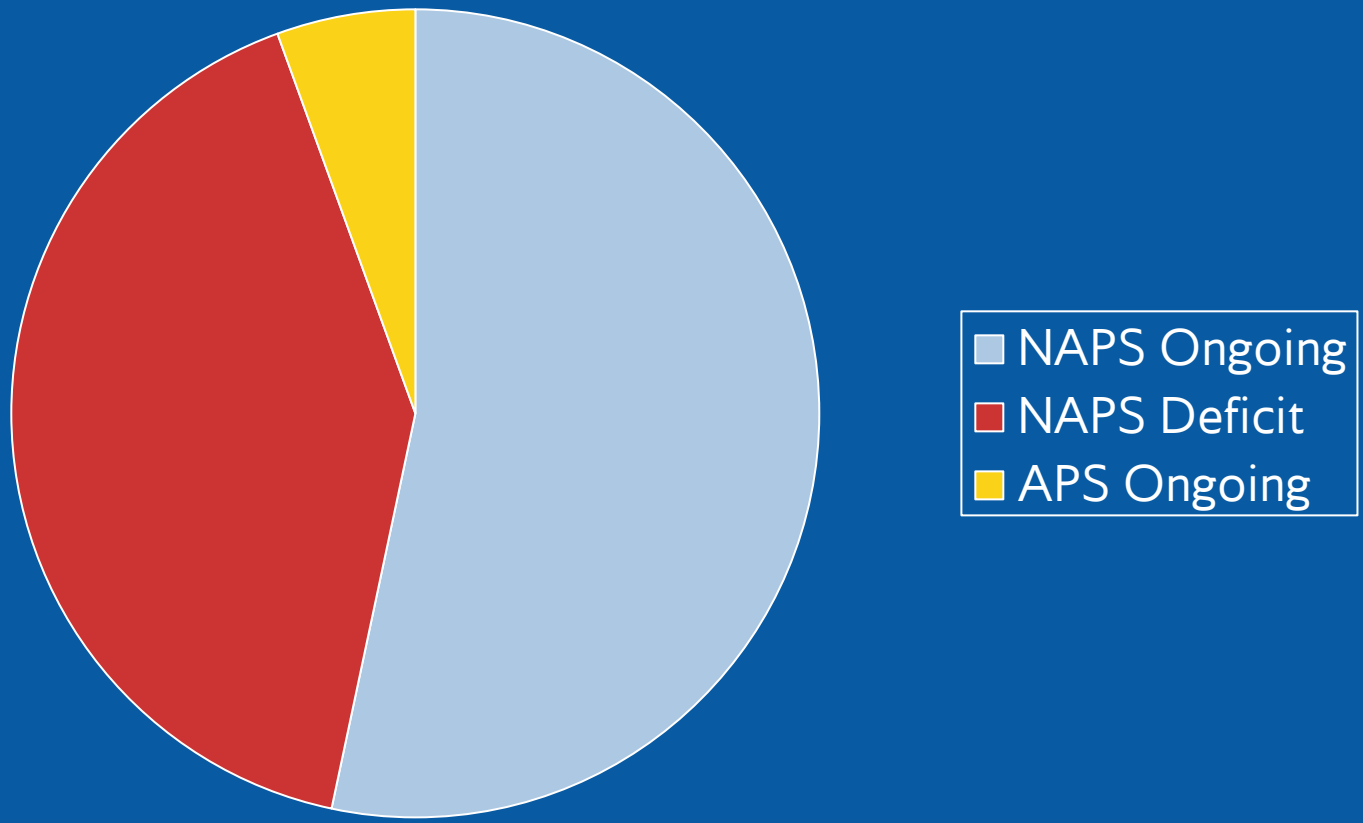
Contributions must be affordable

"Employers need to be reassured that the current scheme funding regime is flexible enough to cope with the impact of an economic downturn and that the regulator's operational processes on scheme funding aim to reflect the prevailing conditions.

Should a new valuation show a much larger deficit, a longer recovery plan length might be appropriate – remembering that the best outcome for the scheme is a viable sponsor that will continue to support the scheme."

Source: The Pensions Regulator's Statement to employers sponsoring DB schemes, February 2009

Cash contributions to APS and NAPS around £320 million



Outlook

Expect to breakeven in first half of 2009/10

	2009/10 First half year
Revenue	down ~6.0%
Fuel costs	down ~10.0%
Non-fuel costs	up ~1.0%
Overall performance	**Break even**

Note: before any severance costs in 2009/10

Full year in line with 2008/09

	2009/10 First half year	2009 / 10 Full year
Revenue	down ~6.0%	down ~5.0%
Fuel costs	down ~10.0%	down ~10.0%
Non-fuel costs	up ~1.0%	down ~2.5%
Overall performance	**Break even**	**Targeting similar to 2008/09**

Note: before any severance costs in 2009/10

BRITISH AIRWAYS

George Stinnes

Group Treasurer & Head of Investor Relations

Balance sheet and liquidity

Balance sheet and liquidity

- Long term financial target
- Capital market update
- Debt
- Liquidity
- Currency impact

Our financial objective

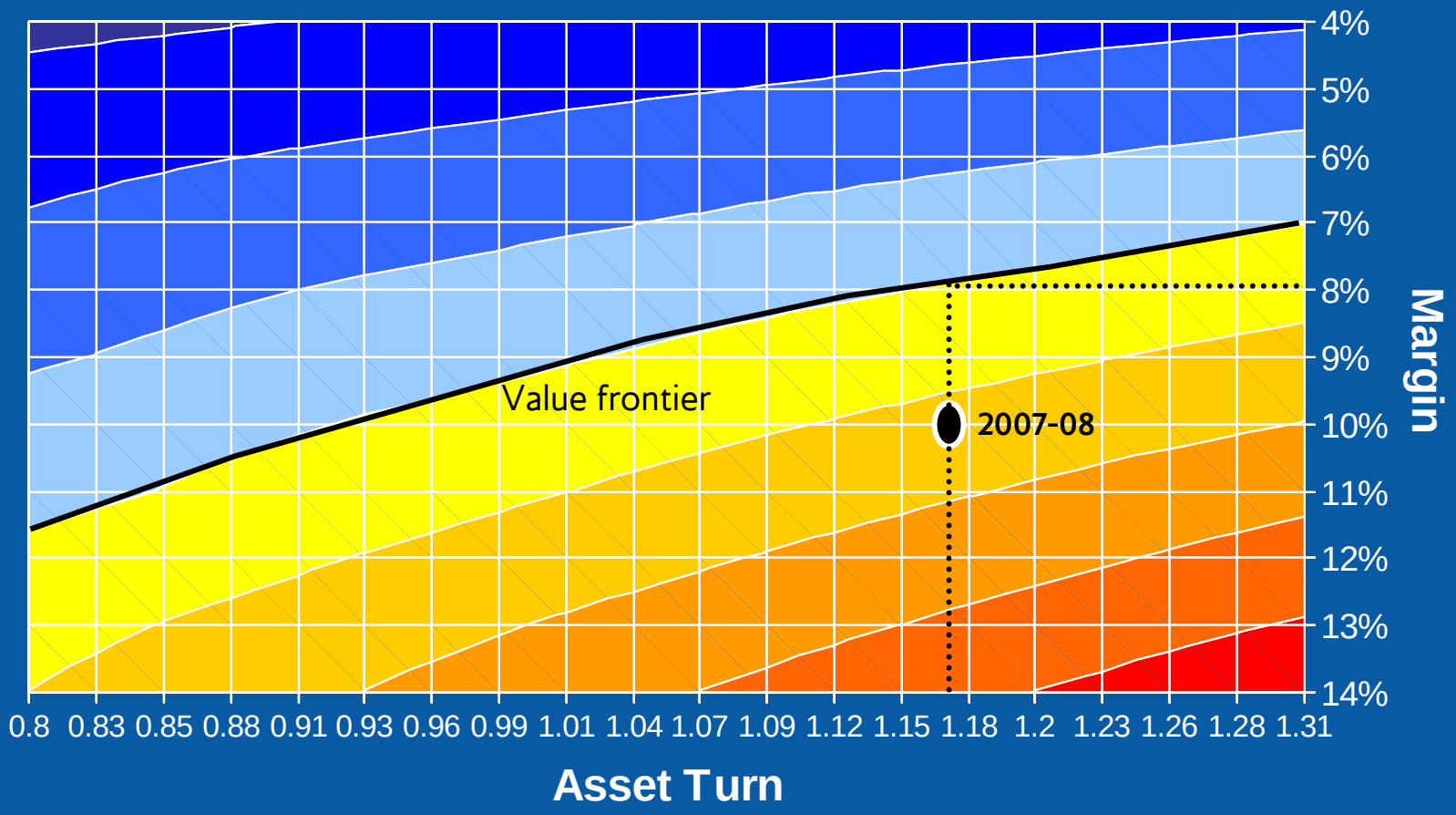
- In the long term to maximise returns from our capital, principally the aircraft fleet committed to the business

- To commit capital to fleet expansion only if the IRR on the investment will exceed our long term cost of capital

Operating Performance Targets

- Operating margin
  - Continue use of reported margin
- Asset turns
  - Use tangible plus intangible fixed assets
- Value grid to establish target

Value grid



-400--300 -300--200 -200--100 -100-0 0-100 100-200 200-300 300-400 400-500

Capital market update

Global Capital Market are in an unprecedented state of turmoil

Availability of new capital cannot be assumed in the current market

Bank finance market

- Banks have little appetite for lending
- Unlikely to change in the near term
- When appetite resumes we expect the following:
  - Flight to quality
  - Higher margins and fees
  - Lower loan to values
  - Shorter terms
  - Lender friendly terms and conditions

Other sources of aircraft finance

- Export credit agencies
- Manufacturer Support
- Operating Lessors
- Capital Markets
- Tax Equity

BA historic sources of capital

- Secured bank lending
- Financial institution credit lines
- Tax structure equity
- Operating leases
- ECA/EXIM
- Unsecured bond market
- Perpetual Preferred
- Equity
- Cash flow

Debt structure

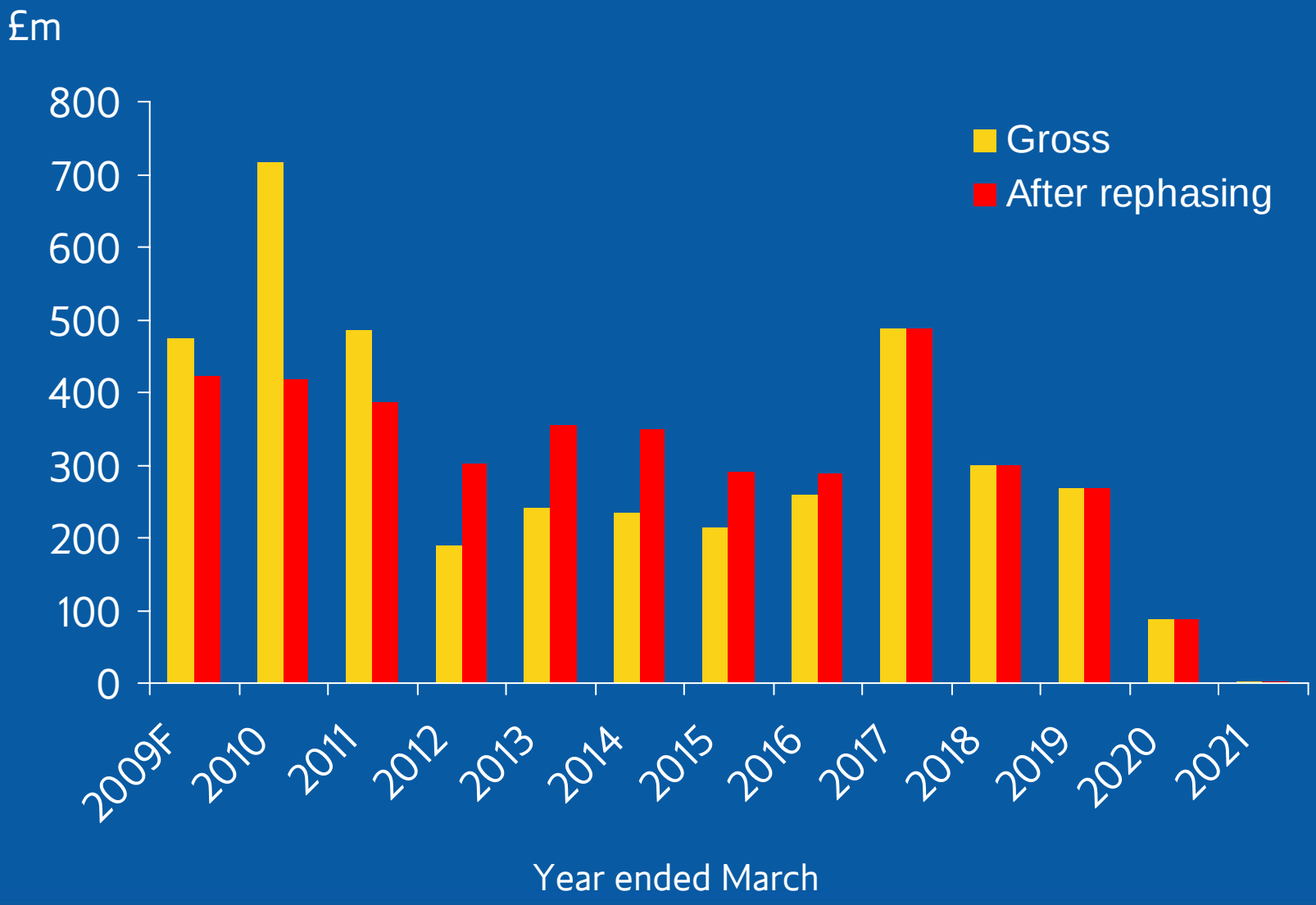
Minimise the long term cost of capital

Minimise risk on availability of capital

Favourable debt structure

Covenant light

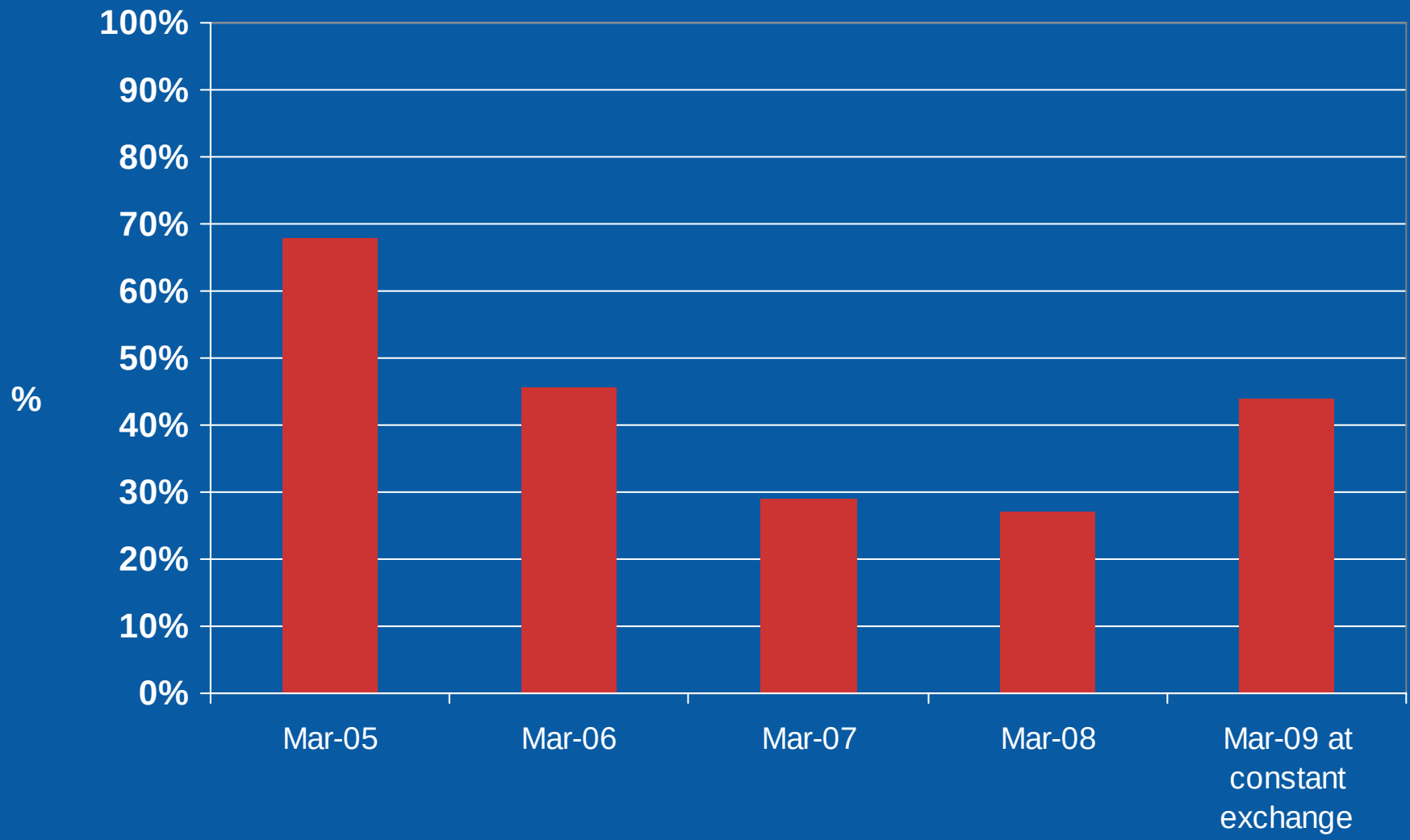
Debt repayment schedule



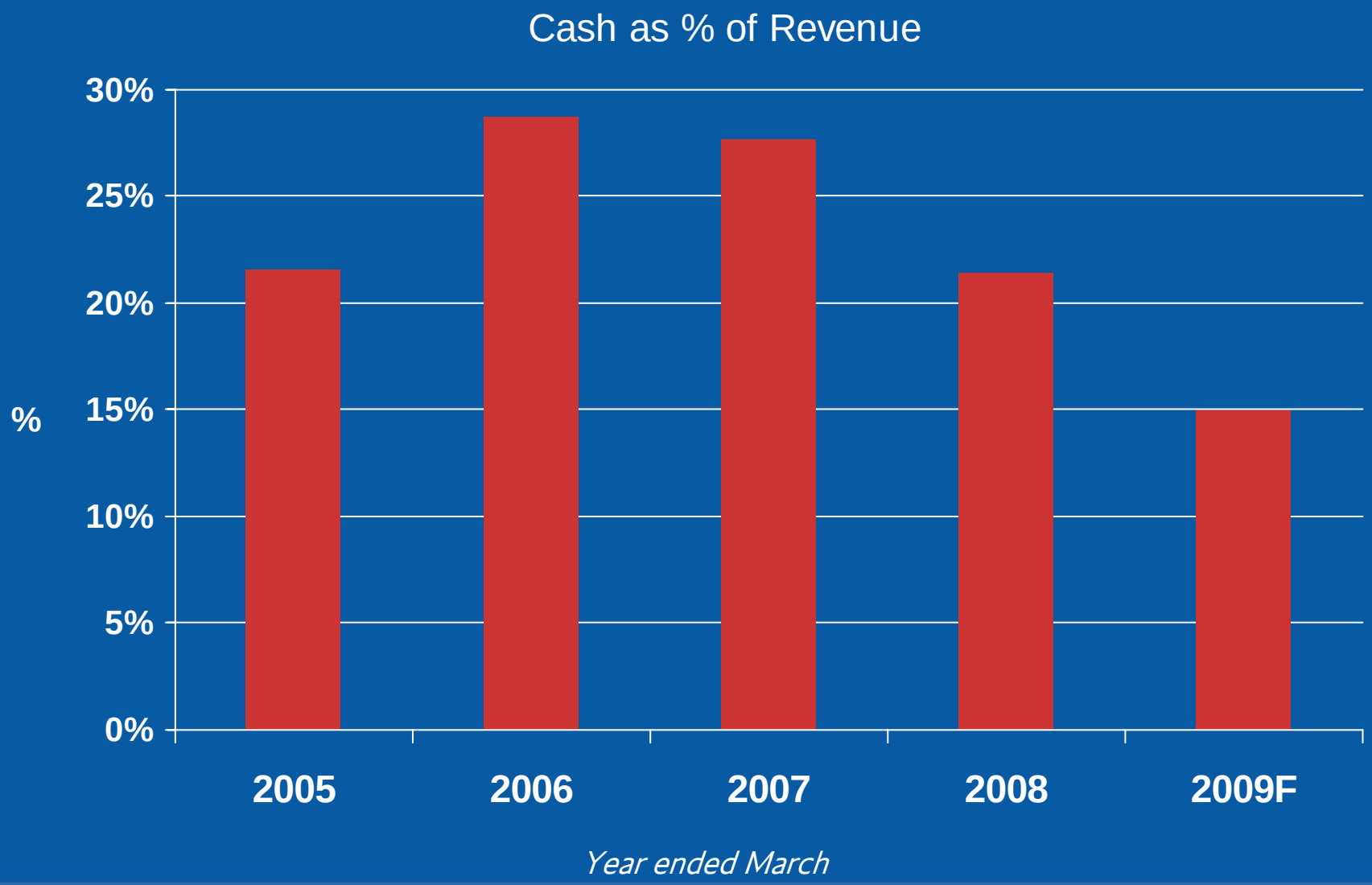
Capital targets

• Debt as % of capital employed	30-40%
• Liquidity as % of revenue	15-20%
• Pre-funding as % of orders	80% plus
• Corporate credit rating	Investment

Gearing


100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
%
Mar-05
Mar-06
Mar-07
Mar-08
Mar-09 at constant exchange

Liquidity


Cash as % of Revenue
30%
25%
20%
15%
10%
5%
0%
%
2005
2006
2007
2008
2009F
Year ended March

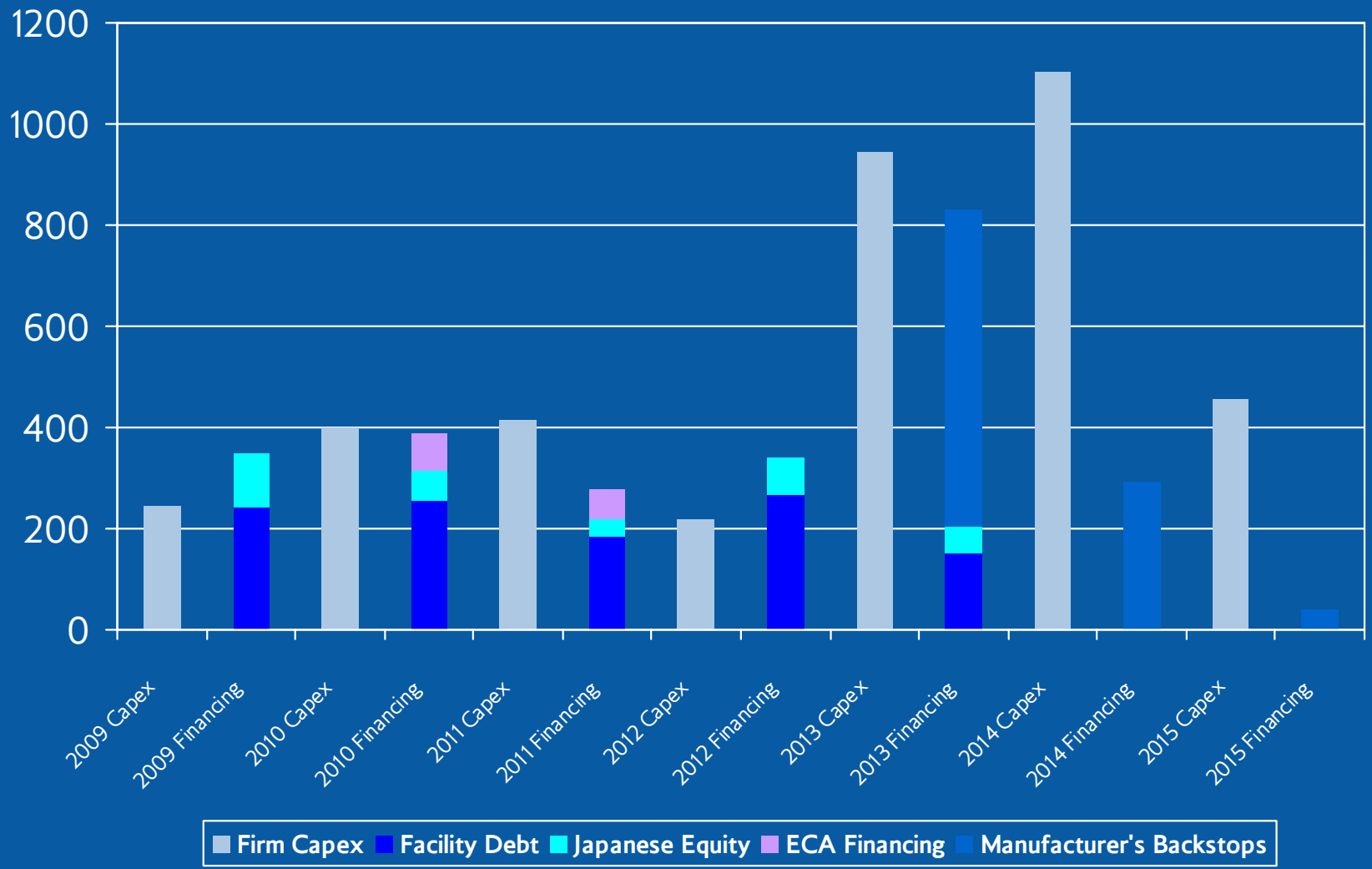
Committed facilities of £3.1 billion

Facility	Amount	Available To
Multi Option Facility	$1,430m	June 2013
Airbus A380 Backstop	$940m	March 2014
Boeing 787 Backstop	$508m	September 2016
Airbus A320 Backstop	$266m	June 2010
Embraer Facility	$270m	December 2012
General Purpose	$270m	June 2012
Yen Facility	$750m	January 2011

Financing – key features

- Fully committed
- Pre-agreed debt margin
- Choice of currencies
- No financial covenants
- No draw stops
- International bank syndicate

Financing 2009-2014



Capital targets

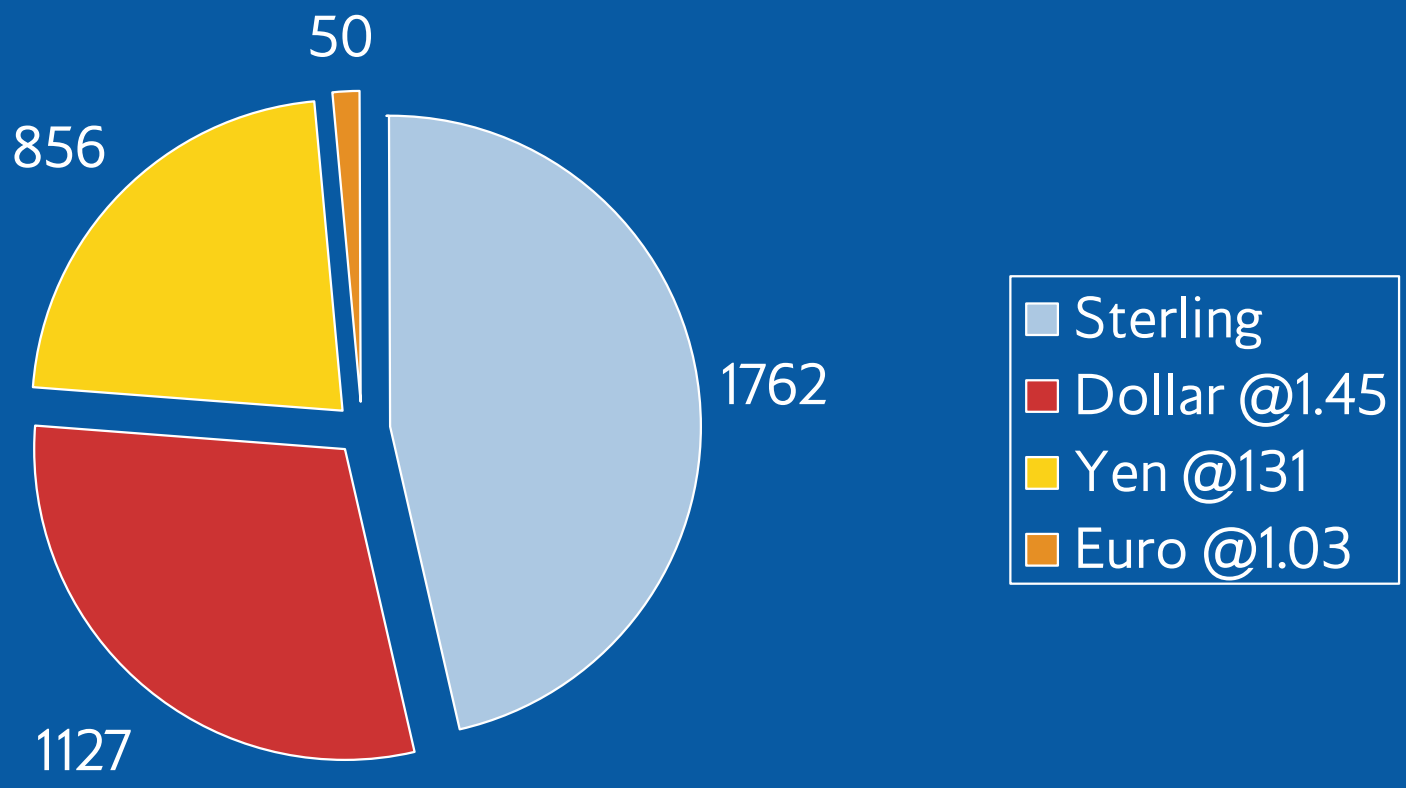
• Debt as % of capital employed	30-40%	(✓)
• Liquidity as % of revenue	15-20%	✓
• Pre-funding as % of orders	80% plus	✓
• Corporate credit rating	Investment	✗ / ✓

Currency strategy

- Aim to match cashflows where possible
- Borrow in naturally long currencies
- Limit volatility on Income Statement
- Hedge accounting

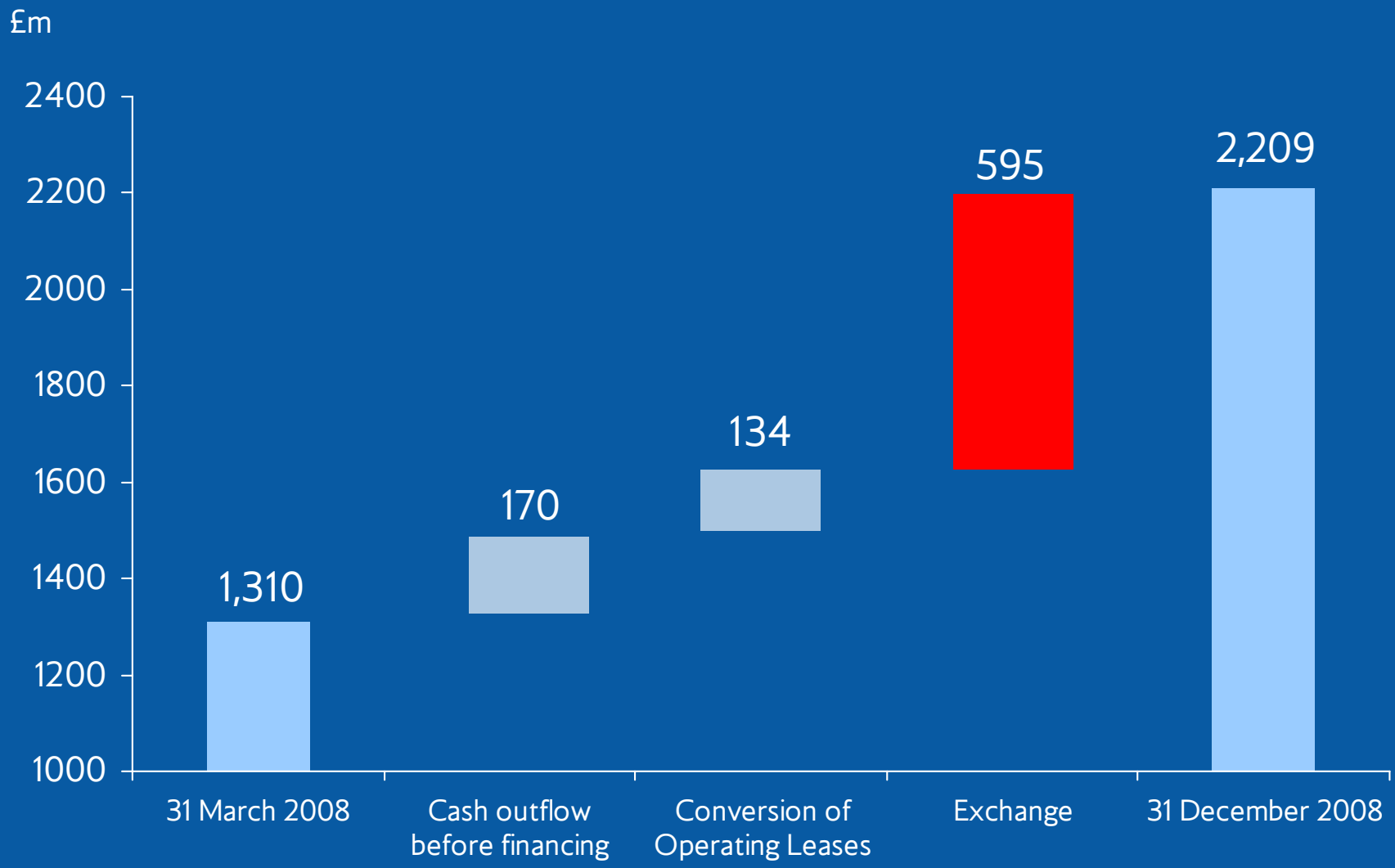
Gross debt

£m



as at December 2008

Exchange impact on Net Debt



How currency impacts our balance sheet

Item	Impact
Assets, Stock	Translated on acquisition
Cash	Mostly £, retranslated each quarter
Debtors, accruals, other creditors	Retranslated each quarter (through income statement)
Long-term Debt	Retranslated each quarter (mostly through reserves)
Reserves	Reflect retranslation movements on long-term debt until maturity

The balance sheet is strong

	Dec 2001	Dec 2008
Gearing*	>75%*	40%
Gross Debt	£7,786m	£3,785m
Cash	£1,224m	£1,576m
Net Debt	£6,562m	£2,209m
Committed undrawn facilities	£573m	£3.1 billion

** 2001 estimated following adoption of IFRS (reported gearing 67%)*

BRITISH AIRWAYS

Coffee break

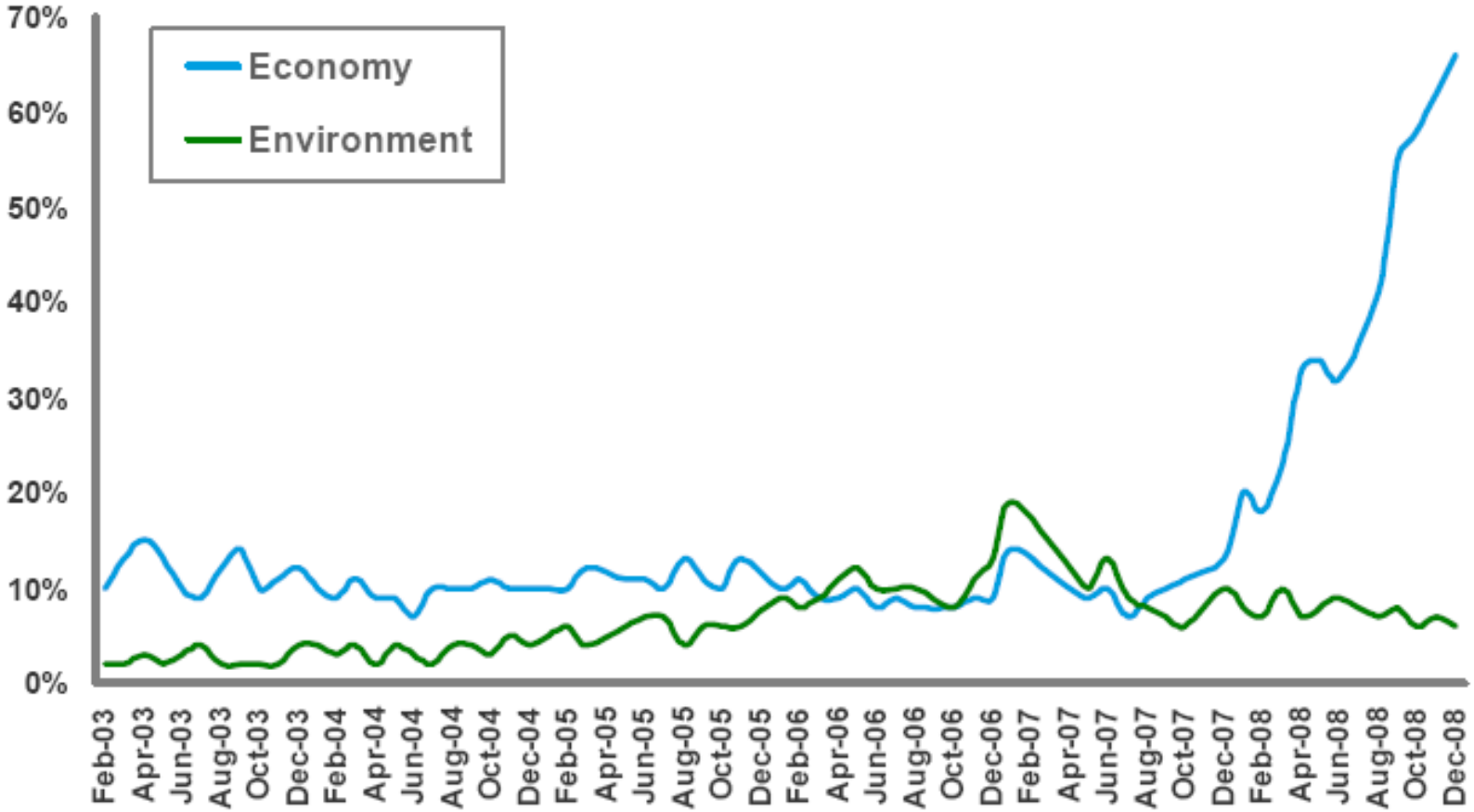
Willie Walsh

Chief Executive Officer

Environment

December 2008: The environment takes a back seat

"What would you say is the most important issue facing Britain today?"



Source: Future Foundation

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The importance of maintaining CSR

61% of consumers have a higher opinion of companies that continue to spend money on social and environmental activities even when economic conditions are difficult

Source: Future Foundation

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Responsible air travel

Environment

Financial

Customer

Environment

CO2 per passenger kilometre

25% reduction by 2025

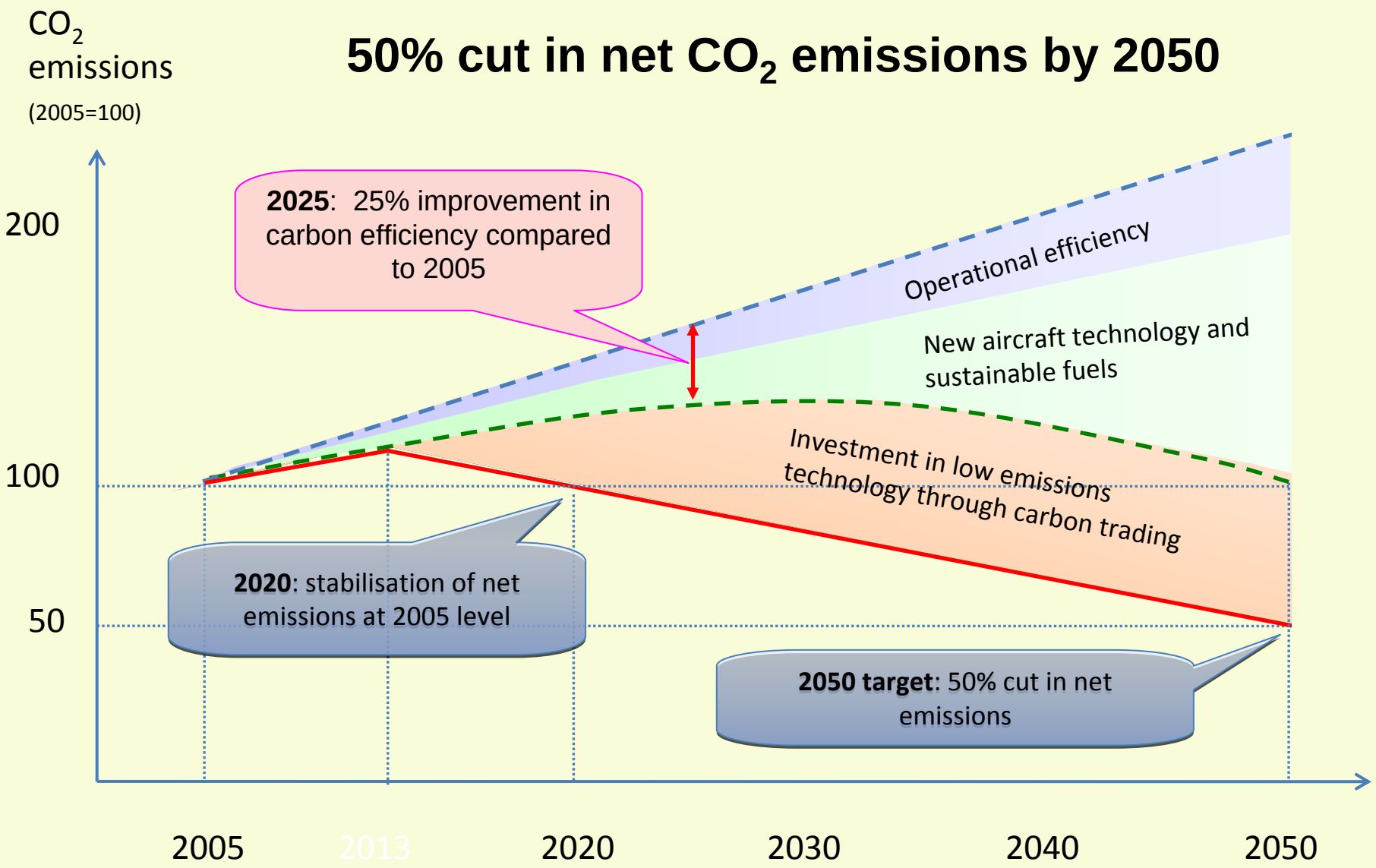
2005/6	2007/8	2025
111g	110g	83g

Operational

Employee

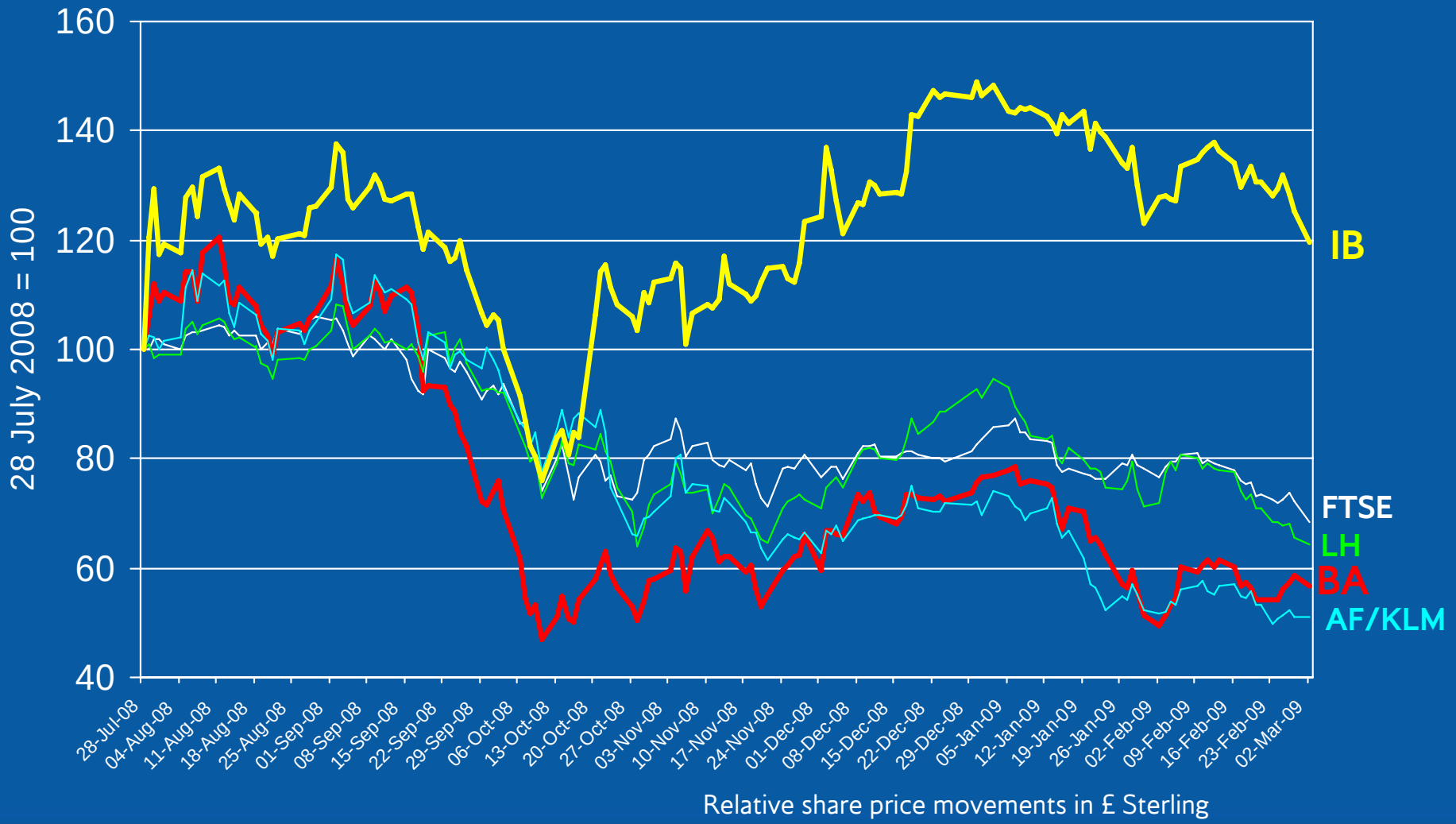
Fifth Corporate Goal

Climate change goal



Iberia Update

Share price movements since merger talks announced



Relative share price movements in £ Sterling

Making good progress

Important factors:

- Governance
- Synergies
- Merger Ratio

BRITISH AIRWAYS

Q & A

BRITISH AIRWAYS

BRITISH AIRWAYS