



**BRITISH AIRWAYS**

Interim results

2007-2008

November 2, 2007

# Disclaimer

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 itemize 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 factors which could result in material difference to the results is available in the company's Annual Report for the year ended 31 March 2007, which is available on [www.bashareholders.com](http://www.bashareholders.com).



# Martin Broughton

## Chairman



**BRITISH AIRWAYS**



# Keith Williams

## Chief Financial Officer



# A year of two halves

- First half
  - Revenue down 0.8%
  - Costs down 3.7%

—————> A record first half
- Second half
  - Revenue improvement
  - Costs up



# Headline numbers

	6 Months £m	Better/ (worse)
Turnover	4,456	(0.8)%
Total costs	(3,900)	3.7%
Operating profit	556	25.8%
Operating margin	12.5%	2.7pts
EBITDAR	1016	10.8%
Pre-tax profit	593	25.9%

Period ended 30 September, 2007



# H1 exchange impact

	£m
Revenue	(128)
Fuel cost	82
Non fuel costs	50
	<hr/>
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Period ended 30 September, 2007





# Headline numbers

	3 Months £m	Better/ (worse)
Turnover	2,263	0.8%
Total costs	(1,970)	1.9%
Operating profit	293	24.2%
Operating margin	12.9%	2.4pts
EBITDAR	514	9.3%
Pre-tax profit	304	8.6%

Period ended 30 September, 2007



# Statistics

## Key statistics

ASK

H1 VLY  
up 0.5%

RPK

down 0.7%

Seat factor

down 0.9 pts

ATK

down 1.1%

## Key performance indicators

Yield per RPK

up 0.5%

Unit costs per ATK

down 2.6%

Unit costs per ATK excl fuel

down 2.7%

Period ended 30 September, 2007



# Yield up despite exchange

%	Q1	Q2	H1
Price	2.7	2.1	2.3
Mix	0.8	1.7	1.3
Exchange	(3.5)	(2.5)	(3.1)
Reported	<u>0.0</u>	<u>1.3</u>	<u>0.5</u>



# Turnover split

	£m	VLY
Passenger	3,871	(0.2)%
Cargo	290	(8.8)%
Other	295	(0.7)%
	<u>4,456</u>	<u>(0.8)%</u>

Period ended 30 September, 2007



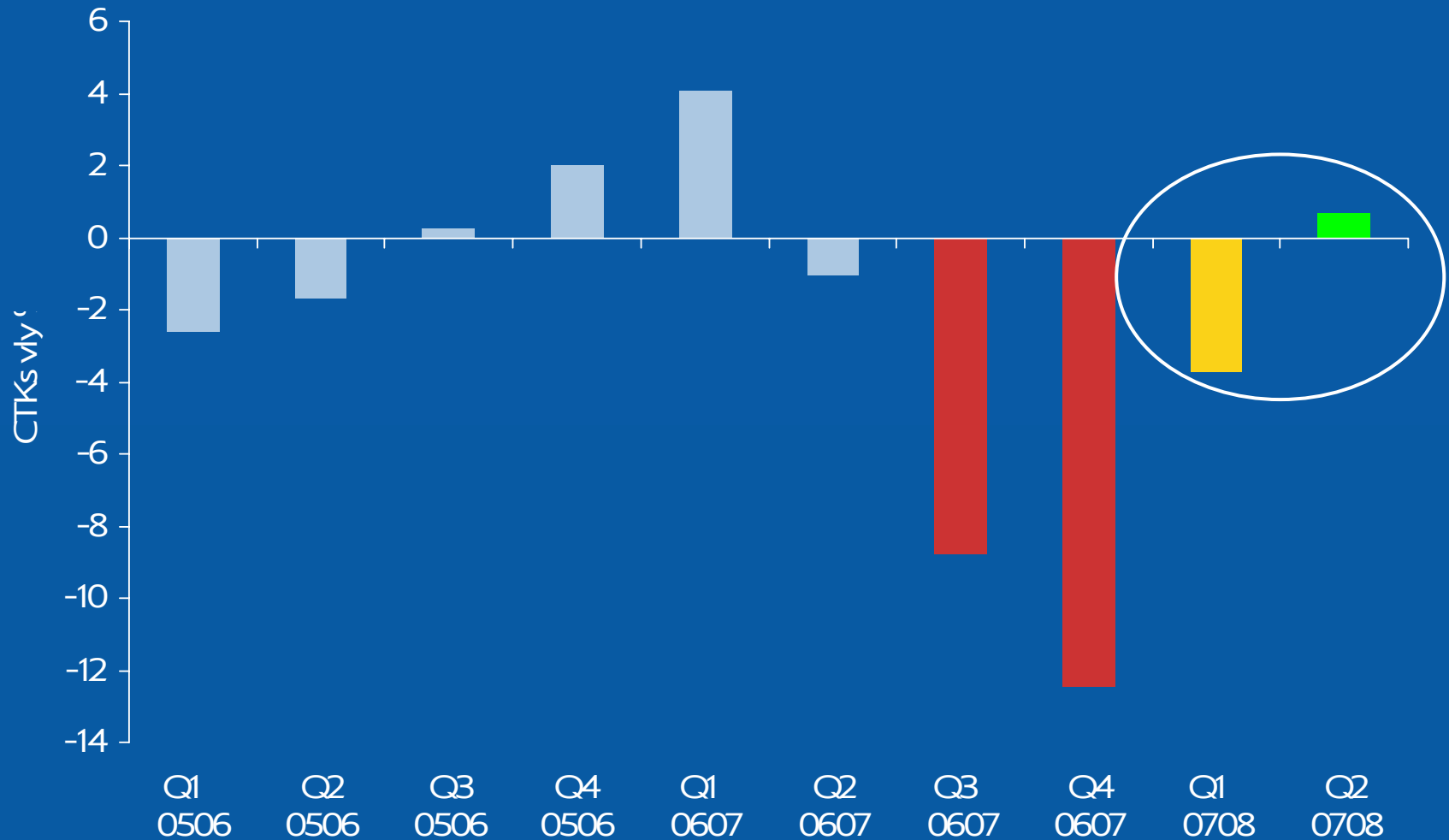
# Cargo performance

- Revenue fell 8.8% to £290 million
- Excluding exchange revenue down 5.4%
- Cargo capacity down 4%
- Yield excluding exchange down 3.9%
- Revenue performance steadily improving
- Strong cost performance

Period ended 30 September, 2007



# Cargo volume recovery in H1



# Strong cost performance

- Capacity in ATKs down 1.1%
- Total costs down 3.7%
- Unit costs down 2.6%

## Excluding fuel:

- Total costs down 3.8%
- Unit costs down 2.7%

Period ended 30 September, 2007



# H1 costs down

	£m	VLY	
Employee costs	1,069	7.1	down
Engineering & other aircraft	222	6.7	up
Landing & en route charges	269	1.8	down
Handling, catering etc	492	3.4	up
Selling costs	183	8.0	down
Other costs	649	4.7	down
TOTAL COSTS (excl. fuel)	2,917	3.8	down
Fuel & oil	983	3.5	down
<b>REPORTED TOTAL COSTS</b>	<b>3,900</b>	<b>3.7%</b>	<b>down</b>

Period ended 30 September, 2007





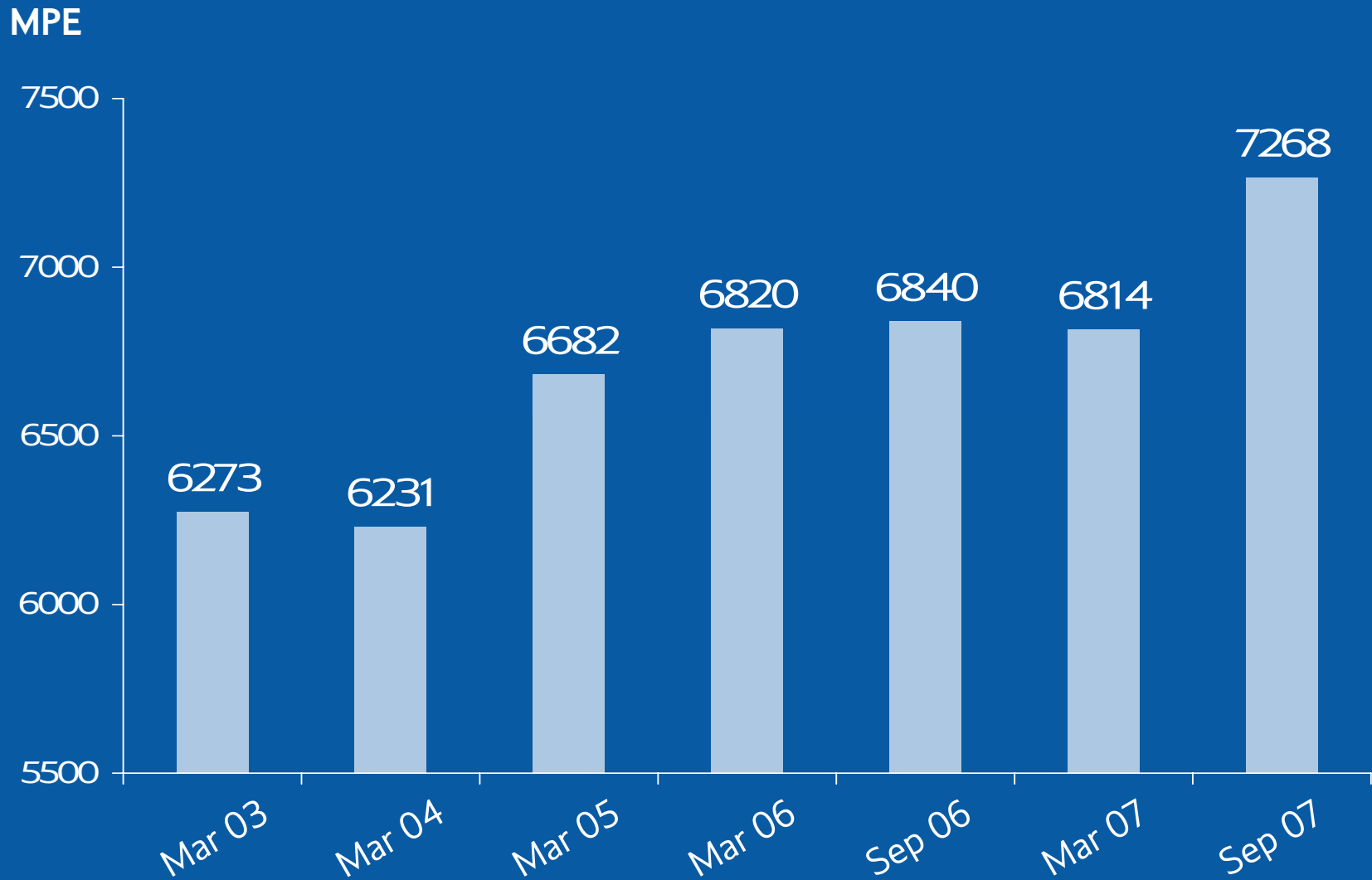
# Q2 costs down

	£m	VLY	
Employee costs	527	5.9	down
Engineering & other aircraft	112	9.8	up
Landing & en route charges	135	0.7	down
Handling, catering etc	257	5.8	up
Selling costs	94	1.1	down
Other costs	335	5.1	down
TOTAL COSTS (excl. fuel)	1,460	1.9	down
Fuel & oil	510	1.9	down
<b>REPORTED TOTAL COSTS</b>	<b>1,970</b>	<b>1.9%</b>	<b>down</b>

Period ended 30 September, 2007



# Heathrow manpower increased



# Cashflow

- Strong cashflow up 10%
- *But* cash outflow from operating activities £215 million
  - £560 million pension payment
  - £149 million fine to US DoJ
- Capital expenditure of £297 million (Q2 £134m)

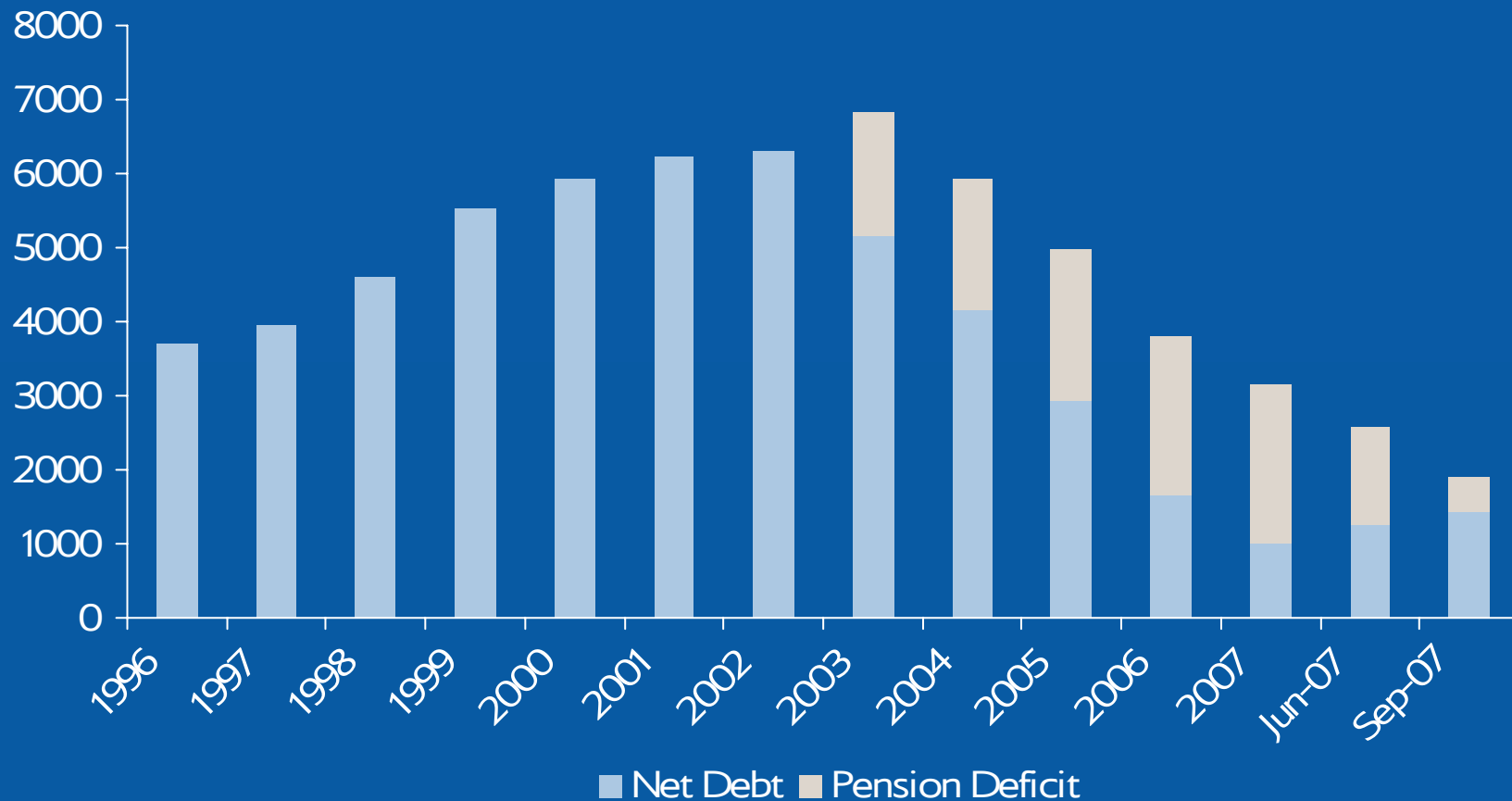


# Other issues

- Competition investigation
- Current cash of £1,756 million reflects:
  - £149 million US DoJ fine (Q2)
  - £560 million payment in NAPS (Q1)
- Net debt of £1,413 million
- Credit rating improvement and financing
- Pension deficit on balance sheet below £500 million



# Net debt including pension deficit



Gross pension deficit included from first FRS17 numbers in 2003

Year ended March



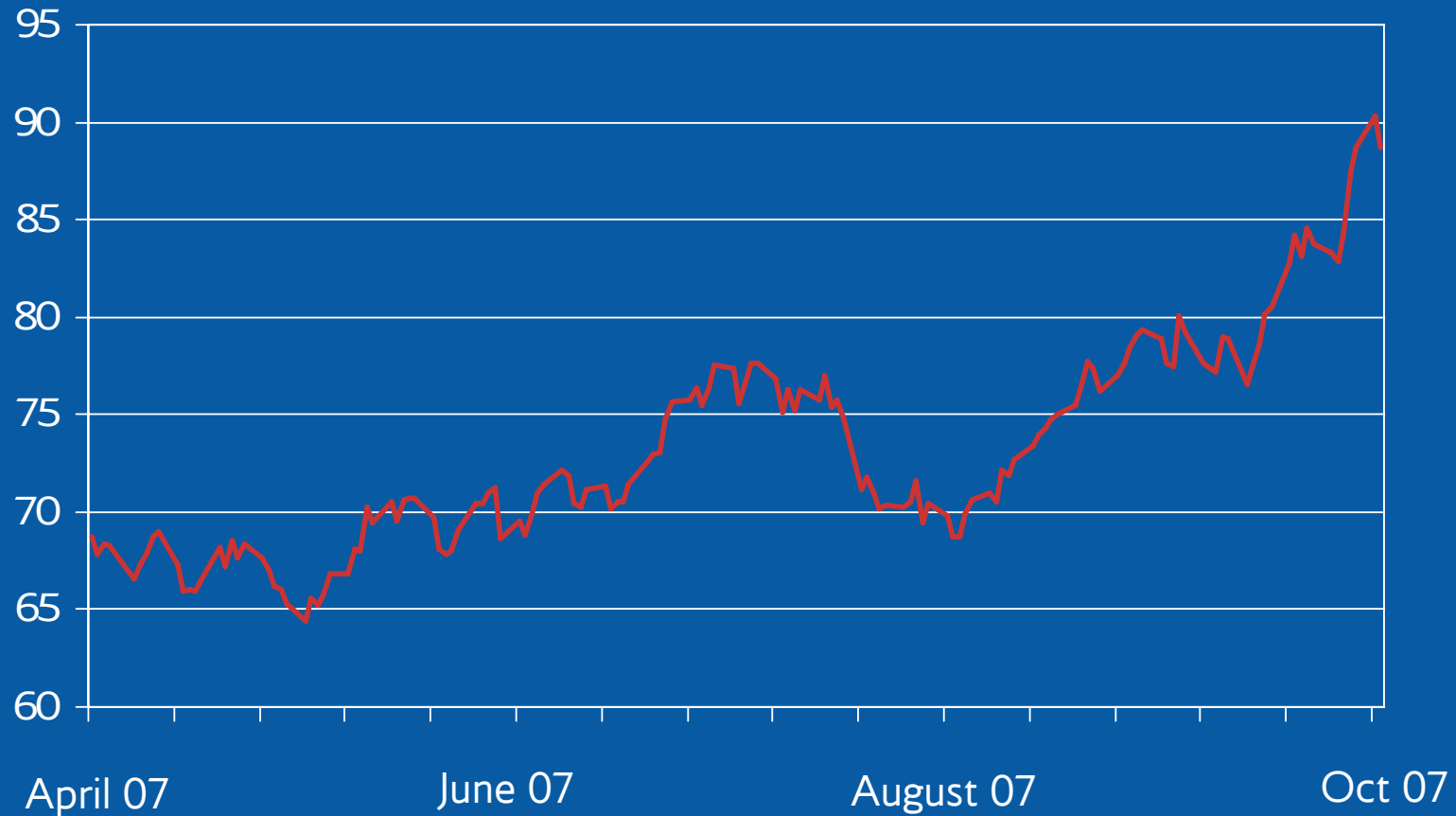
# Taxation

- Reported rate first half 18%
- Expected rate for the year c22%
  
- Cash tax paid first half £51 million
- Expected cash payment full year £65 million



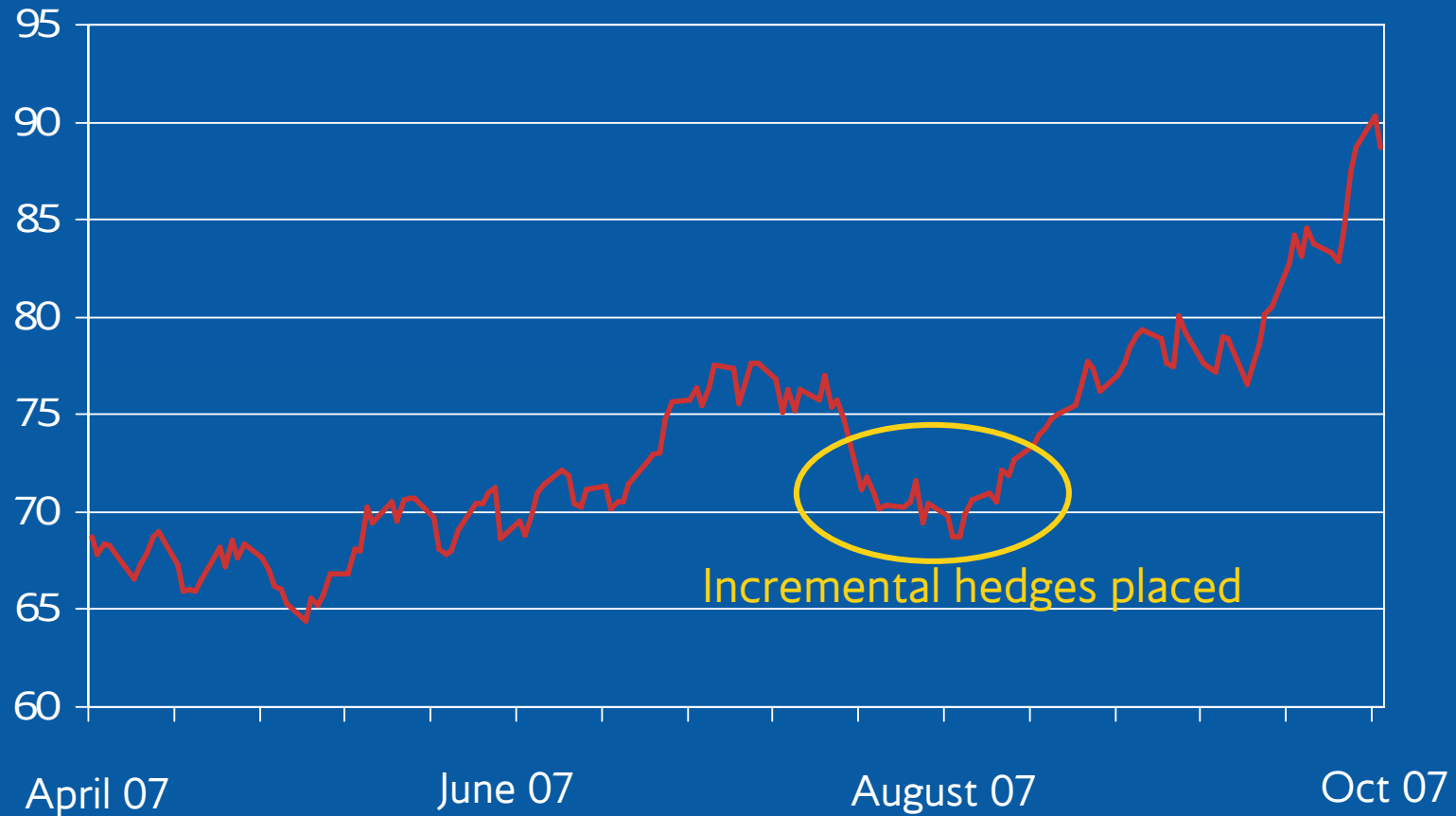
# Brent crude oil prices

US\$/bbl



# Brent crude oil prices

US\$/bbl





# Fuel hedging cover

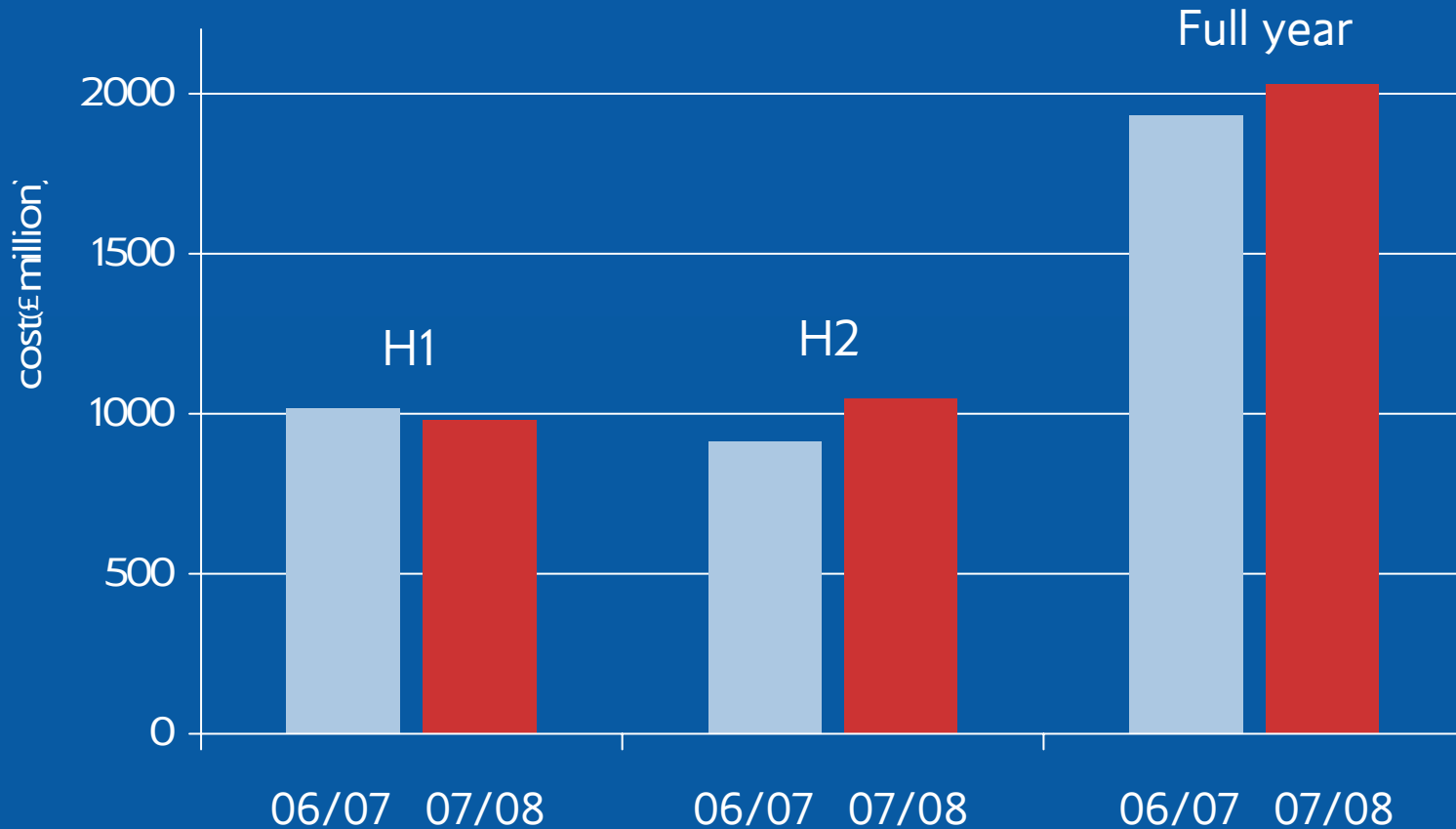
Brent equivalent prices

	Nov/Dec	07/08 Q4	08/09 Q1	08/09 Q2
Cover	87%	90%	50%	40%
Swaps	34% @\$64/bbl	27% @\$68/bbl	---	---
Collars	53% @ average \$73/\$62	61% @ average \$74/\$64	50% @average \$76/\$65	40% @ average \$76/\$65

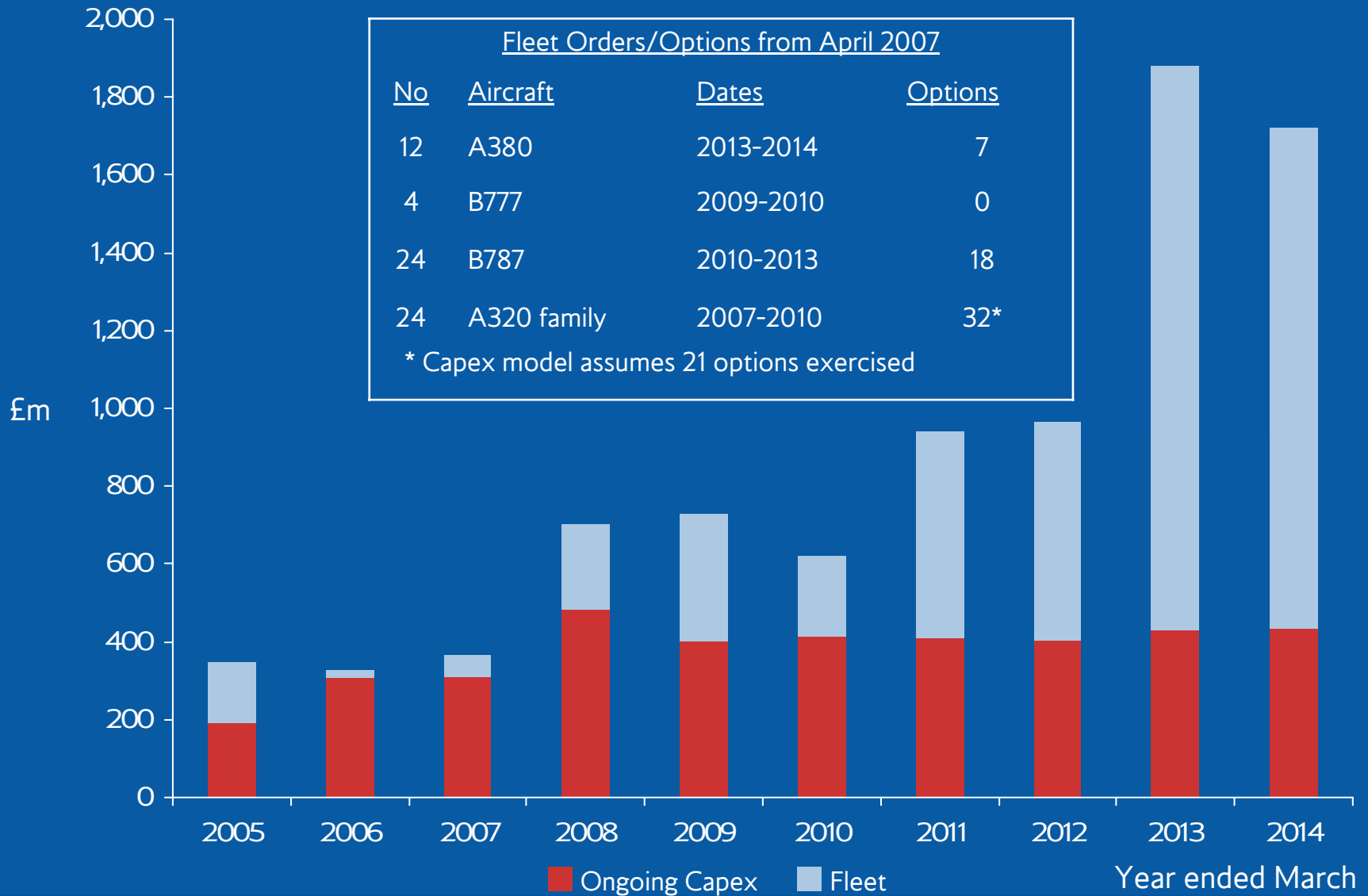


# Fuel cost forecast FY07/08 - up £100m





Down £20m from previous forecast



# Capital expenditure



# H2 Outlook

	H1	H2	FY
Revenue	flat	+7%	up 3-3.5%
Fuel £m	 36	 136	up 100
Costs £m	 114	 14	down 100

Target remains 10% operating margin



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# Willie Walsh

Chief Executive Officer



# Agenda

- Current trading and outlook
- T5
- Open skies
- Consolidation
- Environment
- Margin targets
- Volatility



# Current trading and outlook

- History of premium bookings
- Premium forward bookings
- Non premium bookings
- Total bookings





# History of premium bookings

RPK's VLY	Jun	Jul	Aug	Sep
Forecast two months out	1.6%	1.3%	10.2%	5.5%
Traffic stats	1.4%	-2.6%	13.6%	6.6%
Diff (Forecast @ -2m vs. TS)	(0.2%)	(3.9%)	3.4%	1.1%



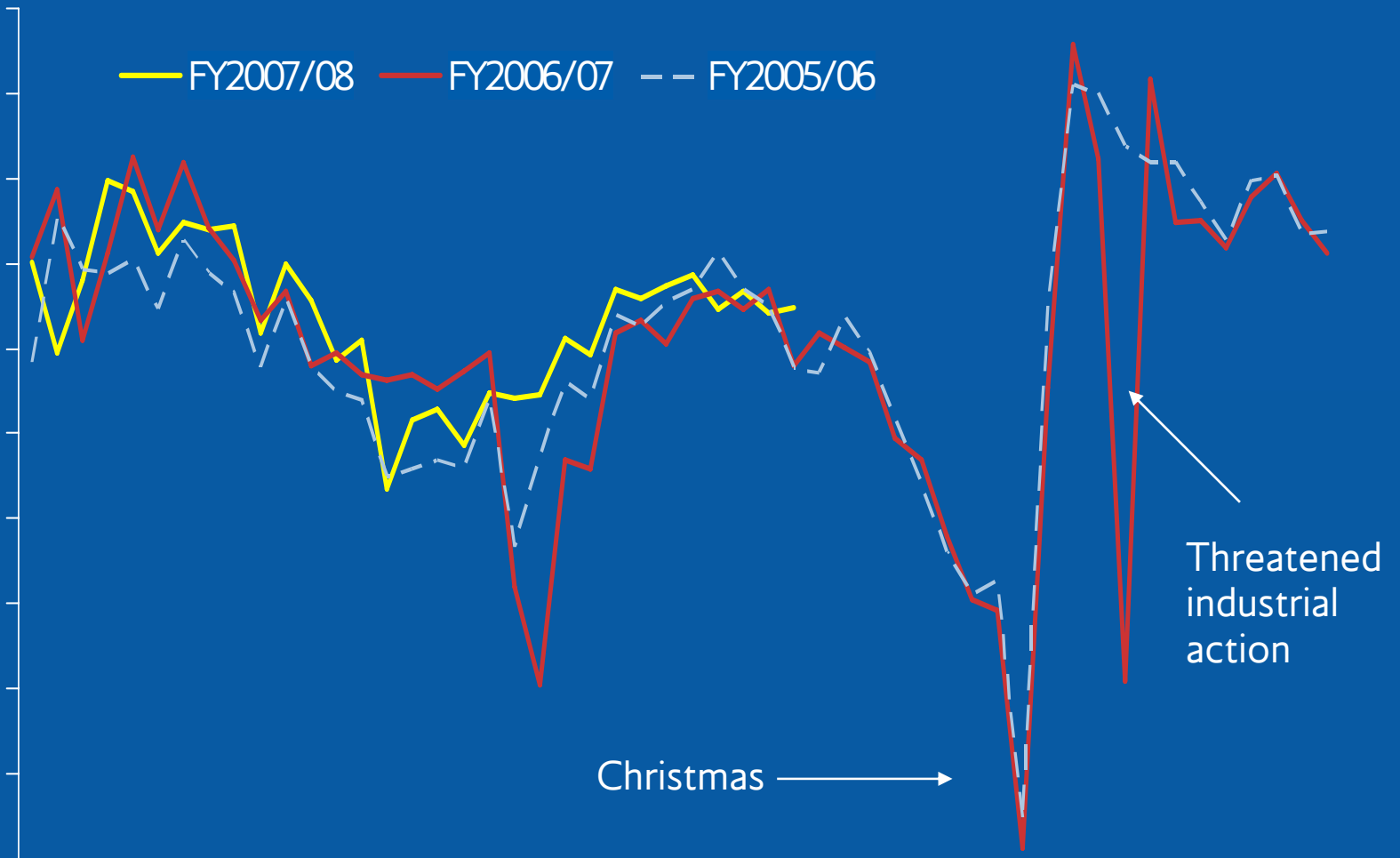
# Premium forward bookings

RPK's VLY	Oct-07	Nov-07	Dec-07
Premium bookings (current)	12.1%	5.8%	9.5%
Premium forecast	10.7%	8.8%	9.0%

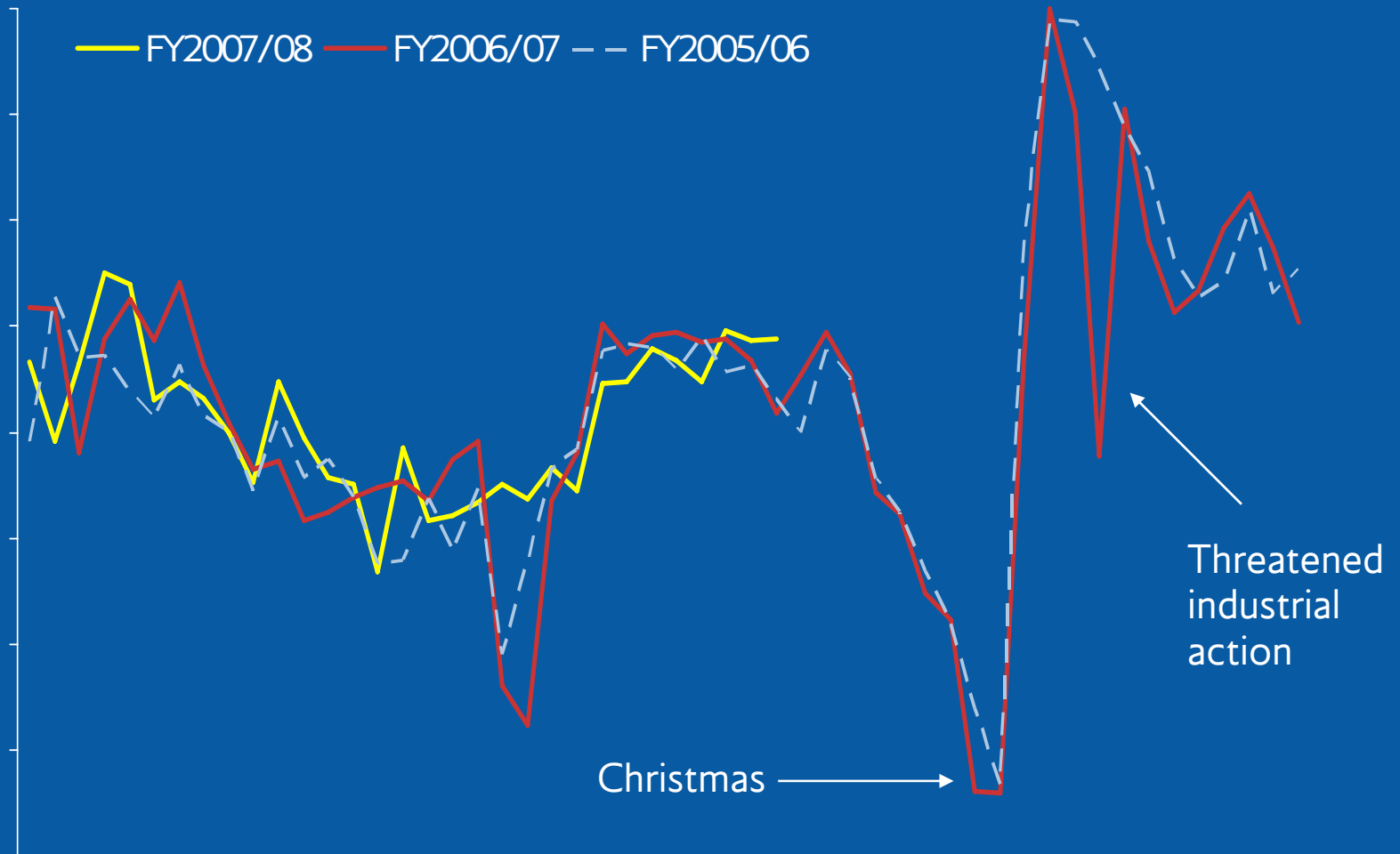
Forward Bookings as at 29 Oct 07



# Weekly new bookings - premium



# Weekly new bookings - total



# T5 - our new home

- What are the main customer benefits of T5?
- How will T5 enable you to improve your performance?
- What premium are you paying for the terminal?
- What are the key cost efficiencies that deliver a zero NPV business case?
- Do you have exclusive access to the terminal in perpetuity?



# Open skies

- Phase one
- BA actions
- Competitor actions
- No major surprises



# Summer 2008 schedule changes

## Heathrow

- Houston, Dallas and Algiers switched from Gatwick
- JFK from 51pw to 55pw
- Washington from 21pw to 24pw
- Seattle from 10pw to 13pw (summer only)
- Detroit and Harare suspended

## Gatwick

- Warsaw switched from Heathrow (21 pw)
- Genoa 7 pw
- 3 extra Orlando (summer only) flights now 10 pw



# Project Lauren

- 757 service US to Europe
- Launch summer 2008





# Competitor LHR flying in 2008

Carrier	New services	Source of slots
Delta	2 JFK 1 ATL	Air France-KLM
Air France	1 LAX	Self funded
Continental	1-2 EWR 2 IAH	Air France-KLM and GB
American	1 DFW (ex LGW) 1 RDU (ex LGW)	Gulf and self funded
Northwest	2 DTW (ex LGW) 1 MSP (ex LGW)	Air France-KLM
BMI	nil	
US Airways, Virgin, Lufthansa, others	???	???



# Consolidation

- Iberia
- Other



# Sustainability

- Environment
  - CO<sub>2</sub>
  - NO<sub>x</sub>
  - Noise
- Waste management
- Community relations



# Environment - fleet

- New aircraft orders
  - A380 creates 17% less CO<sub>2</sub> and 10% less NOx emissions vs. 747-400 noise QC 0.5 vs. QC 2.0
  - B787 creates 30% less CO<sub>2</sub> and 46% less NOx emissions vs. 767 noise QC 0.5 vs. QC 1.0
- New fuel efficiency targets (25% by 2025)
- Noise impact halved since 2000
- Changes to aircraft operations



# Environment - other

- Completion of 5 year UK emissions trading
  - Reducing our emissions by 23%
- New carbon offset scheme
- £25m investment in new vehicles and equipment for T5



# Waste management

- New targets for minimisation and recycling
  - No waste to landfill by 2010
  - 50% of waste recycled by 2010
  
- From 1 November 2007 use of recycled print paper to 100% up from 70%



# Community relations

- 130 Community projects supported worldwide
- UNICEF Change for Good reaches £24 million
- 40,000 young people participated in education programmes at BA community learning centre
- 2007 Orbis Award for corporate community investment



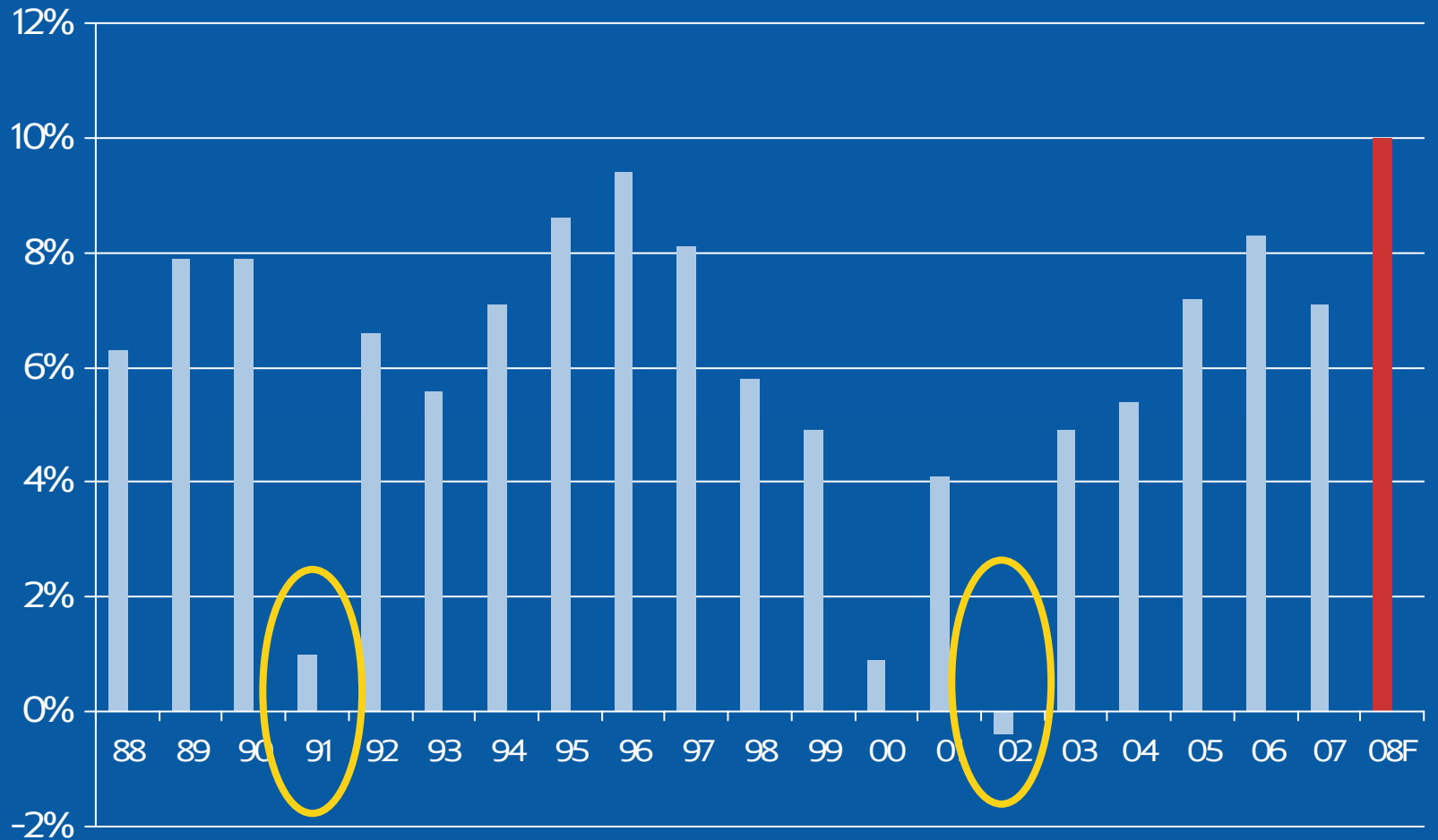
# 10% Margin target

- Cash basis
- Replacement
- Growth
- Dividends
- Tax
- Create CVA
- Asset turns





# Operating margin history



*March 05 onwards under IFRS.*

Year ended March



# Volatility

- Targeting 8-12% margin through cycle
- Asset discipline
- Capital expenditure discipline
- Capacity flexibility
- Risk sharing
- Reduced financial risk
- Reduced fixed costs
- Diversify revenue

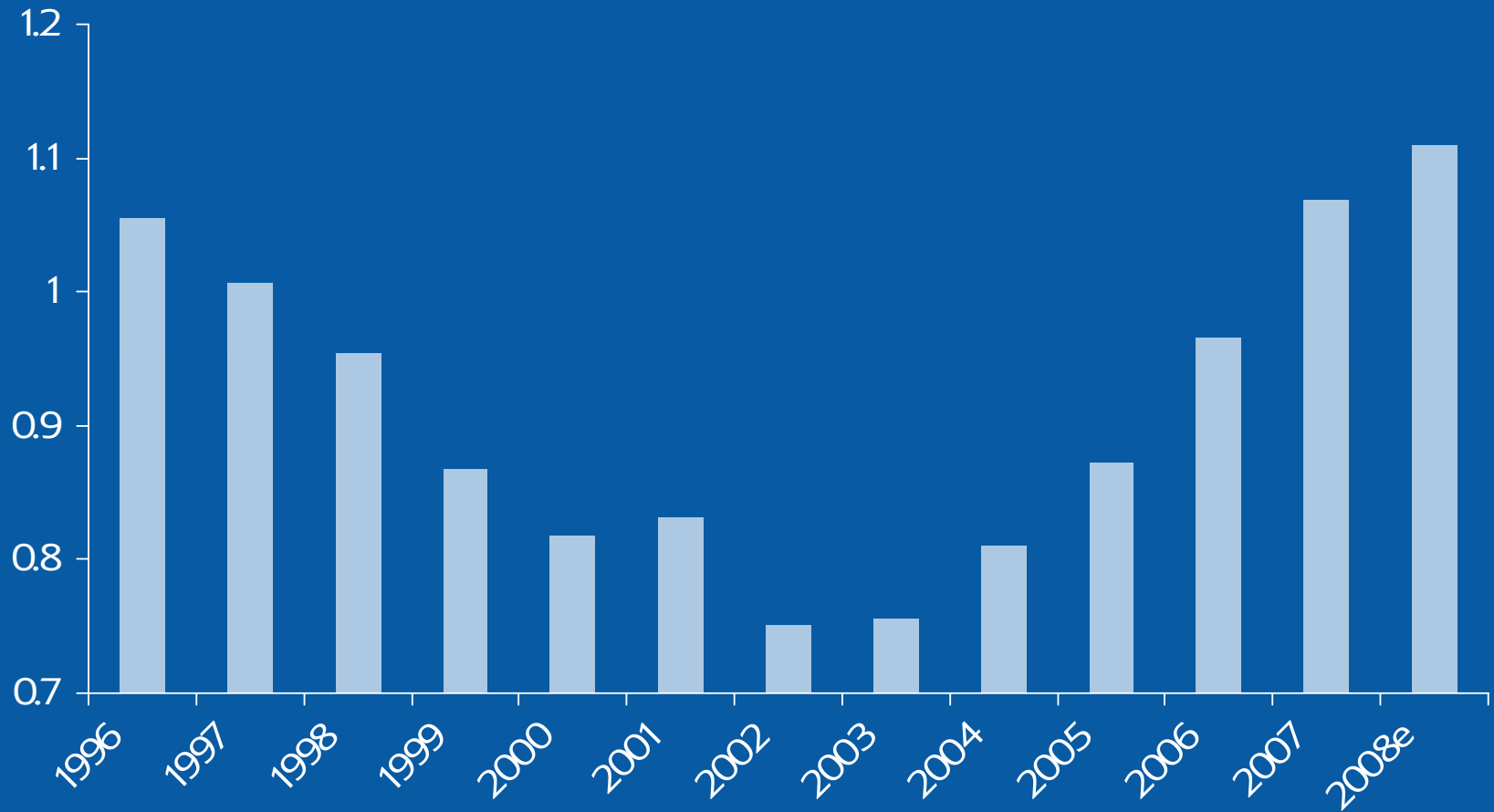


# Asset turns

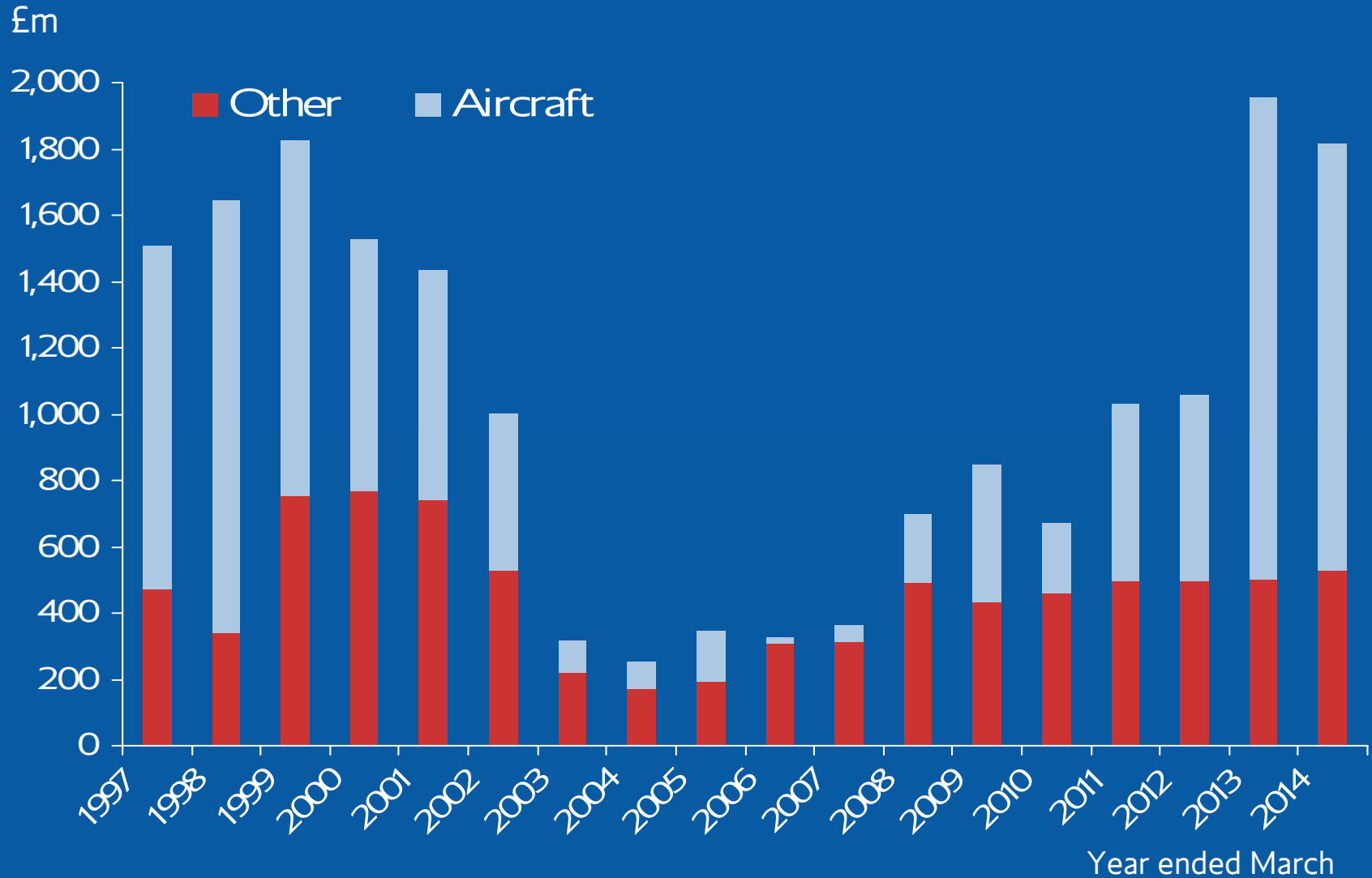
- Fleet
- Property
- Other investments



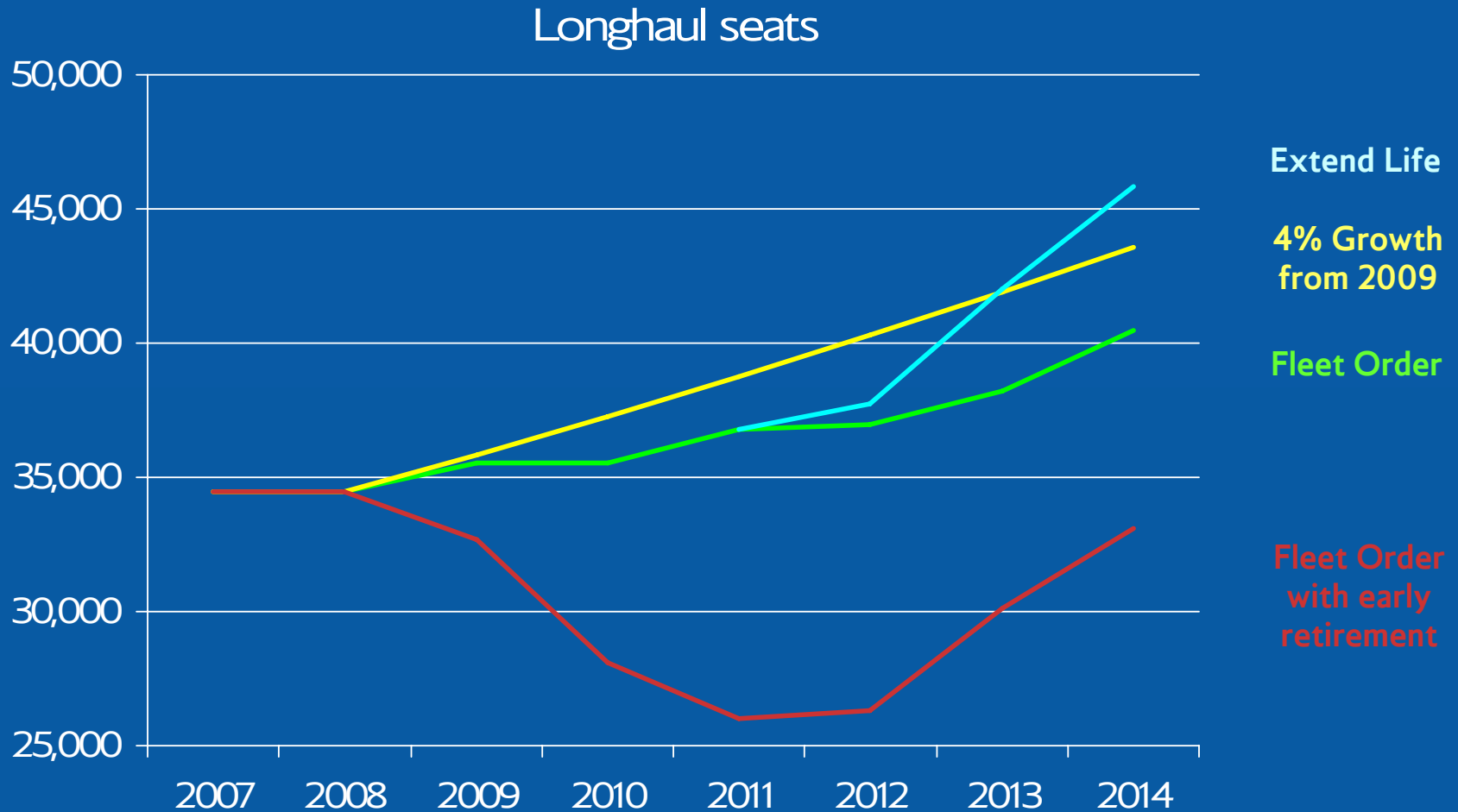
# Asset turn



# Capital expenditure discipline



# Capacity flexibility



# Risk sharing

- Options and slides
- Change size of aircraft
- Deployment flexibility
- AVGs
- Power by the hour
- Leasing



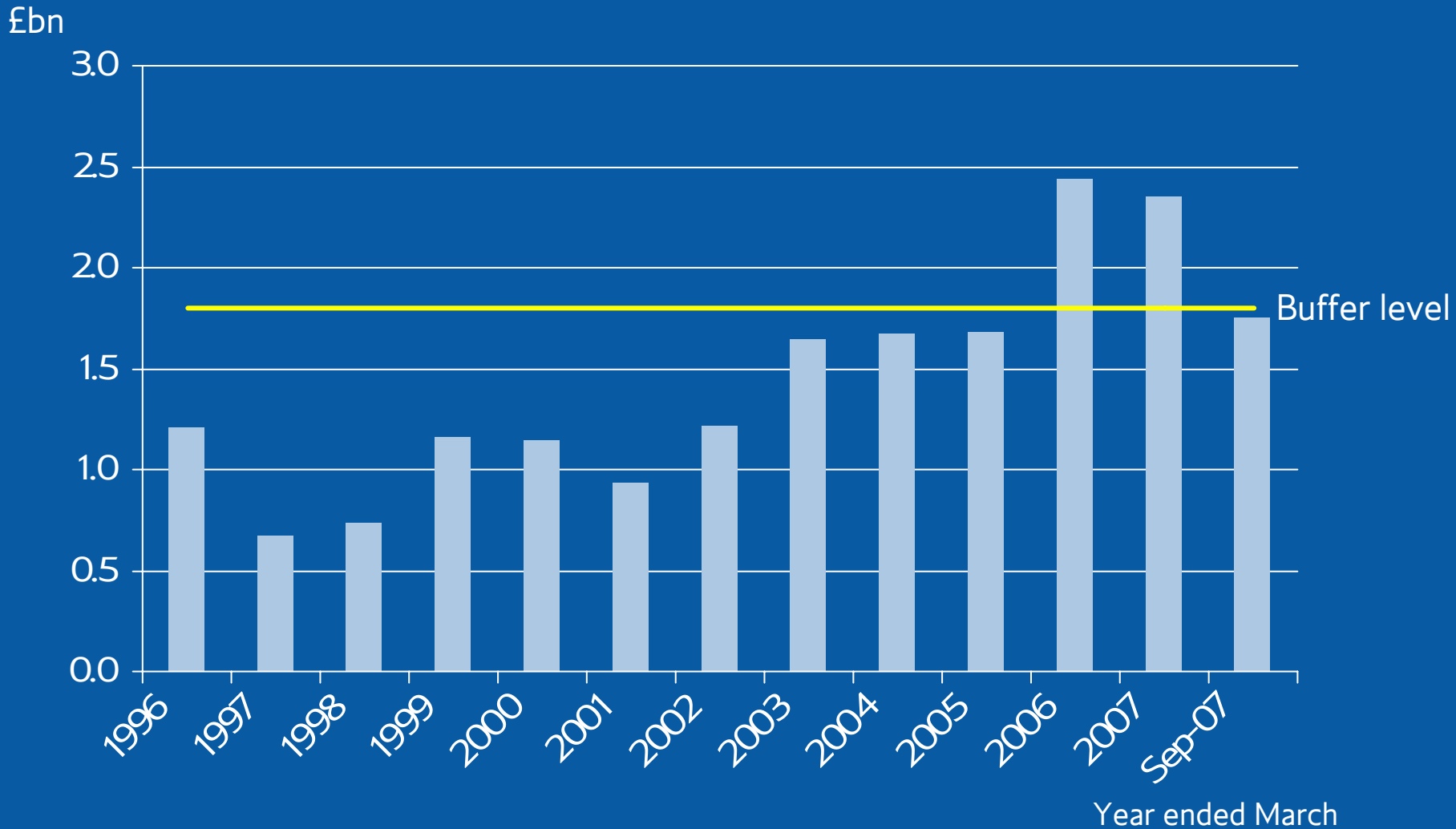
# Reduced financial risk

- Cash balance
- Reduced debt
- Capital expenditure pre-funding
- Facilities
- Pension restructure



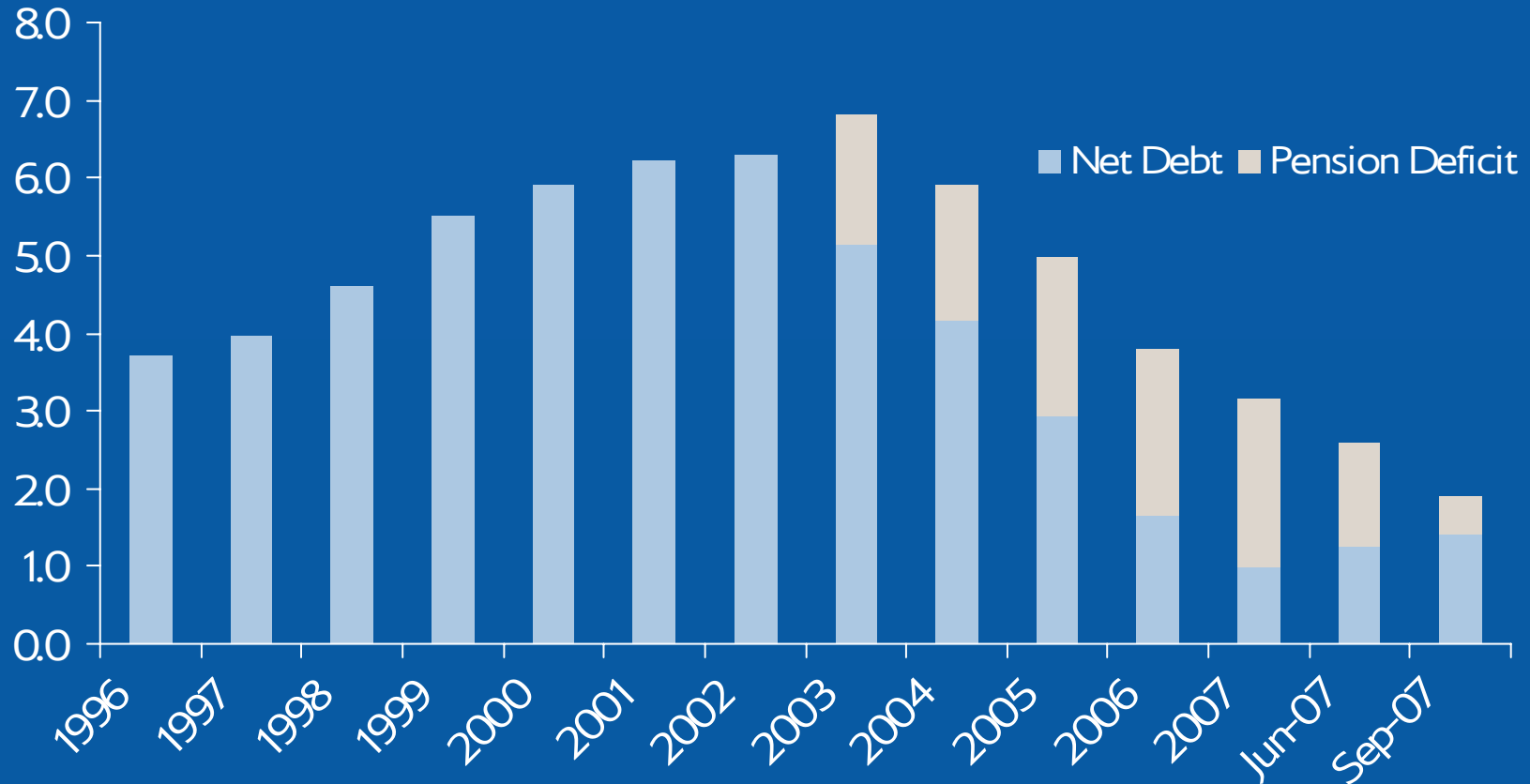


# Cash buffer for event risks



# Net debt including pension deficit

£bn



Gross pension deficit included from first FRS17 numbers in 2003

Year ended March



# Committed facilities

	\$m
General	700
Multi option facility	1,700
Aircraft backstop	120
Total	<u>2,520</u>



# Pension risk reduced

- Salary growth capped to RPI
- Updated mortality assumptions
- Lower discount rate
- Future liability growth restricted via benefit reductions
- 10 year funding plan agreed



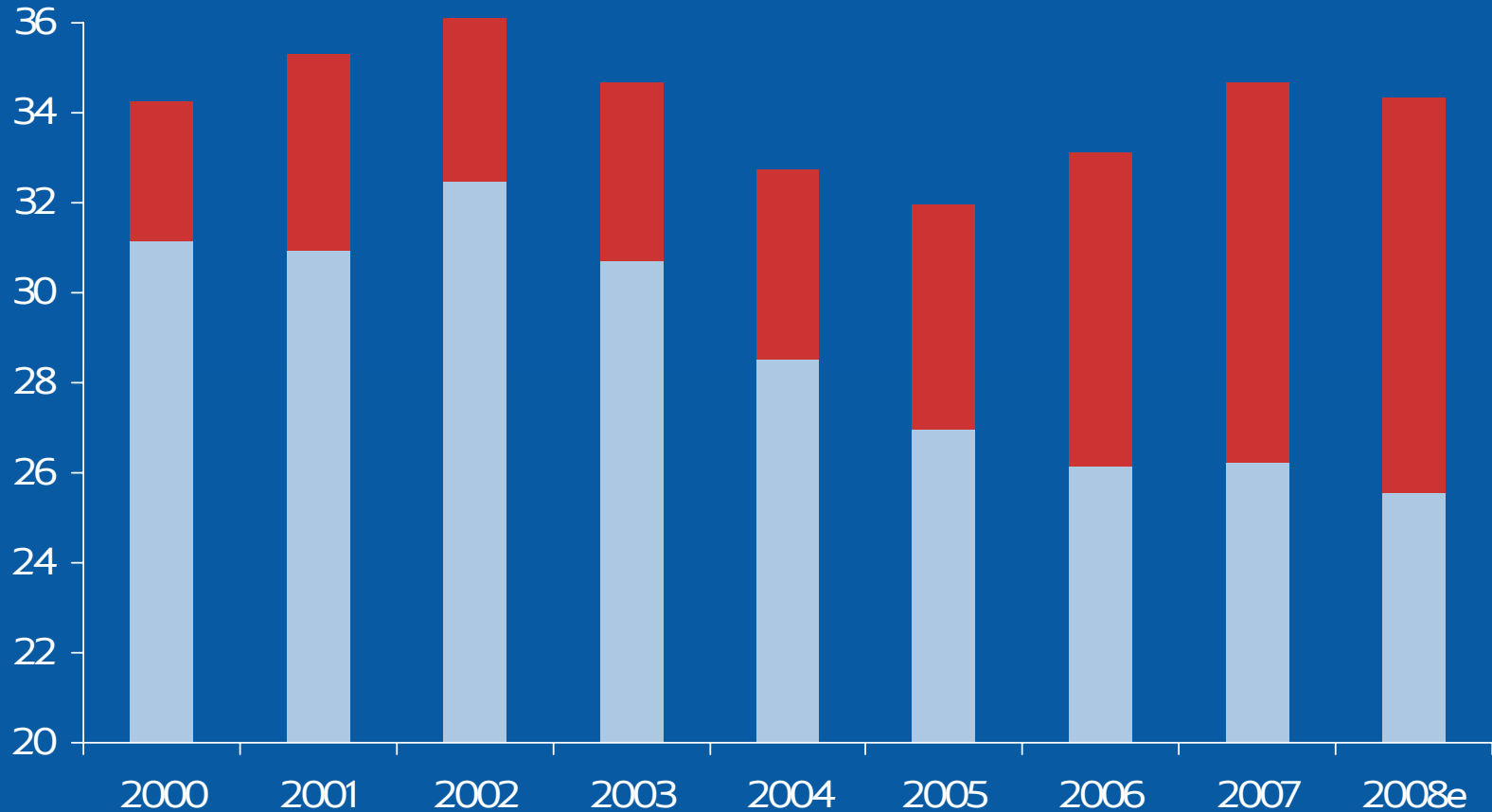
# Reduce fixed costs

- Working practices
- Outsourcing
- Selling



# Cost per ATK

p/ATK



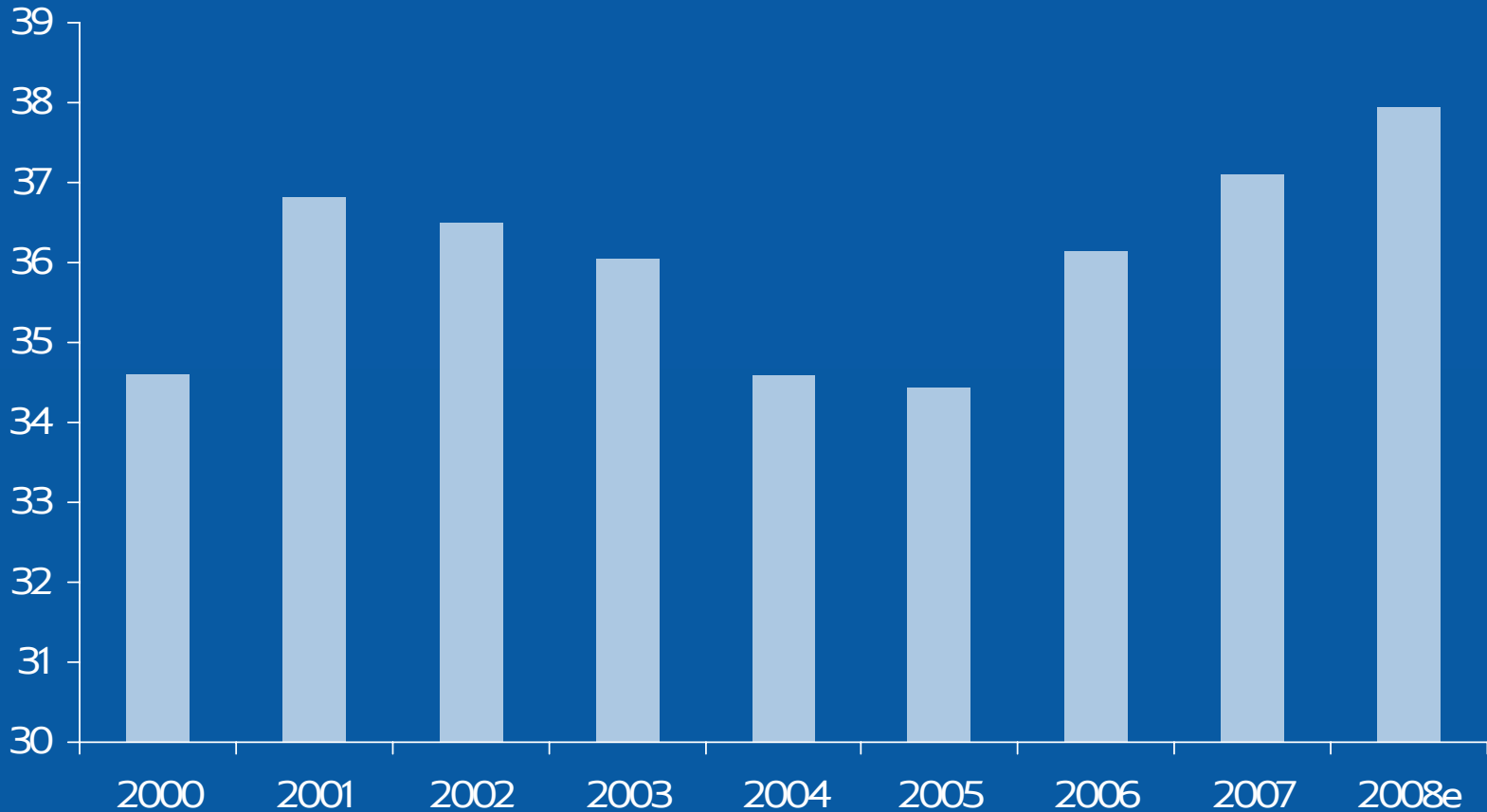
# Diversify revenue

- ba.com
- Segment premium
- Segment shorthaul



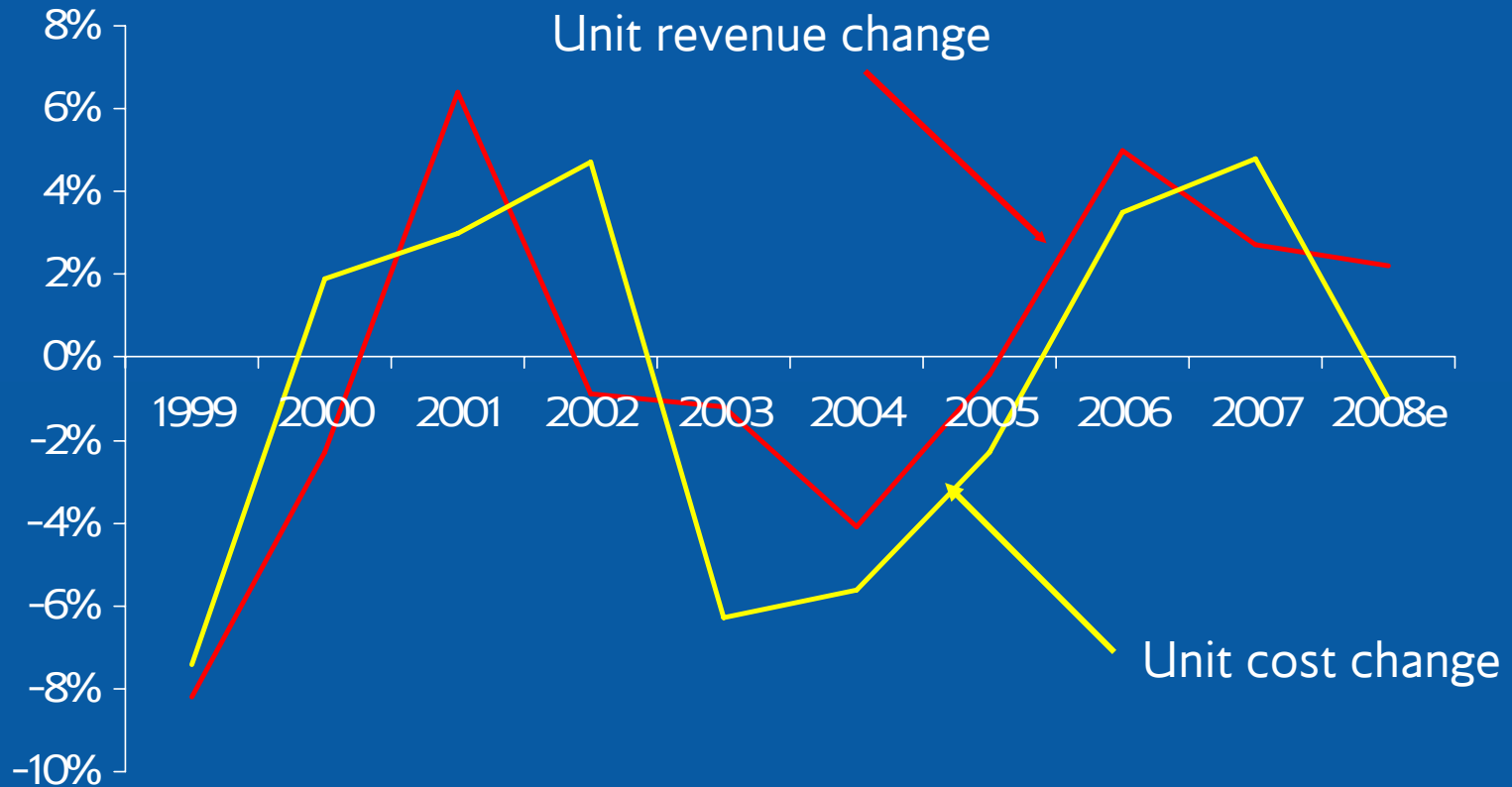
# Revenue per ATK

p/ATK

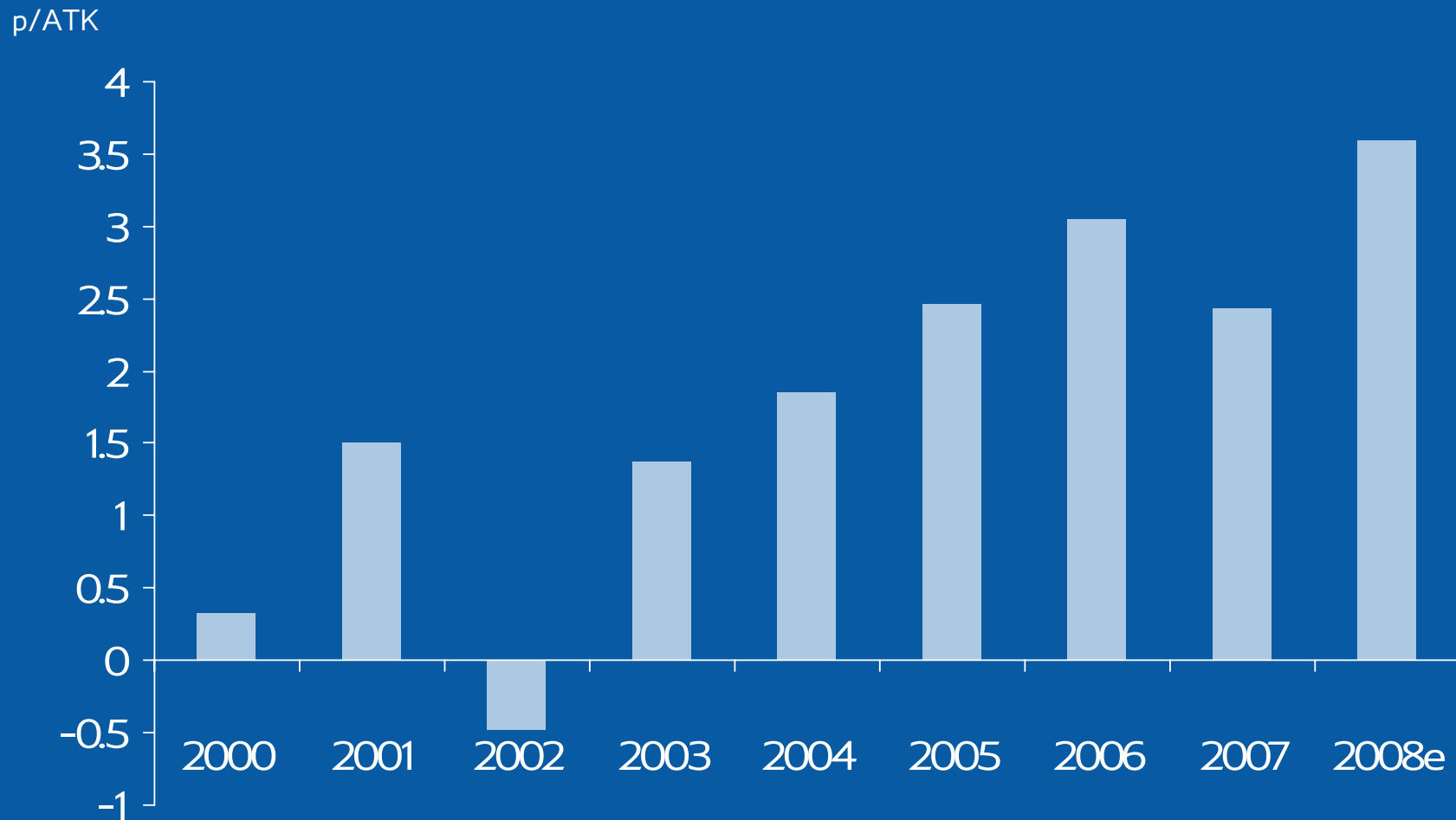




# Unit rev change vs. unit cost change



# Profit per ATK



# Summary

## Past

- Focus on profitability
- Generate value
- Infrastructure

Delivered  
Delivered  
On track

## Future

- Deliver profitable growth
- Consolidation



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# Questions



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