



BRITISH AIRWAYS

Interim management statement

1st Quarter results

2008-2009

Analysts' presentation

August 1, 2008

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 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.



Keith Williams

Chief Financial Officer



Fuel costs hit Q1 result

- Results in line with guidance in May
- EBIT down £231 million; fuel costs up £233 million
- Revenue up 2.8%, yields up 6.9%
- Evidence of economic slowdown



Headline numbers

	3 Months £m	Better/ (worse)
Turnover	2,259	2.8%
Fuel costs	706	(49.3)%
Total costs	(2,224)	(15.2)%
Operating profit	35	(86.8)%
Operating margin	1.5%	(10.6)pts
EBITDAR	253	(50.1)%
Pre-tax profit	37	(87.6)%

Period ended 30 June, 2008



Statistics

3 months vly
Better/(worse)

Key statistics

ASK	0.7%
RPK	(3.7)%
Seat factor	(3.4)pts
ATK	(1.1)%

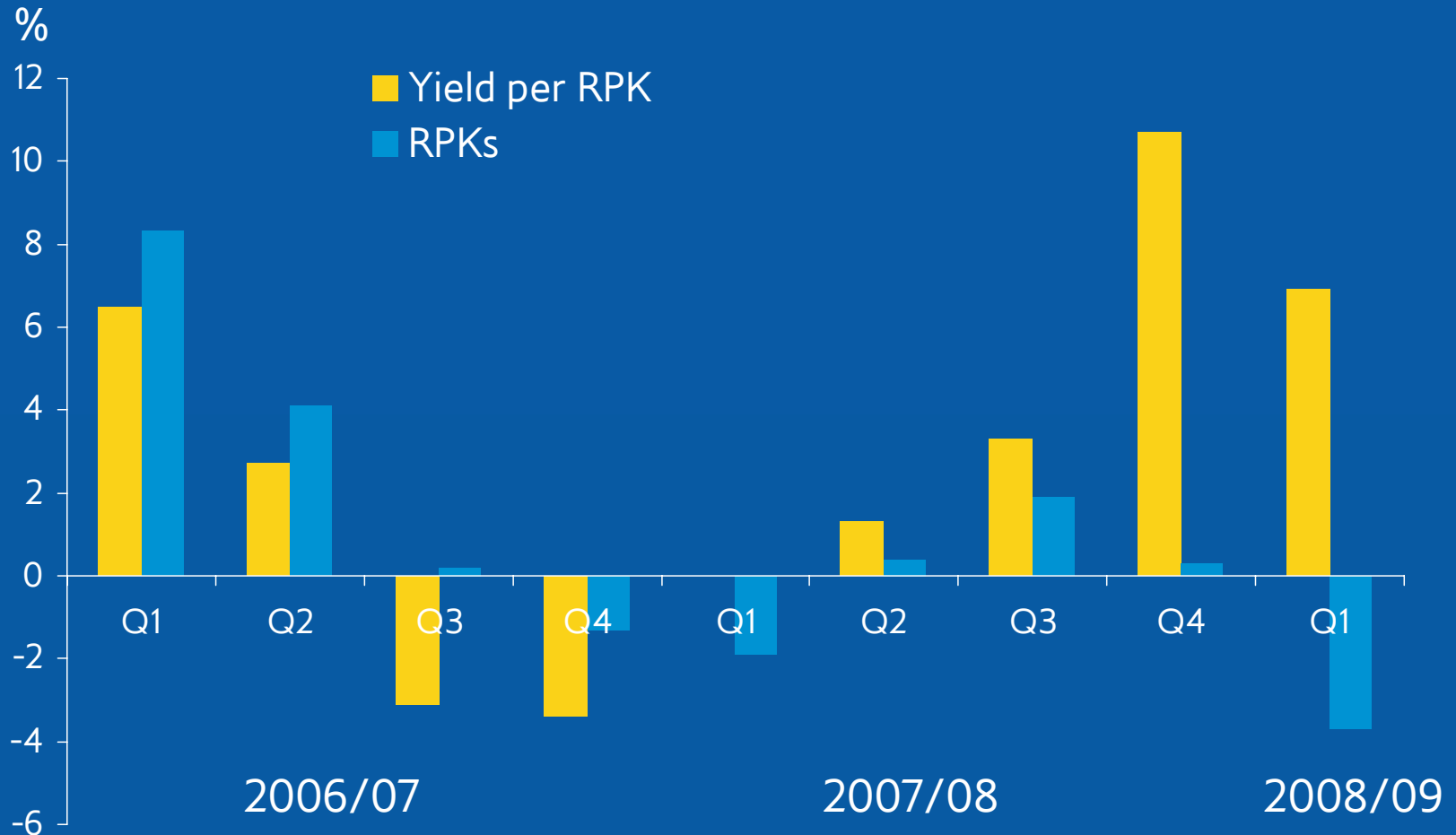
Key performance indicators

Yield per RPK	up 6.9%
Unit costs per ATK	up 16.5%
Unit costs per ATK excl fuel	up 5.3%

Period ended 30 June, 2008



Yield drives revenue improvement

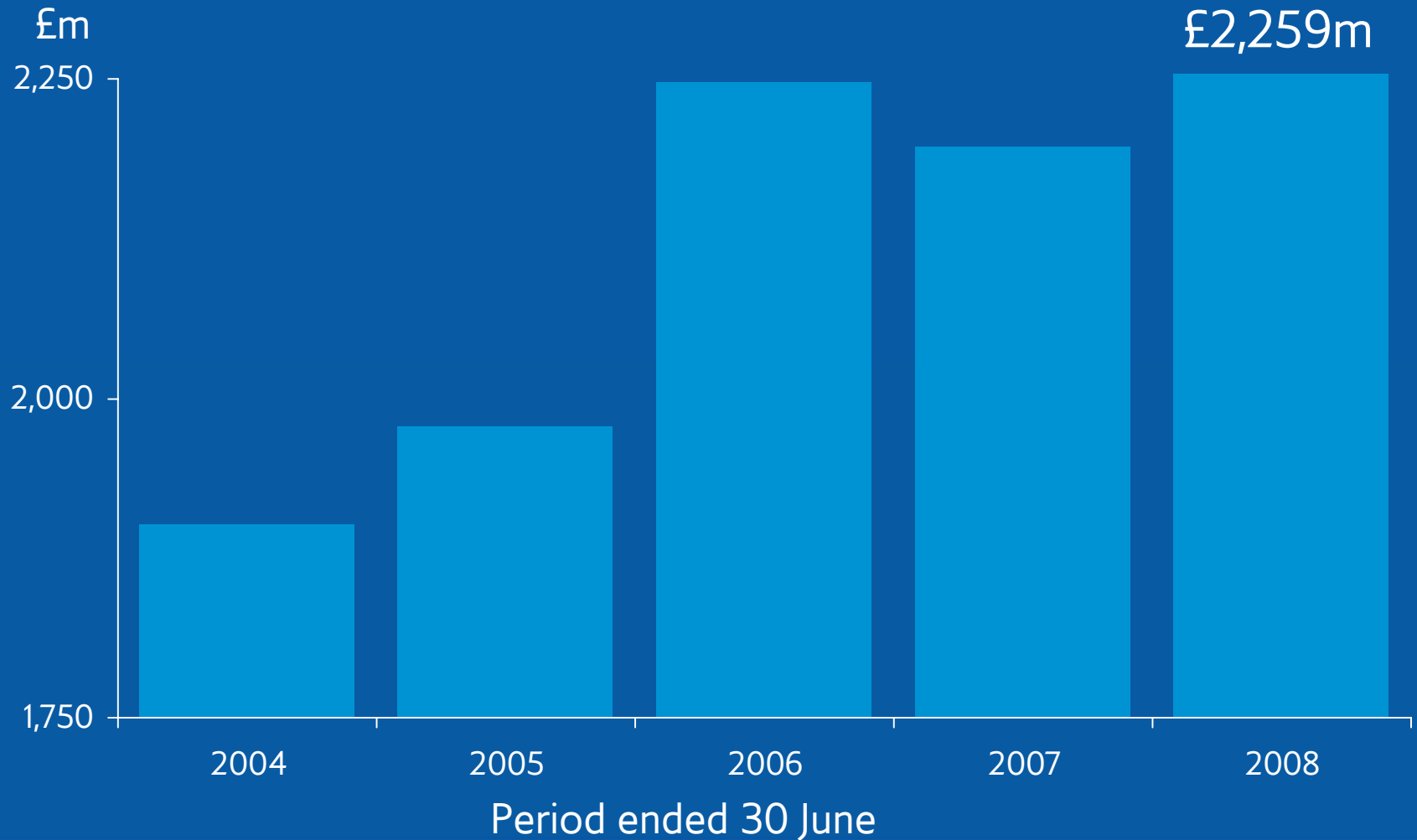


Yield

% vly	Q2 07/08	Q3 07/08	Q4 07/08	Q1 08/09
Price	2.1	2.5	7.8	2.2
Mix	1.7	2.5	1.4	2.5
Exchange	(2.5)	(1.1)	1.5	2.2
Reported	1.3	3.9	10.7	6.9



Solid revenue despite the challenges



Turnover split first quarter

	£m	VLY
Passenger	1,971	2.9%
Cargo	178	21.9%
Other	110	(19.1)%
	<u>2,259</u>	<u>2.8%</u>

Period ended 30 June, 2008



Costs challenging

3 months

Capacity in ATKs	down	1.1%
Total costs	up	15.2%
Unit costs	up	16.5%

Excluding fuel:

Total costs	up	4.1%
Unit costs	up	5.3%

Period ended 30 June, 2008



Pressure on all cost items

3 months	£m	% VLY	
Employee costs	555	2.4	up
Engineering & other aircraft	118	7.3	up
Landing & en route charges	143	6.7	up
Handling, catering etc	255	8.5	up
Selling costs	91	1.1	up
Other costs	356	2.6	up
TOTAL COSTS (excl. fuel)	1,518	4.1	up
Fuel & oil	706	49.3	up
REPORTED TOTAL COSTS	2,224	15.2%	up

Period ended 30 June, 2008



Cashflow

- Cashflow from operations £324 million
- Cash balance of £1,955 million
- Capital expenditure of £134 million



Adoption of IFRIC 13 & 14

- IFRIC 13
Customer loyalty programmes
- IFRIC 14
Pension surpluses
- Restatement of prior year
- Increases reserves by £29 million



Q1 conclusions

- Creditable result given backdrop
- Yield key to revenue growth
- Terminal 5 performing very well
- Management action on costs and revenues to benefit future results



Looking forward

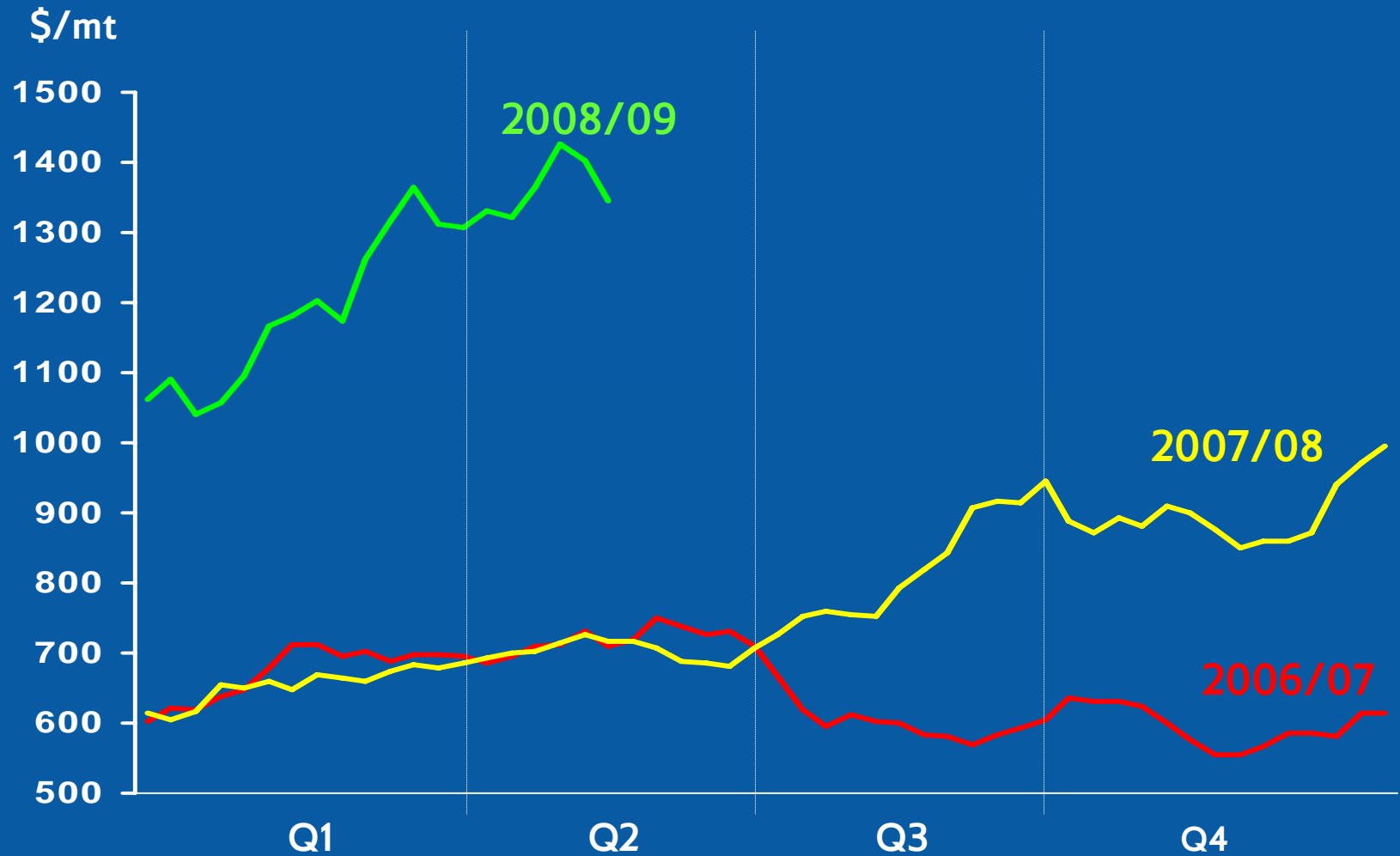


Revenue still growing

- Passenger volumes lower but yield higher
- Both fares and surcharges raised
- Revenue guidance lowered to +3% (vs +4%) for full year
- Longhaul premium:
 - currently flat on last year
 - schedule change will result in small volume decline
 - still seeing yield improvement
- Non-premium expected to deliver small revenue increase



Jet fuel prices

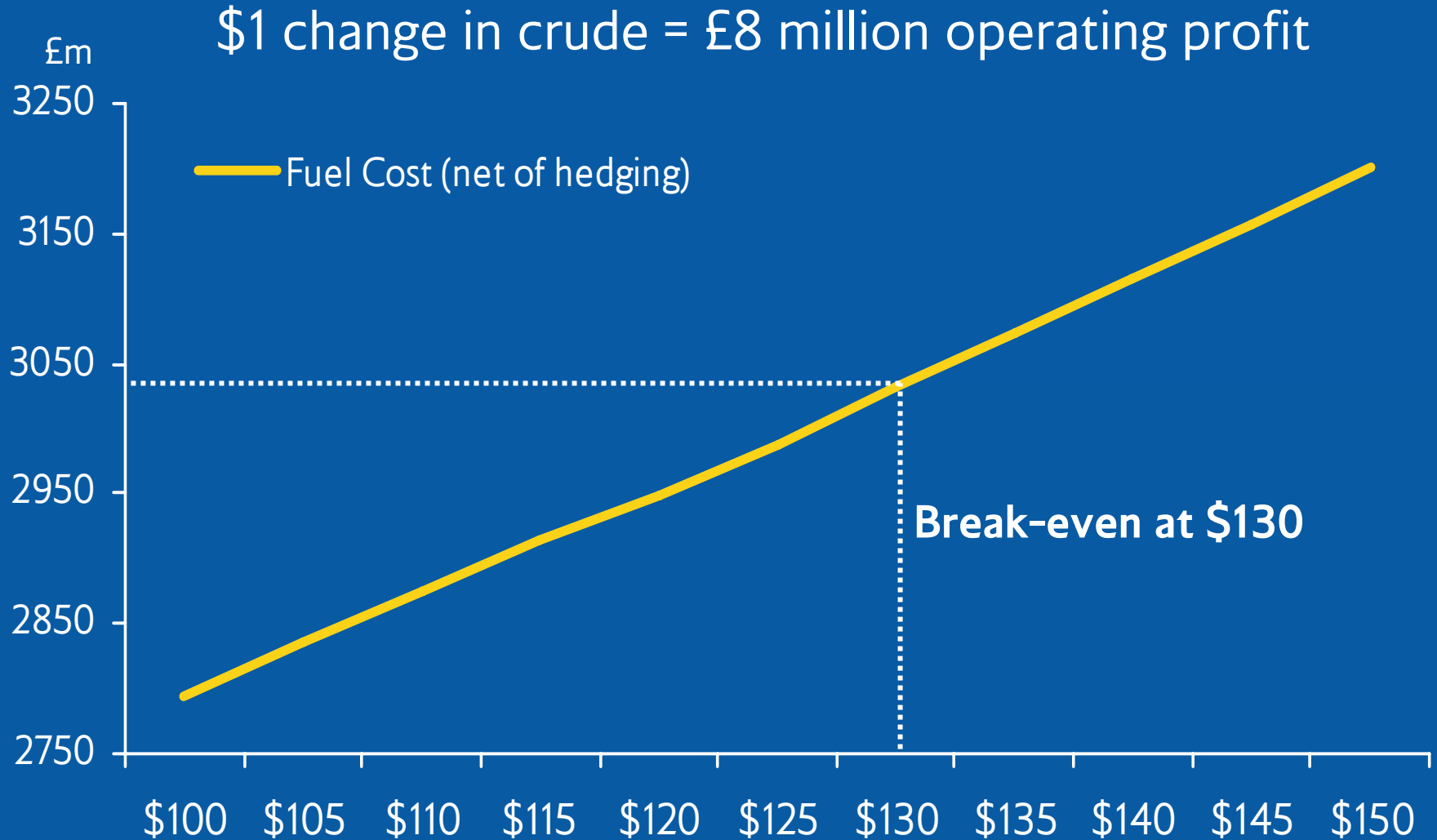


Hedging cover

	FY08/09			
	Q2	Q3	Q4	FY09/10
Cover	85%	80%	70%	35%
Average price cap Crude equivalent (\$/bbl)	\$91	\$96	\$95	\$100



Fuel spend for 2008/09






Other costs

- Capacity reduction gives cost reductions
- Cost review now under way in response to schedule changes
- Non-fuel costs forecast to be up c3%, or c£175 million



Revised outlook for the year

Full year results
May 08

Revenue growth	c. 4%		up c3%
Fuel cost	up £1bn (at \$120)		up £1bn (at c\$130)
Non-fuel costs	up 3-3.5%		up c3%

We are focused on remaining profitable



Willie Walsh

Chief Executive Officer



- Iberia update
- American update
- Capacity and fleet review
- Terminal 5 update



British Airways and Iberia

- Preliminary talks towards a merger
- Unanimously supported by both Boards
- Maintains two operating companies
- Maintains two brands
- No cash involved



Structure of deal

- New holding company established
- Newco acquires shares of both companies
- Newco to be listed in London and Madrid
- Likely be a member of the FTSE 100
- Two operating companies underneath



Benefits

- Builds on existing co-operation
- Customer benefits
- Network breadth
- Synergy benefits



Comparison with other major airlines

	BA/IBERIA	LH/SWISS	AF/KLM
Revenue	16.6 billion euros	22.4 billion euros	24 billion euros
Fleet	443	513	607
Passengers	65 million	63 million	75 million
Employees	64,500	101,000	105,000



American Airlines updates

- Regulatory environment has changed
- Good progress on negotiations
- ATI on North Atlantic
- Joint operation on North Atlantic business
- Reciprocal FFP



Capacity review

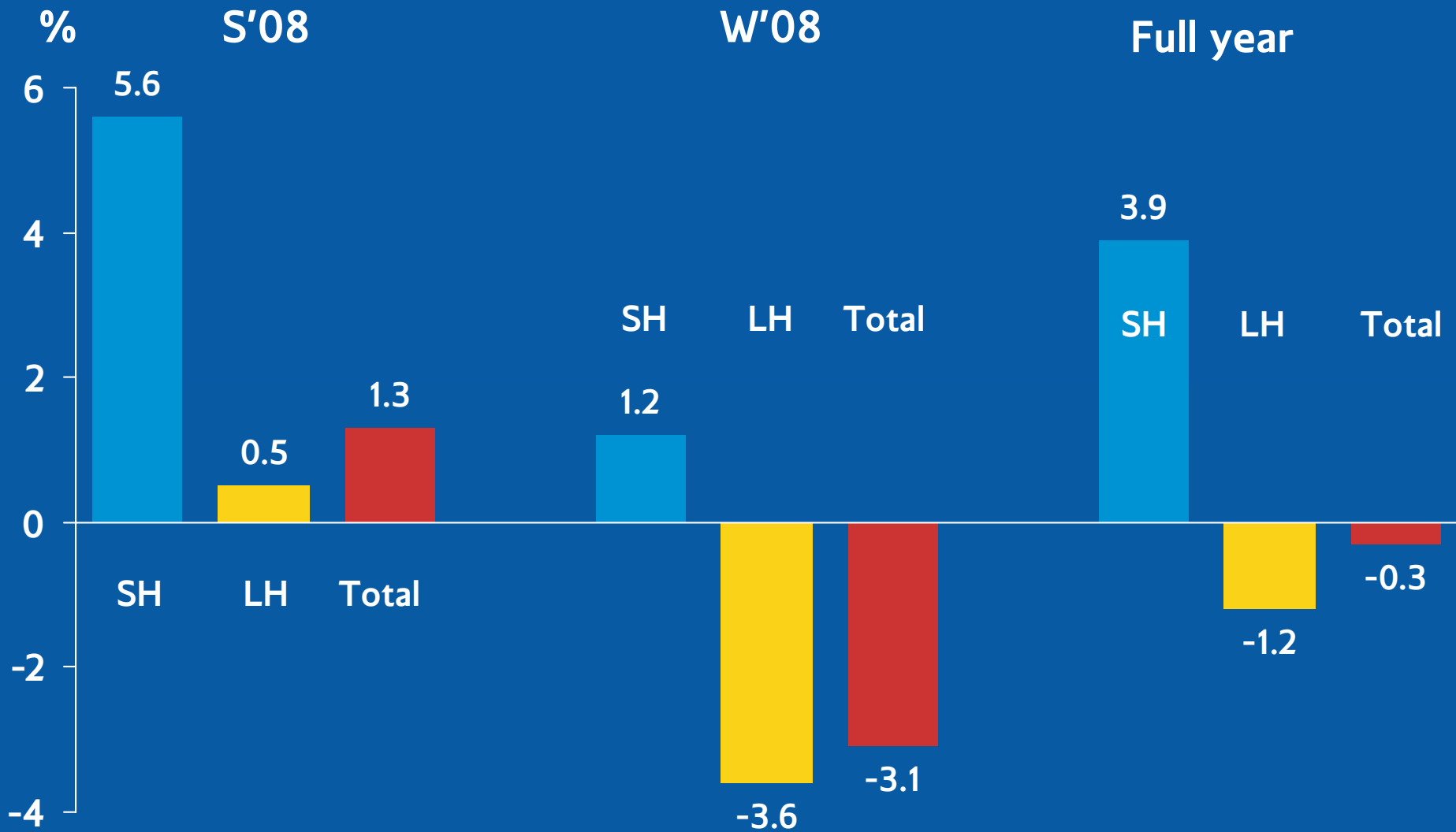


Capacity responds to market conditions

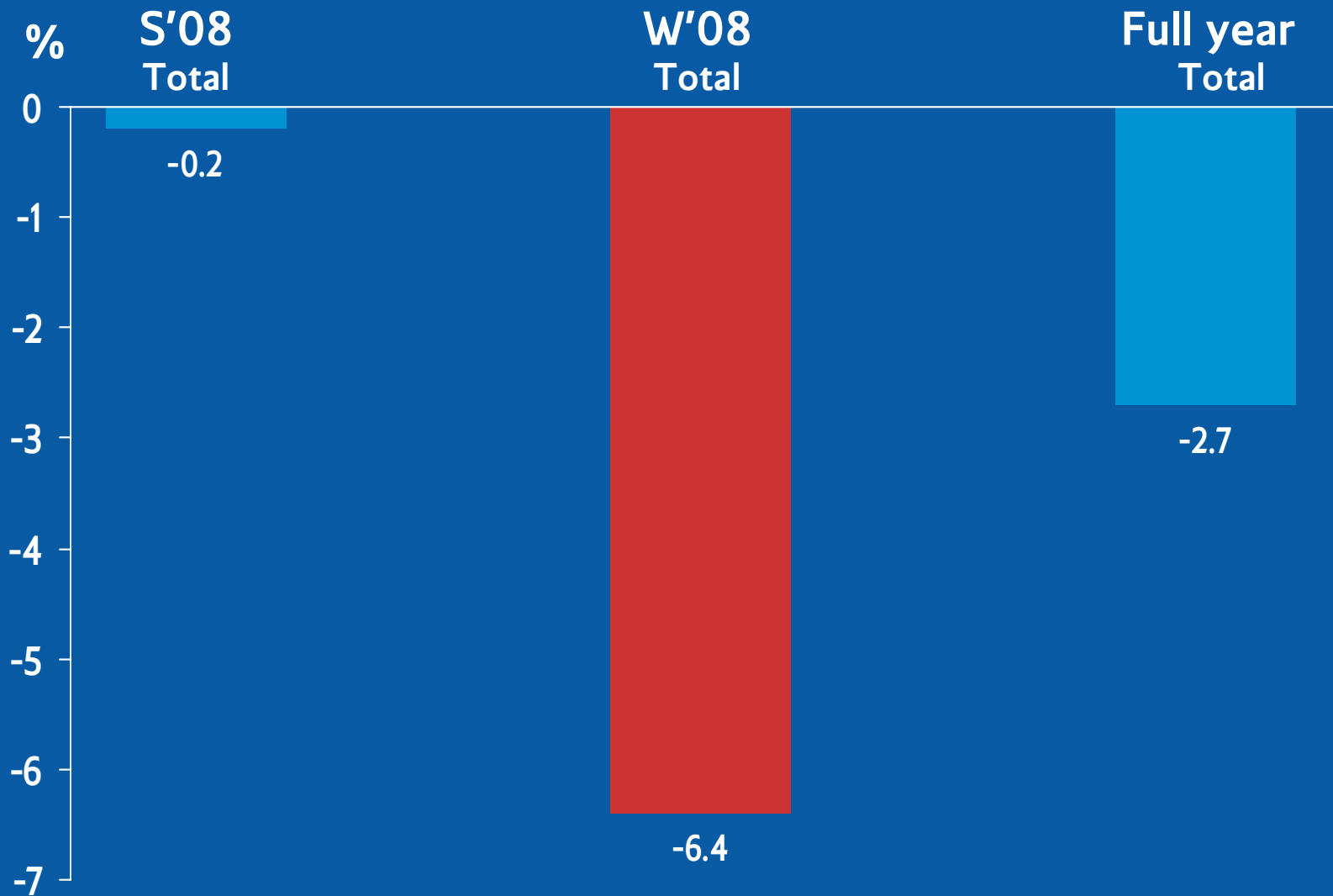
Percent VLY	2008/9 Investor Day	2008/09 revised
Capacity (ASK)		
•LH premium	3.5	1.3
•LH non-premium	0.8	(2.0)
•SH total	6.6	3.9
Total	2.4	(0.3)



ASK change versus last year



ASK change versus original plan

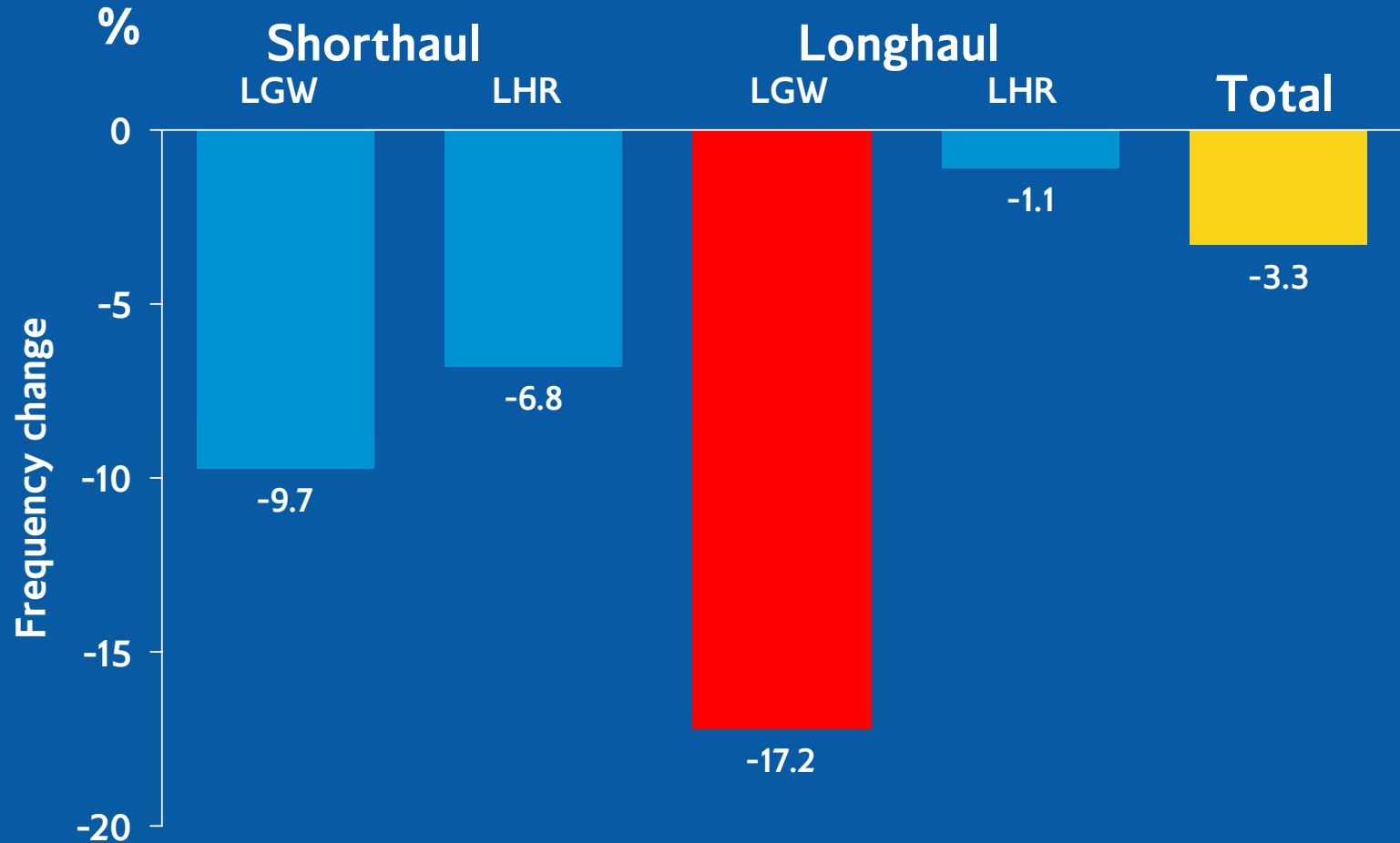


Reductions achieved through frequency

- Reductions focused on weaker months, days of week and flights
- Most shorthaul routes have some frequency reduction
- 4 Gatwick shorthaul services suspended
- Longhaul reductions mainly achieved with periods of frequency reduction, e.g.:
 - LAX – reduced from 3 to 2 daily for 12 weeks
 - HYD – start of service delayed till Dec 6
 - JFK – reduced from 8 to 7 daily services for winter
 - NRT – reduced from 2 to 1 daily for winter, from Dec 7



W08/09: frequency reduction vs last year



Considerations

- 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



Fleet



Fleet changes

- Capacity and network changes funded by reduced aircraft utilisation
- Changes release the equivalent number of hulls:
 - 3 - 4 B747
 - 2 - 3 Airbus/B757/B767
 - 2 - 3 B737
- Opportunities for re-deployment of fuel efficient aircraft onto remaining flights



Fleet changes

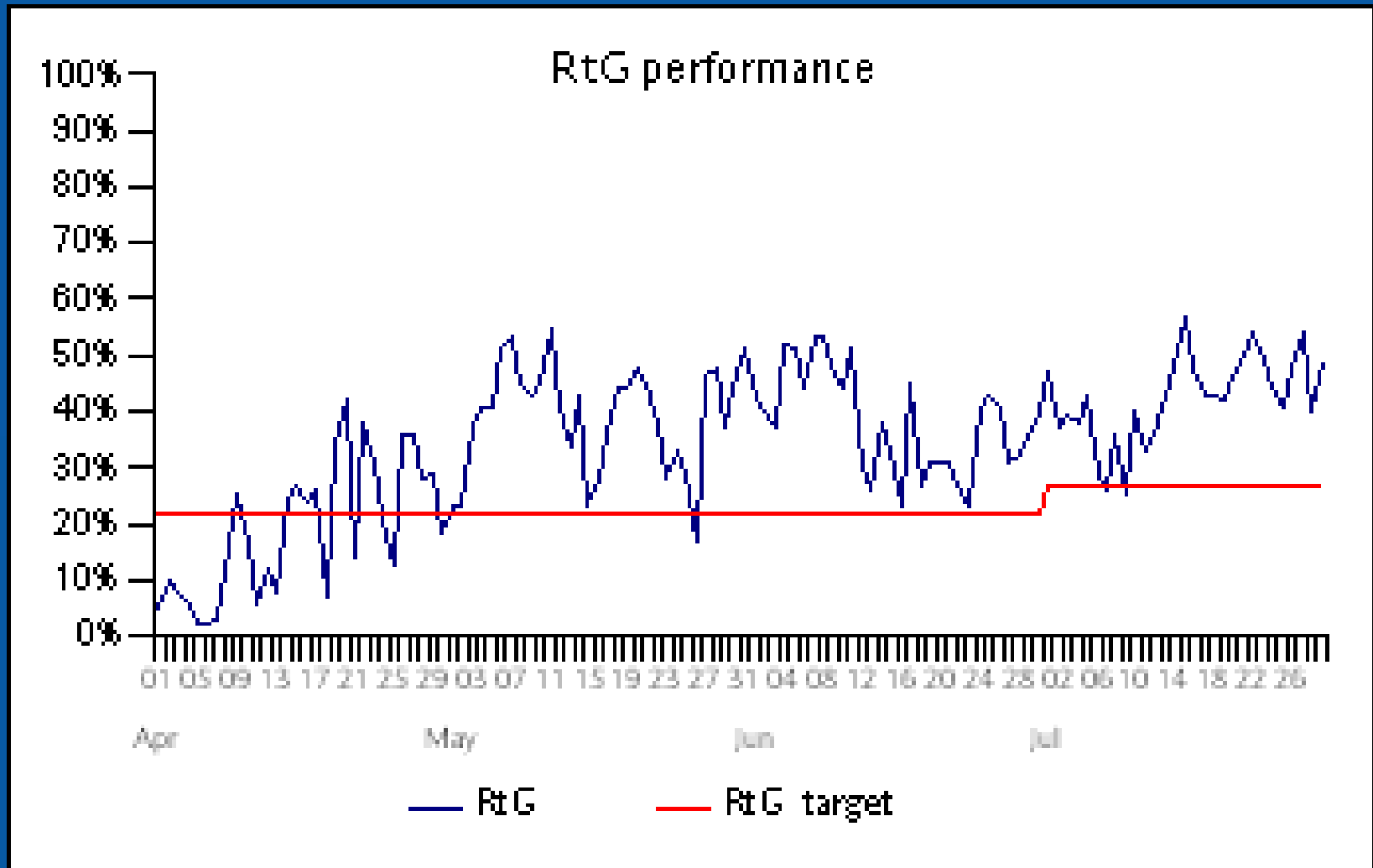
- 4 Boeing 777-200s delivered in early 2009
- Replacement, not growth
- 6 B777-300ER firm orders, options for 4 more
- Delivery in 2010
- Significant fuel efficiency versus B747
- Flexibility for decision re replacement or growth



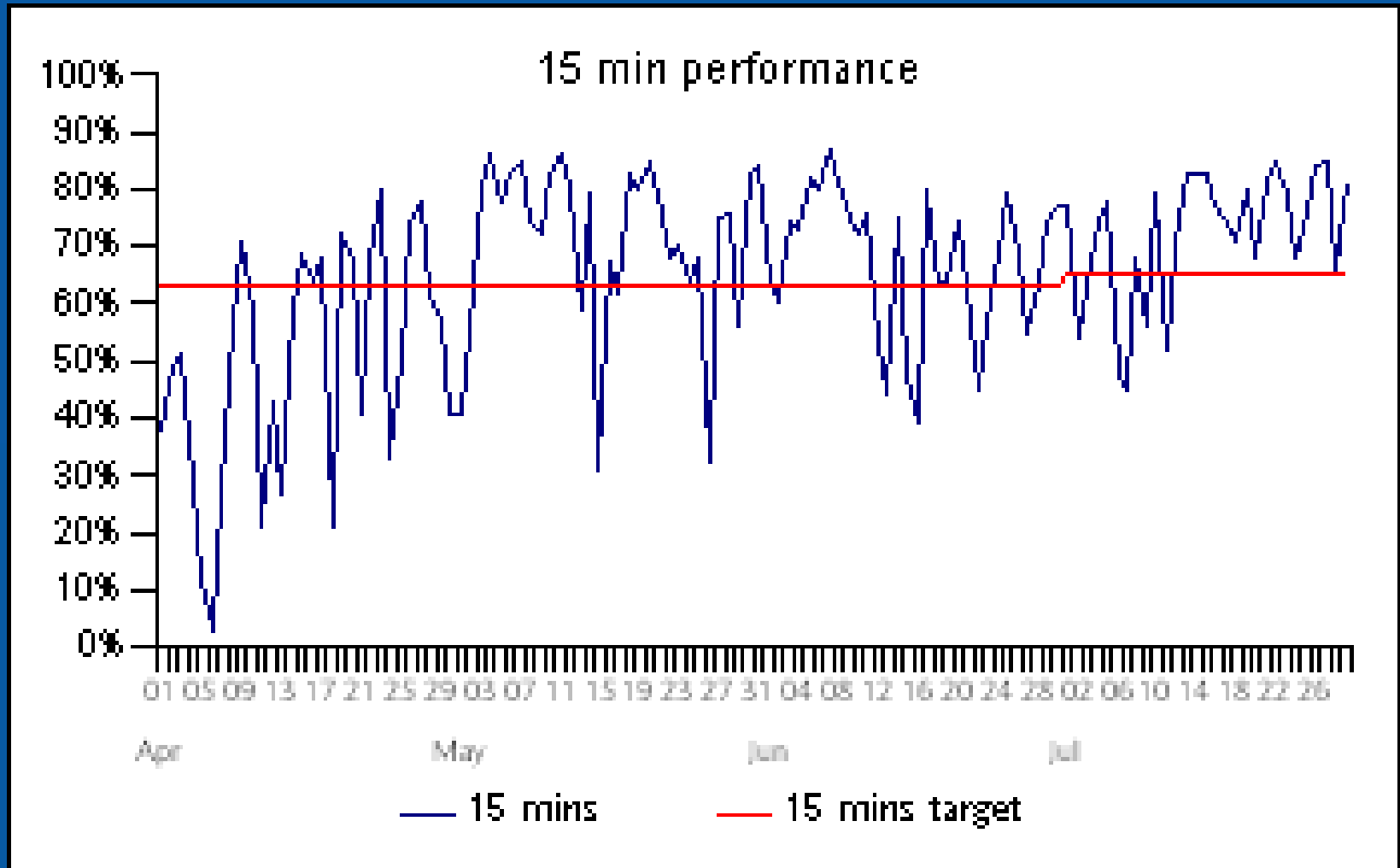
T5 update



Ready to go performance

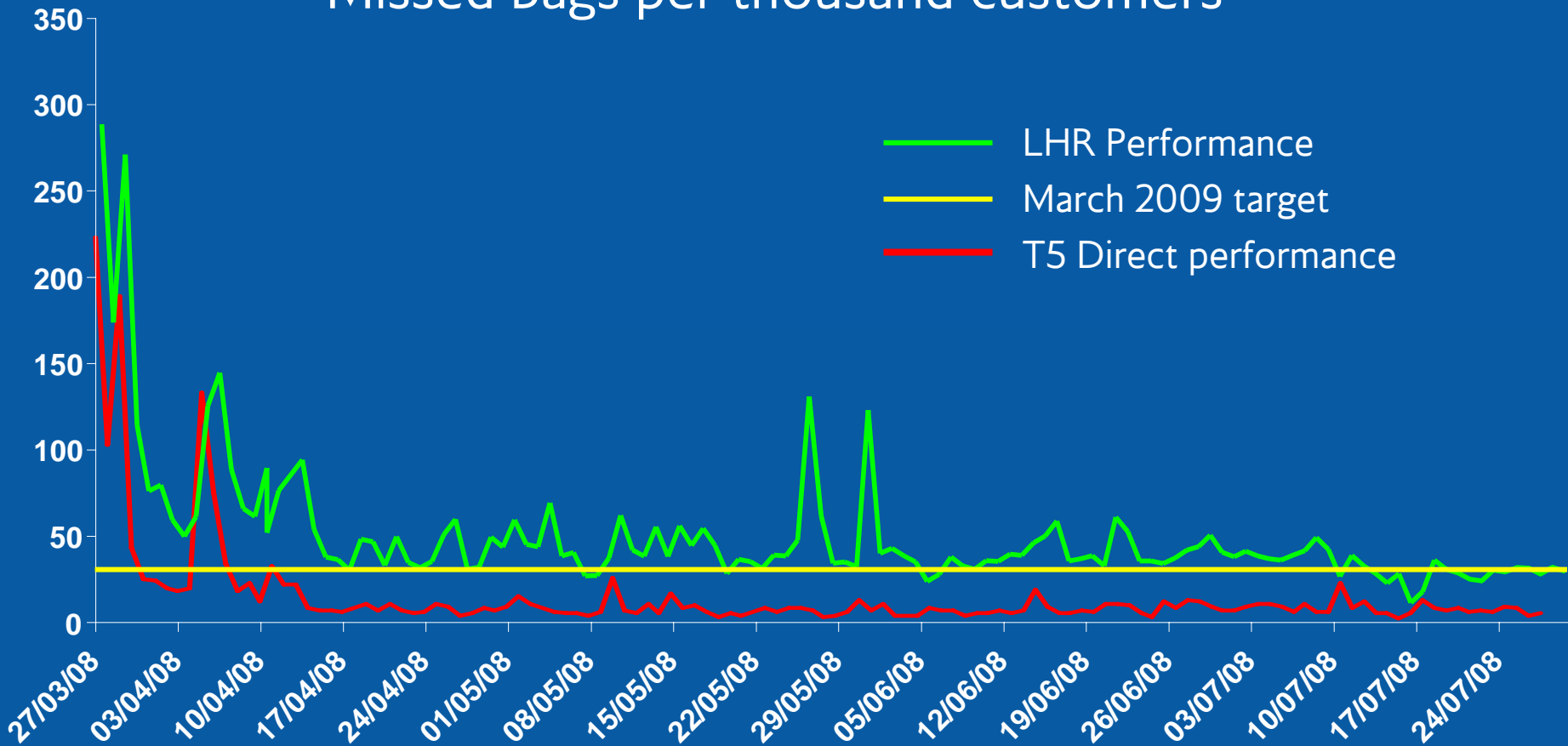


Punctuality significantly improved



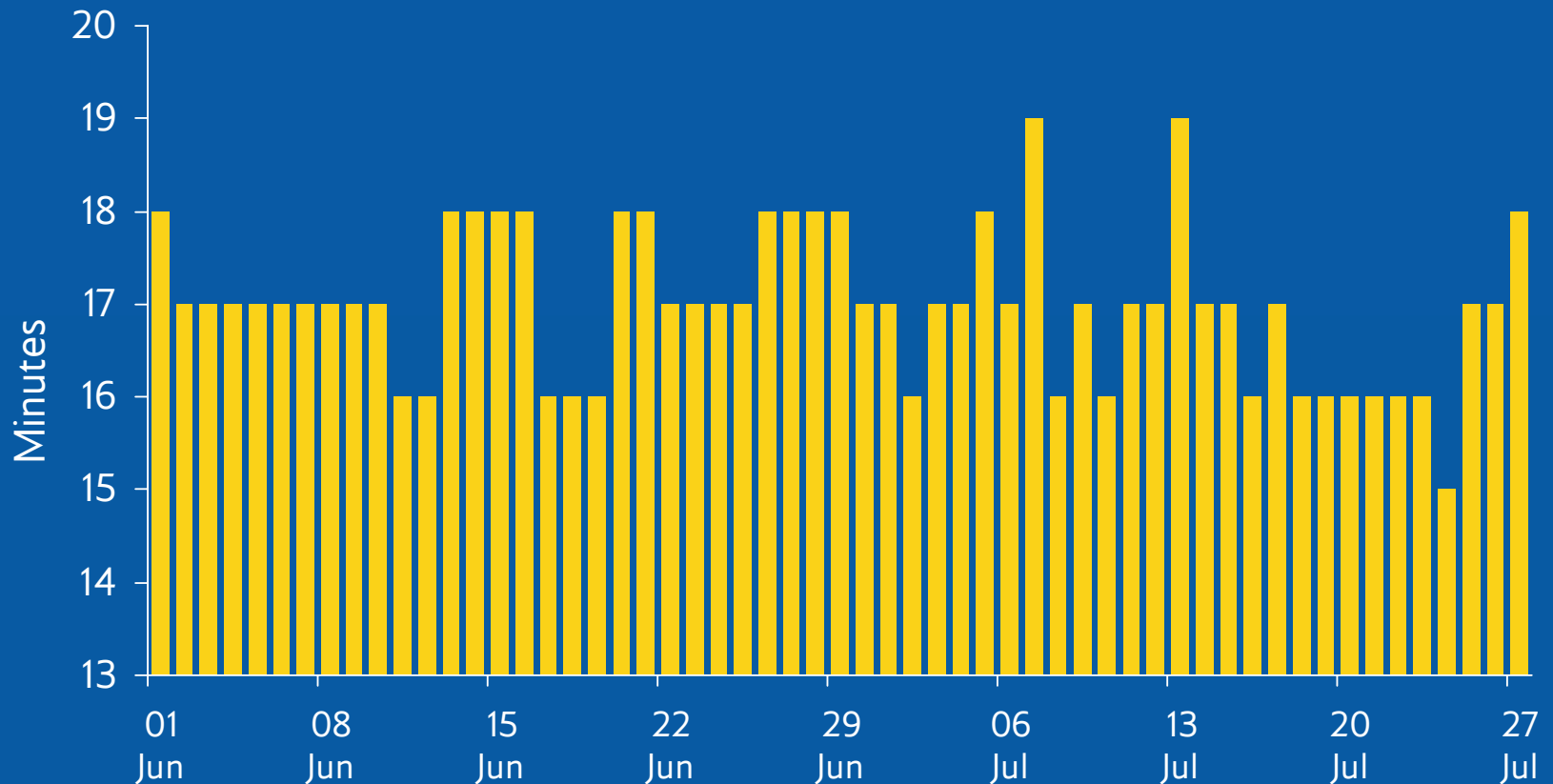
Baggage performance improving

Missed bags per thousand customers



Baggage arrivals performance

First bag average time



Final moves to T5

- Switch 2.2 – September 17
- Switch 2.3 – October 22
- Terminal 3 switch – January '09



Questions



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