When we presented our results for last year we said that we were pleased to have resolved a number of fundamental issues which had been holding back the business in terms of cost performance.

This quarter reflects the reward for that effort. In particular our employment costs are down some 8 per cent year on year, reflecting the impact of our management reduction programme and lower pension costs.

We also said that we expected to see the main improvement on revenues in the second half of this year and that has proved to be the case, particularly because of the well publicised difficulties at London Heathrow.

The quarter resulted in an operating margin of 12 per cent, making it a record quarter one performance. The quarter's results serve as a good staging post to our 10 per cent margin this year, but we still face challenges to get there. Transfer traffic is likely to be impacted until we see revised hand baggage rules and real improvement at Heathrow making the revenue outlook challenging, while fuel, despite being helped by exchange, is still around $75, some $9 higher than our original forecasts.

But firstly looking to the headline numbers for the quarter. Revenues were down 2.4 per cent and this marks the first decline in comparative first quarter revenue performance for four years. This was driven by exchange impacts, particularly the impact of a weak dollar.

Overall cost performance was excellent - down 5.4 per cent - helped in part by the first fall in our fuel bill in 6 years. Again this was the result of the weak dollar which helped our sterling fuel costs.

The improved cost performance left an operating margin of 12.0 per cent, up 2.8 points from the previous year and an operating profit up from £206 million to £263 million.

I have already mentioned dollar weakness. Overall sterling strengthened against a basket of currencies- around 9 per cent against the dollar, around 14 per cent against the yen and around 2 per cent on the Euro.

As around 25 per cent of our revenues are dollar or dollar based the exchange impact on our revenue was £68 million. On an underlying basis revenues were up some £14 million which is broadly flat.

As I said earlier exchange benefited fuel by £44 million and this offset a price increase of £18 million, resulting in a net reduction of £26 million for the quarter.

Below the line, we had indicated last year that our financing costs would be lower because of the pensions settlement and this proved to the case. We saw a £17 million reduction in pension financing cost combined with a reduction in provision for aircraft end of lease guarantees which helped pre tax profits climb to £289 million.

The other main event in the quarter was below the line in the tax line. The change in the Corporation tax rate from 30 per cent to 28 per cent resulted in a one off £71 million recalculation of the deferred tax balance on the balance sheet and resulted in a 6 per cent tax charge.

Looking at the underlying statistics for the quarter, seat factor for the quarter was down by some 1.8 per cent to 76.8 per cent on capacity up 0.3 per cent measured in Available Seat kilometres. Revenue Passenger kilometres were accordingly weaker – down 1.9 per cent.

Yield was flat despite the substantial adverse currency impact.

On the cost side there have been significant improvements and despite a reduction in available tonne kilometres, unit costs were still down 3.9 per cent.

Looking at the detail. As I said earlier revenue was down year on year by some 2.4 per cent and put an end to the growth of the last four years driven mainly by exchange.

I have already highlighted the direct exchange impact.

In addition, there were a number of other challenges. Non-premium transatlantic traffic has remained soft during the period - understandably on inbound because of the strength of sterling - but also, albeit to a lesser extent, on outbound traffic as people seem to prefer other destinations despite the current exchange benefit.

Domestic travel has been substantially hit from the doubling of air passenger duty and the additional security and baggage concerns at UK airports.

Transfer traffic has similarly suffered from baggage restrictions. Direct premium passenger volumes have however remained solid pushing overall premium traffic to be up 0.1 per cent in the quarter.

Finally, we have already highlighted to you the strong comparatives we have cycled against in our monthly traffic stats.

Taken together the above factors resulted in passenger revenue down 1.9 per cent to £1,899 million.

We have already highlighted the disappointing performance of our Cargo business in the second half of last year. In particular Cargo revenues in quarter 4 last year were down some 17 per cent. Although we have seen some signs of recovery and some relative performance improvement, revenues were still down 11.5 per cent year on year to £146 million. I'll return to Cargo in a moment.

Other revenues remained broadly flat.

I have already mentioned the impact of exchange in the quarter and this reduced reported yields by 3.5 per cent. This was offset by increases in prices which were up 2.7 per cent, in part driven by better pricing from point to point traffic over transfers. Mix improved the result by 0.8 per cent as premium volumes were up versus last year and non-premium volumes were down.

At investor day we indicated that we expected Cargo revenues to be down around 3.0 per cent for the year. In the end performance was down 3.1 per cent, with quarter four revenues down some 17 per cent.

This quarter's performance was down to a number of factors-

Firstly the exchange impact was very marked – accounting for 4.2 pts of the revenue decline.

Capacity was cut by 5.2 per cent driven by the combined impact of one less freighter and increased baggage carried in the holds.

Yield decline in the period was significant at 3.8 per cent - impacted by the soft market conditions that have also been noted by many of our competitors.

More encouragingly load factor was up 1.3 pts. Overall there has been some improvement in the security procedures at the Airport and some operational improvements - volumes are still below target but heading in the right direction.

As I mentioned in my opening remarks cost performance benefited from the business changes which we made last year.

Both non fuel and fuel costs were down by more than 5 per cent and even with reduced capacity unit costs were still down 3.9 per cent.

Looking at the cost detail for quarter four. Almost all our cost lines were down. However two are worthy of particular mention. Employee costs were down 8.3 per cent. Selling costs were down some 14.4 per cent, of which around 10 points was attributable to the lower incentive payment and commission rate changes outside the UK and US which we have negotiated.

Looking at the employee cost reduction in detail we can see that half of the reduction was attributable to pension changes and half was because of the higher severance charges we took last year as we had early retirement and management reduction programmes.

This has resulted in a lower headcount, down some 2.4 per cent year on year and these reductions have been able to offset the impact of increased pay awards.

At Investor day last year we indicated that we would spend some £25 million this year on additional transition costs as we move into Heathrow. In the end our spending is running at a much higher rate as we have had to put in considerable more resource to cope with the operation there.

This chart shows you the impact of the additional resourcing we have had to provide to cope with the impact of the poor operation at Heathrow. As at July this year we are utilising some 7200 headcount at Heathrow, up 6 per cent from the year end and some 14 per cent from where it was four years ago, despite the fact that volumes have remained pretty stable and we have introduced substantial technological change.

We continue to see improvement in our Balance sheet. Net assets grow some 15 per cent to £2.7 billion at 30 June.

Cash fell to under £2 billion, mainly because of the £560 million which we put into the pension funds, and net debt accordingly rose to just over £1.2 billion.

The improvement in our financial ratios led Standard and Poors to increase our credit rating back to investment grade in June, almost four years after it had been downgraded to junk status in July 2003.

Cashflow from operations in the quarter was an outflow of £172 million – some £650 million lower than last year.

The fall was driven mainly by the £560 pension payment but also by working capital movements notably debtors which increased in Quarter 1 this year as opposed to reducing in the same period last year.

Capital expenditure in the period was £163 million – up on last year reflecting the delivery of one new A321 aircraft, spend on Terminal 5 and the new club bed.

The payments we have made into the pension fund totalling £800 million and the changes which were made have reduced the balance sheet liability to just over £0.5 billion and we see a continued reduction in our net debt position including pensions as a result.

We continue to actively manage our hedging portfolio taking longer cover predominantly in collars and shorter cover in swaps.

We have already included a £350 million provision being made in the year end accounts in relation to the investigations by the competition authorities.

The provision was based on the current best estimate of the amount that may be required to settle the investigations and claims.

We have now settled claims made by the OFT in the UK relating to longhaul fuel charges and the Department of Justice into Cargo and passenger fuel charges. These total some £266.5 million.

The rest of the provision remains to cover other outstanding claims.

We will make the DoJ payment shortly, but the OFT payment is likely to be several months away.

Also, as I know some of you have asked, sadly these costs do not attract tax relief!

Now turning to the outlook for 2007/08 itself.

In terms of current performance as we said at Year end and repeat today there are some weakness in non-premium segments notably on the North Atlantic and a slowdown in the growth of premium traffic.

Today we have also highlighted further impacts as the Heathrow terminals continue to operate above capacity our ability to recover quickly from unexpected events and disruption is impacted.

The position is also changed today because of currency movements as we expect the weak dollar to reduce our revenue growth by some 1.5 per cent. Accordingly we are now giving revenue guidance of around 4 per cent growth.

Cost control remains a key focus and having seen such a good performance in the first quarter we expect full year costs, excluding fuel, to be flat.
Despite exchange benefits we still expect our fuel bill to be up some £120 million some £20 million higher than previous guidance.

Although we continue to see high premium seat factors prior year premium RPK's will be hard to beat.

Last year we saw record quarter 1 profits and very strong performance overall to August 10 so we expect first half revenue including exchange to be slightly down on last year. Year on year revenue improvements will be predominantly delivered in the second half. In the first half cost performance should be good.

In the second half we hope to see some revenue growth as we sell more premium seats from the conversion of our aircraft to different configurations and seek to avoid the disruption of last year. On the negative side, year over year cost efficiencies become more challenging.

In summary as we said last year the financials of the business are sound and we have laid the foundations for delivery of a 10 per cent operating margin by March 2008 but we do need a favourable operational environment to get there.