BRITISH AIRWAYS PLC

FINANCIAL RESULTS
YEAR ENDED 31 MARCH 2003
ANALYSTS MEETING

Monday, 19 May 2003

BRITISH AIRWAYS PLC
Financial Results Year Ended 31 March 2003
Analysts Meeting
Monday, 19 May 2003

Lord Marshall: Good morning everyone, thank you very much for coming to see us. I am glad you all got through the security: it is getting to be like airports around here these days. As you have seen, we turned in a profit before tax of £135 million for the 12 months ended 31 March 2003 and this was after providing for the planned cessation of Concorde services. This compares, of course, with a loss of £200 million in the previous year.

The background against which this result has been achieved was one of unprecedented difficulty for an already weakened air transport industry. Accelerating economic downturn, the threat of war, war itself and then the onslaught of SARS conspired to make 2002/3 the worst period anyone can remember in our industry. The fact that our profit came from continued, determined cost reduction rather than revenue and yield improvement I think says it all. It also says a great deal about the airline and its commitment to business recovery. All of the targets set for the first year of the Future Size and Shape strategy were achieved, and we are confident of delivering the cost objectives contained in year two of the programme and in our business plan.

In the past year, £1 billion of costs have been taken out of the business and unit costs reduced by a further 5.6%. By September this year, the equivalent of 13,000 jobs will have gone, and great effort has been made to conserve cash and our net debt is at its lowest level since 30 September 1998. At a time when the industry as a whole is making quite staggering collective losses, I think that ours is a creditable performance. Rod, his management and all of the staff are to be congratulated on this achievement. In a few moments, John Rishton, our Chief Financial Officer, will present the numbers in detail. Then Rod will bring you up to date on the Future Size and Shape programme. Afterwards we will, as usual, be open to questions.

Before that, I want briefly to mention two topical items. The first is Concorde. The decision to retire the supersonic fleet as from the end of October this year was a difficult one to make and sad to relate, but it was prompted by compelling economic and technical evidence. The exhaustive review of Concorde conducted with Airbus Industrie concluded that there was no realistic prospect of operating Concorde beyond October 2003. The Concorde fleet will be celebrated in its last few months of service and then retired to places of honour in some of the world's great aviation museums.

The second item is the forthcoming White Paper on civil aviation policy for the next 30 years. We are active in the consultation process both on our own account and in association with others, and it is clear that Britain's economic development depends to a good extent on having a world-class international air transport system and that, in turn, depends on having an adequate infrastructure. We propose that the only sensible answer to the need for extra runway capacity in the vital South East of the country is to build on existing strengths at the country's one global hub Heathrow. In the meanwhile, economic going remains tough and the outlook is still uncertain. Our lower cost base and cash reserves should see us safely through any further difficulties. They will also give us a competitive head start when market growth returns. Now I shall turn over to John Rishton.

John Rishton: Thank you, Chairman, and good morning. Let us start with the headline numbers. In the three months to March 2003, our fourth quarter, the pre-tax loss was £200 million, £115 million worse than the previous year on turnover down £278 million or 14%. For the full year, our profit before tax was £135 million, £335 million better than last year despite turnover being down £652 million or 8%. Following a detailed review at year end, we concluded that the forecast £70 million Future Size and Shape restructuring cost was not required. In total, we have taken £80 million of restructuring all in the year ending March 2002, compared with our original estimate of £200 million, primarily reflecting the higher levels of natural wastage than we originally anticipated.

At the operating level, the loss was £164 million in the quarter, £119 million worse than last year. Excluding the exceptional Concorde write-off of £84 million, the quarter's operating loss was £80 million. Including the Concorde write-off, operating profit for the full year was £295 million, an improvement of £405 million on last year. The full year operating margin was 3.8%. Despite the improved annual results, the Board has again recommended no dividend.

The full year operating profit improvement of £405 million has again been driven by cost efficiencies. In the full year, costs were down by over £1 billion. Cost reduction in the quarter was

£159 million, despite fuel costs rising by £20 million, the Concorde write-off of £84 million and other one-off costs of £35 million relating to onerous leases.

The overall improvement in operating profit is reflected across all geographical sectors with America remaining the most profitable despite taking the full Concorde write-off. The improvements reflect the cost actions we have taken and in Europe, which is £127 million better than last year, the roll-out of the new pricing model.

We reduced capacity in all regions, with the largest falls in Europe reflecting the overhaul of our shorthaul model, and in the Far East where we stopped Manila and Taipei tag-ends, the Bangkok terminator and Singapore daylight flights. Seat factors were up everywhere except for the Middle East which was impacted by the Iraq war.

Turning now to revenue, this slide shows percentage changes in revenue compared with the prior year, with the quarters in blue and the full years in red. As you can see, revenue in the last year is down 8% on capacity down 7.9% in terms of ASKs. In absolute terms, that means that revenue was some £1.6 billion lower than two years ago. The Q4 revenue was particularly soft due to the threat of, and the actual, Iraq war, SARS, the timing of Easter and, of course, the continuing global economic weakness.

Looking at the yield side of the equation, this slide shows the yield per RPK is weak. In the quarter, yield was down 7.4% impacted by the factors that I have just mentioned. In the full year, yield was down 1.3% at 6.6 pence per RPK. The fourth quarter seat factor was 69.5%, down 2.6 points from the record levels of last year. In the full year, seat factors were up 1.5 points to 71.9%.

Now let me turn to costs. In the fourth quarter, capacity measured in ATKs was 2.9% lower than a year ago but costs were lower still, down 7.3%. So, once again, despite capacity reduction, unit costs improved by 4.5%. Net costs for the quarter were down 7%, reflecting reductions in most areas. Employee costs were down 3% due to manpower reductions, and Rod will cover these in more detail later, partially offset by annual pay increases. Selling costs are down some 35%, primarily reflecting reduced agency commission costs as well as the impact of lower revenue. Handling and engineering costs continue to benefit from improved efficiencies. Fuel costs are up 11% reflecting price increases, partially offset by hedging and exchange benefits. Other costs are up 8% reflecting the Jet Stream 41 onerous lease costs, increased depreciation and reduced recoveries, partially offset by other efficiencies, for example reduced contractor and consultancy spend.

In the full year, capacity was down 6.7% and costs were down 11.9%. As a result, unit costs fell by 5.6%. As you can see, for the full year costs were down in all major categories and in total costs were $1 billion lower than last year.

I have shown you this chart before: the blue bars represent net cost savings compared with the prior year, and the yellow bars represent unit cost change compared with the prior year. As you can see, we have reduced costs for the last six quarters and have been improving unit costs for the last five. Clearly, future cost reductions will slow as we cycle against this strong performance and as we face cost headwinds this year such as increased fuel costs, landing charges, national insurance and pensions. We expect the actuarial valuation of our UK pension funds, that will determine future contribution levels, to be finalised by October. In line with market expectations, the FRS17 group deficit for the year just ended was £1.2 billion. We will continue to account for pension costs under the existing accounting standard and to report FRS17 as a note to the accounts. Just to give an indication of the volatility, the deficit would be between £150-200 million less at today's market levels.

This chart shows labour productivity by quarter in blue and for the full year again in red. As you can see, manpower reductions this year have outstripped capacity reductions, resulting in improved productivity.

Liquidity remains strong. The cash balance of £1.65 billion is a record level for year end but it is down about £100 million from the December record balance. Realisable assets are also down about £100 million, primarily reflecting the fall in value of our Qantas stock.

Cash flow before borrowings for the year has improved significantly since last year: an inflow of over £1 billion compared to just £2 million last year and negative flows in the previous four years.

Turning to capital spend, we told you that our target was to spend no more than £450 million last year and we have beaten that target by £131 million. Next year our capital spend will be no more than £400 million, and we have achieved cash disposals of £611 million, some £111 million more than target. As you will remember, we have committed to delivering £900 million of disposals by March 2004. We will deliver the balance of £289 million in this financial year.

Our debt is $5.1 billion, the lowest level for nearly five years, down £1.4 billion from the peak and £1.1 billion from a year ago, and we will continue to reduce the debt. The debt repayment profile going forward is fairly smooth and, as you can see, it is down from last year's high levels of £797 million. For the next six years, debt repayment is scheduled at between £549 and £653 million per annum.

In summary, we have reduced our costs by over £1 billion. We have reduced our debt by £1.4 billion from the peak to its lowest level for nearly five years. We have increased cash levels to £1.65 billion, a record year end cash position. We have been cash flow positive by over £1 billion before financing. We have beaten our capital spend target and our disposals target. We have reduced European losses and earned a full year profit of £135 million. Thank you and now over to Rod.

Rod Eddington: Thank you John, and good morning everyone. Last year my priority was to deliver our Future Size and Shape programme. The results that John has just taken you through show that we have not only delivered the first year of the programme but we have exceeded all targets despite global economic weakness, war in Iraq and SARS.

This year my priority is to deliver the second year of the Future Size and Shape programme along with the new Customer Enabled BA and procurement initiatives that we launched at our Investor Day in March.

Let us review progress so far. At Investor Day we showed you what we had achieved by the end of December 2002 but since then we have made additional progress. We have beaten our 10,000 manpower target this year by 182 and our overall 13,000 manpower target date has been advanced to September this year because of the continuing effect of the challenging revenue environment. In total costs we have achieved £570 million against a target of £450 million. On disposals, as John said, we delivered £611 million against a target of £500 million, and our capex is down at £319 million against a £450 million target.

Let me remind you that Future Size and Shape is about returning to sustained profitability by reducing costs, by restructuring the shorthaul operation and simplifying our business. Let us look at some of the detail.

We have achieved the headcount reductions in both overhead and service delivery areas without eroding the quality of our customer service. We have reduced overhead staff by 27% and operational staff by 16%. As John has said, we set aside £200 million for restructuring and we will only be needing £80 million of this and that was provided for last year. We have achieved headcount reductions largely through natural wastage and the Business Response Scheme that allowed staff to take voluntary unpaid leave for as little as a month and as long as two years. Early retirement and voluntary severance have only been used in a very targeted way.

Turning to simplification. Customer Enabled BA (CEBA) is about making greater use of electronic technology for our customers and staff and is key to simplifying our business and reducing costs. These are some of the targets we have set ourselves to simplify our processes: 100% e-ticket, 50% self-service check-in and a 50% reduction in fare types. The new booking engine ba.com is still considered leading edge and has seen huge growth in the last 12 months. This graph shows the dramatic increase in the flown sectors. In March 2002 we made something like 15,000 bookings a week on line; today this has trebled to 45,000.

In April we had 5.4 million visitors to the site, that is an average of 180,000 a day with a look-to-book ratio of 10:1. In April last year, ba.com was generating about £1 million or revenue a week. Today it is well over £1 million a day. The development of ba.com continues to give our customers added flexibility and capability on line. E-ticket continues to grow and is strongest with ba.com booked sectors where some 77% of customers take e-ticket.

Let us look at some other areas where we have simplified our business. We announced the re-launch of the Executive Club which takes effect from July this year. We have moved from five regional programmes to one global scheme managed by one information management system instead of three. We have replaced 50 different alliance partner propositions with one consistent global award level for all airline partners, and we moved from 26 translations of the club details to five core languages: English, French, Spanish, German and Italian. We are aiming for 100% transactions available on line by March 2004.

Engineering, too, has delivered with a 20% reduction in operational inventory during the year. Short haul utilisation improved by 8.2% against a target of 10% to March 2004. The last turbo prop leaves Gatwick later this Summer, leaving us with just two aircraft types at Gatwick: Boeing 737s for short haul and Boeing 777s for long haul. The Airbus fleet is now all at Heathrow.

IT operational costs have been reduced by 32%, we have removed 40 systems, 550 desktop applications, 170 servers and 800 printers. Simplification is at the heart of our strategy to compete more effectively against the no-frills carriers. The new low fare model is now available on almost 6,500 flights a week spanning about 180 routes. Our customers like what we are doing. We have seen our losses reduce in Europe from £244 million to £117 million in our short haul business there.

Now let us look at seat factor. Seat factor performance has been consistently better when compared to two years ago, and has continued to improve in April this year. Higher seat factors in a very competitive market have allowed us to make the most of revenue in a weak market. The quality of our product as well as our booking engine and pricing is clearly critical to competing in this market.

We continue to be successful in driving short haul distribution on line. By March 2003, we had planned to have 33% on line and we have beaten this target by a wide margin and now sell 41% on line. In the domestic market, 49% of the non-premium point-to-point fares are now sold on line at ba.com. Aside from making us competitive with the no-frills carriers, on line distribution is key to reducing costs and supporting the growth of e-ticket. We are confident that we will be ahead of our March 2004 target of 50% of the non-premium point-to-point short haul distribution on line.

Let us, finally, move to what is happening to the market share in short haul and I would warn you that these slides are repetitive. In a word, BA's market share in short haul is stable. In the domestic market, both BA and the no-frills carriers' market share is stable. In the French and Benelux market, both BA and the no-frills share is growing and, finally, in short haul overall our share is stable while the share of the no-frills is growing at the expense of other carriers. We expect this trend to continue.

In summary, we are delivering on our Future Size and Shape programme and building a stronger business. Our priority now is delivering the second year of the programme and the further efficiencies that we announced at the Investor Day worth an extra £450 million. Our total costs, as

John has said, are down over £1 billion, cash is at record levels for year end, liquidity remains strong and debt is at its lowest for nearly five years. The business environment is still tough and the outlook remains uncertain. We expect first quarter revenue to be down on last year. Beyond that, it is simply too early to say but our company is stronger today and continues to improve. We are managing our costs and we will take advantage of a revenue recovery when it comes.

With that in mind, we have launched a powerful world-wide TV, print and poster advertising campaign and aggressive pricing called "It's time". The campaign reminds business and leisure customers, as its title suggests, that it is time to take to the air again. Here it is. [*video shown of TV advertisement*] Thank you. Chairman, over to you.

Question & Answer Session

Lord Marshall: Thank you very much, Rod and John. Now your opportunity to raise any questions, any issues that you would like to put to us.

Chris Avery: I have two questions. First, although the revenue environment is uncertain, can you just confirm capacity for the year a little bit up and, secondly, can you talk about whether you think the process is finished at Gatwick or, if things do not turn, whether you think that Gatwick may not be the right size?

Rod Eddington: If I may handle both those questions, Chris. On capacity, when we first looked at the year, we anticipated having reduced our capacity by about 20% over the last two years, putting a little more capacity into the year during the year, somewhere between 4% to 5%. We still expect to see an increase this year but it will be smaller than that. It might be 2.5% to 3% and it depends a little on what happens to revenue over the Summer and how we see bookings through next Winter. It is far too early to tell really but we would anticipate a very modest capacity increase.

On Gatwick, we have made very real progress there and in fleet terms we are down to 737s short haul and 777s long haul, and that is looking increasingly like the solution for Gatwick: to treat it as a regional airport as opposed to a hub-and-spoke airport, albeit that it is a regional airport based in London as opposed to elsewhere in the UK. We put a tad more capacity out of Gatwick this

Summer than we anticipated, a little more short haul flying, so it is a good sign for Gatwick, and I am confident that Gatwick's future is much more robust and that the model we have there now is much more workable.

Robin Horne (HSBC): In your statement, you mentioned that revenue deteriorated due to competitor actions. Can you give us a bit of colour in terms of where you are feeling the pressure on that? Secondly, could you give us some detail in terms of Deutsche BA and what your strategy is in the German market?

Rod Eddington: On DBA, our strategy is to sell it. On competitive pressure, it is pretty widespread. Clearly, pricing on the North Atlantic is still very aggressive. When our major transatlantic competitors are subsidised to the extent that they are, it is a simple fact of life that some of that subsidy ends up as cheap fares on the North Atlantic. That is true in the premium cabins as well as in the leisure cabins, and that competitor activity has been very aggressive for 18 months now. As John showed you earlier, our performance on the North Atlantic is strong in part because all our aeroplanes now have dusk out of Heathrow; we have committed to dusk the 777s out of Gatwick as well although the first of them does not go in until September this year. So we continue to do well on the North Atlantic despite the pricing challenges. That is also true of short haul in Europe. The no-frills carriers continue to price aggressively and we need to make sure that our competitive response is measured and appropriate, and we have done that too. Again, you have seen a significant improvement in our short haul profitability.

The war had a devastating impact on our loads to the Middle East and some of that has come back since the war finished, though it is by no means back to what it was. Equally, SARS has had a devastating impact on loads and yields to Asia, particularly to Hong Kong and now to Beijing as well. Therefore, if you look across the network there are challenges in all the areas we fly and, as John's slides indicate, in the fourth quarter we saw our yields down 7.5%, it was an extraordinary period. So the revenue environment is challenging, it is extremely difficult to read and that is why we have said it is far too early to make any sensible judgments about what the revenue picture for the year will be other than to say we expect revenue in the first quarter of this year to be lower than it was in the first quarter of last year.

Lord Marshall: Rod, having giving such a fulsome response on Deutsche BA, do you want to make some comment on City Express?

Rod Eddington: Yes, thank you. We have a senior team working hard looking at what challenges City Express faces. It is not just the London-centric element of our business that is challenged by the no-frills carriers and the general market toughness. It is also true for our regional operations and we have a team that is working hard on how we should respond. That includes making some changes to where we fly in the regions and how we fly. There were some announcements made a couple of weeks ago and there will be further announcements in the days and weeks ahead about what we are doing to our regional operation BA City Express to make it more robust and more competitive.

Martin Borghetto (Morgan Stanley): What do you need on the balance sheet side or cash flow side to resume dividend payments? Are you happy at the moment with the cash flow – clearly, yes, probably – but where do you need to go debt-wise to pay dividends again?

John Rishton: The Board decided to recommend no final dividend payment this year. The main element there is that, in these turbulent and uncertain times, the most important buffer that we have to protect ourselves is our cash balance and, while I am sure the shareholders would like a dividend, I am sure that most of them would understand that retention of cash at this point in time is critical. In terms of returning to the dividend payment, which we plan to do at some point in time, we would need to see much less uncertainty in the world than there is today.

Andrew Lobbenberg (ABN Amro): I have two questions. Could you give us some colour about how the kangaroo route is trading and how badly affected it is by running through the SARS area? Secondly, could you comment a little on what progress you expect in terms of the EU getting a mandate to negotiate with the US: do they have a hope of a mandate at the June meeting or not?

Rod Eddington: On the kangaroo route, we have made some substantial changes to our Asian operation including the kangaroo route over the last 12 to 18 months, and John articulated some of those. They include chopping the tag-ends beyond Hong Kong to Manila and Taipei, stopping of the Bangkok terminators and the Singapore terminators and those last two are relevant to the kangaroo route because, of course, we serve Australia via both Bangkok and Singapore. I believe we have the right balance of capacity into and out of the Singapore hub now. Qantas and ourselves are very much focused on Singapore as the hub for the kangaroo route, albeit that both of us operate a daily Sydney service via Bangkok as well. So we have a much better balance of capacity into and out of Singapore, and that has made a substantial difference to kangaroo route profitability.

In particular, the concern about SARS and Singapore has had some impact on that, and Qantas has made some significant ad hoc cancellations to capacity through Singapore particularly through the last few months. Given that we operate two services a day via Singapore, one to Sydney and one to Melbourne and Qantas themselves have a lot of capacity, we can trim flying on the kangaroo route and still have a very competitive frequency and schedule offering on the kangaroo route. So, yes, it has been affected but nothing like to the extent that our Hong Kong and our Beijing loads have been affected. Our Hong Kong loads has been devastated by SARS but we have been able to adjust the kangaroo route much more quickly and more appropriately.

Lord Marshall: We have cut the flights to Hong Kong in half.

Rod Eddington: From two to one and that is via Bangkok, so our crews slip there although last week they went back into Hong Kong, so we are now operating a daily non-stop service to Hong Kong but loads to Hong Kong are truly awful.

On the EU mandate, as you suggested the critical timescale on this is June. I think there is a real chance that the Commission and the Member States will get some agreement between them as to what this all means for traffic rights negotiations into the future. As you know, the European court made it clear that in its view Brussels has that mandate but the real issue concerns the details of that mandate and how it will be delivered. There were some discussions and debate between some of the Member States and the Commission over this. I believe there is a very real chance that we will get a broad agreement in June and the first priority is the North Atlantic, to try to get a European/USA agreement in place which would provide genuine benefits to both sides. Therefore, we have a much greater chance than if you had asked me three months ago, when I would have said I thought it was unlikely but I believe there is a real chance now that we will get an agreement.

Lord Marshall: A better chance of getting a mandate to Brussels than a deal with the US.

Rod Eddington: That will always be the challenge but at least Europe will now be able to negotiate collectively.

Andrew Light (City Group): I have a couple of questions. First, given your decision to end Concorde, do you think you are in a position now to extend that to certain aspects of First Class or First Class on certain routes? Secondly, can you tell us how much of the £117 million loss on European routes was contributed by Deutsche BA?

Rod Eddington: I will do the first part and perhaps John can do the second. The premium markets have been substantially impacted by the events of the last 18 months, that is obvious, and you have seen that as clearly as we have, Andrew. Many of you in this room know it because your own travel budgets have been affected and your own class of travel has been impacted, so I am not telling you anything that you do not already know. Concorde sits at the apex of the premium triangle and, therefore, it has been more affected. Corporate business on Concorde is down by 80%. You can always fill Concorde but it is the corporate business men and women who underwrote its viability for so many years and they do not fly it any more. That same issue is impacting our First Class business, that is absolutely right.

We know if you look at our First Class loads and revenues across our network that there are some routes where First Class is a substantial winner for us. There are a range of routes where it is borderline and there are a range of routes where First Class makes no money. That is true for all airlines. One has to say that genuinely flatbeds in business class has been a contributing factor to that but it is only one of many factors. I am sure that the greatest driver of the reduction in First Class travel is simply what is happening to travel budgets. Many companies are now saying, “we don’t care who you are from the chief executive down, First Class travel is out”.

As you know, we are going to configure some 777s later this year without First Class. We will configure them as three class aeroplanes: Club World, World Traveller Plus and World Traveller. That means that instead of getting 220 seats on a four class 777, we will get just under 280 seats on a three class 777 and there are plenty of markets where those additional seats are absolutely what is required in that market. There are many markets where demand for First Class is very thin but demand for Club World and World Traveller Plus is strong. Club World is strong and that is a very important part of our product offering. As we begin to deploy those aeroplanes on routes, that and what happens to the First Class market more broadly will help us make judgments about what the future of First Class is across the network.

I have absolutely no doubt that we will have a substantial number of our long haul aeroplanes – the majority of our long haul aeroplanes – with First Class on them. The B747-400 in particular is an aeroplane that you can configure neatly with four classes but it is much more difficult to configure a 777 with four classes. It will come as no surprise to know that the major routes where we make money in First Class are the biggest routes we fly where the volumes are strongest, so that even if the percentage of First Class passengers is reasonably small, there are enough First Class passengers for us to make good money and they are routes which, by and large, the 747-400s fly. So, yes, we are asking ourselves that question on a regular basis. We have committed to take First Class off some of our aeroplanes and it will be very useful to see how those aeroplanes go and what conclusions we reach vis-à-vis the rest of the fleet.

Lord Marshall: John, Deutsche BA impact on Europe?

John Rishton: DBA did have an impact on Europe but it was relatively small and we have not disclosed that specific number.

Stephen Clapham (Williams de Broe): You have disclosed the slots separately on the balance sheet now. Is that because of materiality? Can you say a little about the reasons behind it? On your response to no-frills, how far down the road do you feel you are now? Are you over half-way there, should we expect further initiatives?

John Rishton: You may remember that we changed the way we put the slots at the beginning of this year exactly for the reason that you said, they were starting to become more material and we disclose them separately under the intangible assets element.

Rod Eddington: On no-frills, that is a fair summation – about half-way. To some extent, this is a never-ending journey isn't it, but in terms of where we are on the curve, I think we are about half-way. We still do not have the optimum fleet short-haul, we still have too many large aeroplanes – 767s, 757s flying short-haul. Ultimately, we see ourselves in a situation where the vast majority, if not all, of our short-haul network is A319s, A320s and A321s. As you know, since we last met we have confirmed an order for A321s as part of the overall Airbus deal that BA struck in

1998, and we see that as driving our short-haul fleet. So on some routes we are still flying larger aeroplanes than we would like and the move towards smaller aeroplanes, greater frequency, is absolutely key to us. I would say we are about half-way up the learning curve.

We continue to make some changes to our on line booking engine, although the basic engine is right and the Fare Explorer is much more user-friendly. However, we are still making some refinements, as John and I said earlier this morning, to the way in which we give our customers flexibility, making it clear to them that, if they pay X pounds more, they get additional ticket flexibility and those sorts of things. Therefore, we continue to refine our on line booking engine and we are about half-way up the learning curve. It is clear to us that the mechanics of driving what we called Evesham, which was the no-frills model and different in Summer to Winter, is all part of the learning process as well.

Nick Van den Brule (BNP Paribas): There are a number of extra provisions apart from Concorde in the fourth quarter results. Could you just describe those? They are probably a collection of different things but if you could give us a flavour of that. On the fuel and fuel outlook, what percentage level are you hedged at the moment? Secondly, on the fourth quarter, what was the currency impact on the fuel cost?

John Rishton: On the provisions, the only other major provision in the fourth quarter was the £35 million to which I referred earlier in terms of onerous leases of which the lion's share related to the sub-leasing of the Jet Stream 41s in City Express, which is about £27 million. The balance of £8 million related to some property that we have come out of which is now empty, so we have some onerous leases there of about £8 million. Those two are the main items.

In terms of fuel, we anticipate that fuel costs this year will be about £100 million more than last year. In terms of our hedging, we are about 70% hedged for the first quarter, 45% in the second, 35% in the third and 30% in the fourth.

Fourth quarter foreign exchange on fuel certainly helped us. If you look at the various constituent parts of the fuel cost, the price was up significantly by about 60%, so a huge increase in price compared with last year. Hedging benefits substantially offset that increase in price and they were also helped by exchange which was worth about a third of the total increase.

Beth Fusco (Merrill Lynch): I have three financial questions if I may. The first is on your operating lease expense. You provided the aircraft lease expense. Can you please provide us the total operating lease expense including your property leases and other equipment leases, which I believe was around £450 million last year? Secondly, the onerous leases that you mentioned you incurred in the fourth quarter, is that continuing or not? Thirdly, on your pension expense, can you break out how much you accrued for pension expense and how much was cash versus the year earlier?

John Rishton: I shall start with the third one first and then I shall come back to the first one. On pensions the total amount of cash contribution to pensions in the last year for the group was £161 million, if I remember correctly, of which about £132 million related to the UK pension funds. So that is how much cash we put in. In terms of FRS17, that is not a cash element, it is simply an accounting note, so that does not affect how much cash we put in. In terms of the actuarial valuation, that is being done this year and we will know towards the end of the year – October time – what, if any, extra contributions are required that will determine the cash contributions going forward starting from January 2004.

As far as onerous leases, the £27 million accounts for the entire amount, so it is a one-off hit on the onerous leases. As to your first question on property and aircraft, I shall have to come back to you on that as I do not have the details in my head on property leases at the moment.

Beth: Could I just confirm how much pension expense was actually reflected in your income statement as opposed to the cash?

John Rishton: The £160 million. Under the old accounting standard SAP24 we would account for the contributions that we made.

Beth: Okay, just cash. Great, thank you.

Damien Horth (UBS Warburg): I have a couple of quick questions. Rod, you made some comments on the North Atlantic. I wonder whether you could make some more specific comments on the premium market post the war. We have heard some signs of green shoots of recovery but I wonder what your experience is. Secondly, on your optimism about the EU decision about making changes to the regulatory regime, does that change your view on European consolidation?

Rod Eddington: We have been very careful about what we have said, Damien, about future prospects as you know. Clearly, when the shooting stopped in the Middle East, people who had put off travel while the fighting was going on decided to get back into the air. However, given that SARS is still an issue and now we are seeing, sadly, some terrorism activity both in the Middle East and in Africa, the extent to which one will counterbalance the other I do not know. It really is far too early to say. We will through our monthly tracking stats ensure that you know what is happening not only in terms of RPKs generally, but we break out premium and non-premium, so you will get a sense of how the different markets are responding through May, June, July and August. It is an extremely complicated picture and it is very difficult to work out what the net-net effects will be.

We are coming into the Summer which is always a particularly busy time for leisure travel, and what we have seen through the last 12 months suggests that the leisure market is much more robust than some people had thought. Equally, the Summer is a relatively quiet time for business travel and the business markets, as we know, have been more adversely affected by the pot-pourri of issues that are challenging us all at the moment. Therefore, we have been very circumspect about making any projections as to what will happen to revenue other than to say in the first quarter we expect revenue will be lower than it was in Q1 last year.

On the issue of European consolidation, I am more optimistic now than I would have been three months ago about what will happen in terms of the Member States agreeing that the Commission has the mandate to negotiate. I believe that European consolidation will fundamentally hinge on getting the right agreement on the North Atlantic, because if we have the right agreement on the North Atlantic and if the ownership and control provision in what is currently the bilateral relationships in airlines in Europe have changes from French, German and British to European, that would be the backbone of any real opportunity to consolidate in Europe. That consolidation is overdue. The economic rationale for consolidation has been there a long time, Damien, and you know that as well as I do. The challenge is when are the political realities going to allow it to happen and for me the trigger will be an EU/US deal and an ownership and control provision that speaks to European rather than Member State.

I was concerned that following the court judgment some of the individual Member States would try to push the Commission to prevent them from taking real advantage of the court judgment as handed down. There is an uncharacteristic outbreak of pragmatism in this debate and that suggests that we may really get a deal here which would be terrific. However, I shall not be betting my pension on it, Damien.

Steve Franke (Morgan Stanley): On the credit facilities, can you give us a little bit of colour as to when they expire, what kind of covenant test do you have, what kind of requirements do you need to gain access to that money? It does not look as though you need it but can you just give us some colour on that please?

John Rishton: In terms of covenants along with the rest of our debt, there are no covenants associated with it. We have about £400 million of committed facilities at the end of the year. Some of those relate to aircraft in terms of funding aircraft but generally they are just committed facilities.

Steve: When do they expire?

John Rishton: There are three main elements to those committed facilities. The first is about $100 million which expires during the course of this year. The second is a long-term committed facility which amortises over a period of time, and the third by the end of 2004.

Steve: There are two in 2004 and one in 2005/2006 timeframe?

John Rishton: That is right.

Lord Marshall: Are there any other points which anyone wishes to raise? [*no further questions*] Thank you very much for joining us and we look forward to seeing you at the Interims in November.

\- *Ends* -