John Rishton

Thank you Chairman.

Good morning.

As usual, let’s start with the headline numbers.

Turnover in the quarter was up 8.2 % to £2.2 billion. This includes a 5.1 % improvement in passenger revenue, a 2.5 % increase in cargo revenue as well as a £77 million increase in other revenue, primarily due to fuel surcharges.
Turnover in the half year was also up 8.2 %.

The operating profit in the quarter was £261 million, an improvement of 6.5 % on last year. The profit was impacted by the Gate gourmet dispute - - I estimate the impact to be in the range of £35 to £45 million. There is no material impact on the comparators for the quarter as the company also suffered operational disruption in the same period last year. The operating margin was 11.8 %, in the quarter and 10.2 % in the half year.

Pre tax profit at £241 million in the quarter was down 17.7 % or £52 million -- the reduction primarily reflecting the non-recurrence of the £86 million profit on sale of our investment in Qantas last year.

PBT in the half year at £365 million was about the same as last year.
The Board has decided that no interim dividend should be paid.

This slide shows the percentage changes in turnover for the last five quarters ending September 30. As you can see, the first four reflect UK gaap and the last, IFRS. The main difference for British Airways, as you know, is under IFRS we defer revenue recognition for sale of Airmiles and BA miles to third parties.

The main point of the graph, however, is to illustrate the improvement of the revenue environment -- albeit that revenues are still well down from the 2000 peaks.

Seat factors remain strong -- the seat factor in the quarter was 79.6 %, up 1.1 points from last year. In the half year, we filled 77.6 % of our seats -- up 0.9 points from last year.

--- and, as you have seen, yields are stabilising. Yield per RPK is up 1.3 % in the quarter and up 1.5 % in the half year.

The yield improvement is driven by mix. In the quarter, price is slightly up, mix is up 1.1 % with exchange worse by 0.3 %.

Turning now to costs. In the quarter capacity in terms of ATKs was up 2.4 %, net costs rose 4.7 % primarily reflecting fuel cost rises. Consequently unit costs increased by 2.2 %.

Looking at the main cost categories in more detail, you can see increases in most of them. Employee costs were up 3.3 %, as manpower reductions were more than offset by wage awards. Fuel costs were up £139 million or 51 % to £410 million despite significant hedging benefits.

Engineering and other aircraft costs rose 2.6 % reflecting increased engine load and cargo freighter costs (we started a fourth freighter in September 2004). Handling and catering costs increased mainly reflecting the improved premium mix and the disruption due to Gate Gourmet. Selling costs continued to fall, down 21 % in the quarter due to agent commission restructuring and growing on-line activity – both selling and servicing.

Other revenue increased mainly due to rising fuel surcharges which partially offset the fuel cost rises. The only other cost issue I will mention is aircraft operating lease costs that were up nearly 15 % -- this is entirely due to onerous lease costs resulting from the planned sub lease to a third party of 6RJ100 aircraft currently operated by BA CitiExpress.

You have seen this slide many times before with net cost performance shown in blue and unit cost performance shown in red -- as you can see, our track record has been excellent at reducing both net and unit costs. However the last four quarters, have been heavily impacted by spiralling fuel costs.

-- and fuel prices continue to rise. This chart shows quarterly average jet kerosene prices in $ per metric tonne. As you can see, prices have increased from $244 in Quarter One 2003/04 to an average $631 in Quarter Two this year -- a 159% rise. And the forward curve is still higher.

As you know, we are well hedged with 81 % of our remaining requirements for this year bought at an average cap of $45 a barrel. And next financial year we have 50 % of our needs capped at an average of $55 a barrel. As you would expect, we have used options for most of this hedging and will participate, to some extent, in any price falls. However, as we lose the benefit of this years favourable fuel hedges, fuel costs are likely to rise again next year.

Cash flow remains strong and we have plenty of liquidity -- cash and committed facilities of £2.3 billion.

Net debt continues to fall. We are now at £2.4 billion; down £4.2 billion from the December 01 peak. Gearing is down 11.1 points from March at 54.4% for on balance sheet debt and down 13.3 points at 61.1% if I include operating leases. Both of these numbers include the benefit of fair value adjustments required under IAS39. And we now have 72 unencumbered aircraft, no widebody orders and the next narrowbody delivery is not for twenty four months. We will continue to reduce debt albeit more slowly as we have fewer disposals and start to pay cash tax.

October traffic statistics were also released this morning. Traffic volumes were good - - up 6.4% compared to October last year. Capacity was up 5.7% giving passenger load factor up 0.5 points to 74.7%. Premium traffic rose 6.8%.

This month’s traffic is a continuation of the trend in mix improvement, which supports the yield.

In terms of the outlook for the rest of the year, we have increased our revenue guidance by 0.5 points to between 6 and 7 % up on last year. This reflects a slightly more optimistic view on yields that we now believe will be slightly up rather than flat. Capacity growth is still projected at around 3 %.

Fuel costs continue to be a challenge for the industry but our guidance is unchanged with total fuel costs still expected to be up £525 million this year. We continue to project non-fuel costs to be broadly flat.

Capital expenditure this year will be no more than £350 million -- £50 million lower than my previous forecast.

So in summary, I think those are reasonable results in view of the huge increase in fuel costs and disruption in the quarter.
But it is clear that we must pursue further cost reductions.

Thank you.

Now over to Willie.

WILLIE WALSH
CHIEF EXECUTIVE

Good morning and thank you John. As this is my first set of quarterly results since taking over from Rod as CEO, I thought it might be useful to talk about some of the key issues facing the business in the short to medium term.

There is no change to the business plan priorities and these are, first and foremost, fit for Fit for 5, which is the name given to the internal programme to prepare British Airways for the move to Terminal 5 in March 2008. It is the most significant challenge and the most significant opportunity that we face. T5 means that we shall be doing things in a different way and I shall come back to that in a moment.

The second priority is investing in our products and people. Prior to 11 September, we had invested heavily in our products and we were fortunate at that time to have an excellent product, which was unmatched by any of our competitors. In the immediate aftermath of 11 September, we adopted a very aggressive approach to capital expenditure and, while this has helped to transform the balance sheet, we accept that some aspects of our product have suffered as a result of the lack of investment. However, we shall make sensible investments in our products where they are driven by customer demand and generate a financial return to the business.

Our third priority is to build a competitive cost base and this is a critical issue, and our current cost performance is not good enough. We need to re-energise our efforts to deliver more. Simplification is the key to driving our cost, and I shall talk about this again in a moment.

Finally, we remain committed to achieving an operating margin of 10%. I believe that this target is both relevant and achievable, and delivery of our business plan will be critical to moving us towards this goal.

Coming back to Terminal 5, it is the most significant opportunity and the most significant challenge that we face. The move to a single campus operation in March 2008 will provide us with the opportunity to transform the way we operate at our home base at Heathrow. The move from T1 and T4 will provide us with significant economies of scale. It will enable us to introduce new, more efficient and more relevant ways of working. The new terminal will represent a massive improvement for our customers, greatly enhancing the customer experience at Heathrow. Our aircraft operations will be more efficient and will allow us better to integrate our aircraft and our schedules and, importantly, Terminal 5 will give us room to grow when the T5 campus expands in 2010 and 2011.

Looking beyond some of the business plan priorities, I just want to talk about some of the other issues that we face. Firstly, industry consolidation. We operate in an industry that is brutally competitive and many airlines today still face challenges to profitability. At British Airways, we remain very much focused on fixing and strengthening our business. The industry is fragmented, there are over 300 airlines and while the track record on consolidation is not very positive, we believe that consolidation will benefit the industry. Progress towards real consolidation, however, has been hampered by the ownership and control restrictions in the Air Services Agreements that regulate our industry.

Consolidation can take many different forms. We are always looking to acquire slots from other airlines at our home base of Heathrow, thereby consolidating our position at Heathrow. We are equally alert to the possibility of a transformational transaction but, contrary to media speculation, we are not active at this time. In the absence of any M&A activity, we shall continue to develop commercial relationships with other airlines.

On the issue of Open Skies, there has been considerable speculation since the negotiations between the EU and the US reopened in October, and the indication at this stage is that some progress has been made. However, little, if any, discussion has taken place on the substantive issues of market access and ownership and control.

The Commission’s mandate to negotiate an open aviation area between the EU and the US should lead to a level playing field, and that should be welcomed. The only question for me is when is agreement going to be reached. I do not believe there is any doubt that agreement will be reached at some stage; we just have to question when will that happen. Any deal that removes market access restrictions from Heathrow for airlines, and that includes British Airways, is likely to see a capacity switch from Gatwick and other airports into Heathrow.

Heathrow, as the Chairman has said, is already a very competitive airport. We have four competitor airlines operating on most key transatlantic routes, and we have clearly demonstrated that we can compete and compete effectively in this environment. We have no fear about our ability to compete if new airlines enter the market. An Open Skies agreement will not require British Airways to give up any slots at Heathrow, so any airline that wishes to serve Heathrow will have to acquire slots from the slot pool from carriers currently serving the airport. Even if they do acquire slots, the issue of terminal capacity and aircraft parking stands, particularly in the pre-T5 environment, infrastructure at the airport is a significant hurdle in the short term. This issue must be reflected in any agreement between the EU and the US. We cannot and we will not accept a deterioration in the standards at Heathrow. Sufficient terminal capacity should become available once T5 has opened and the central terminal area is redeveloped.

Turning to our shorthaul business, there are three distinct parts to the British Airways shorthaul operation: Heathrow, Gatwick and the regional operation. All parts of our network must contribute and must move the business towards the target of a 10% operating margin. Following on from a recent review, we have decided to retain a two class operation at Heathrow and at Gatwick. We shall, however, make targeted changes in each of the three shorthaul segments. At Heathrow, we shall address the operations with the Fit for 5 programme. At Gatwick, we have set challenging cost and revenue targets, and that programme was launched in September this year. Our regional operations will be restructured and we shall announce details of these changes early in the New Year. The financial performance of our shorthaul operation continues to improve and we expect to return a profit on our shorthaul operations this year.

Fleet is a critical issue for us. We are, however, very fortunate that the British Airways longhaul fleet consisting of 57 747-400s, 43 777s and up to 21 767s is relatively young at an average age of just under 10 years. Therefore, fleet renewal is not an issue, is not required and is not under consideration at this time. We currently operate 11 767s in the longhaul configuration, and we can grow our longhaul capacity by converting additional 767s from shorthaul to longhaul. Equally, we can grow our premium cabin capacity by reconfiguring existing longhaul aircraft. We continue to evaluate longhaul options but we shall not take delivery of any new or additional aircraft before the move to T5 in March 2008.

Our shorthaul fleet is even younger and, with the exception of one A320 due for delivery in November 2007, we have no plans to take any aircraft before T5 in March 2008. We can, however, grow our shorthaul capacity by improving aircraft productivity and by reconfiguring the cabin of the existing aircraft by installing modern space-saver seating. Critically, any new fleet decisions will be based on the economics of the business and will focus very much on sustainable and profitable growth.

I want to return now to the issue of costs and our efforts to build a competitive cost base. Given the competitive nature of our business, this is a critical challenge to us. We have to control and reduce our cost base, and our current performance is not good enough. Therefore, we shall re-energise our cost reduction programme in order to position the business for profitable and sustainable growth. We must be aggressive and relentless in managing the cost base, and that is all aspects of controllable costs. We shall focus on simplification. We shall eliminate activities that are no longer relevant to the business. We shall drive out complexity, which will facilitate targeted manpower reduction. By driving down our unit costs and by driving the business towards the 10% operating margin target, we shall be able to generate sufficient funds to invest in our products, in new aircraft and in our people. We have clearly demonstrated over the past four years that you can improve your unit cost performance by continuing to provide a world-class customer service. It is clear that we have achieved a lot but we are very confident that there is more available to us to achieve. Thank you.

Question & Answer Session

Edward Stanford (Cazenove): Could you perhaps shed some light on the extent to which the Pension Regulator may influence your decisions to pay a dividend in the future?

Martin Broughton: The Pension Regulator is one of the issues you have to take into consideration when looking at dividend or any major corporate activity. There is a recognition today of the new role of the Pension Regulator. It is still being clarified as to how much involvement the Regulator will want in various businesses. It is very clear that companies with large pensions deficits like ourselves will be higher up the list of the Pension Regulator than others. John, do you want to add anything on that?

John Rishton: No, that is everything.

Jonathan Wober (HSBC): John, you mentioned in your comments about next year that you would expect a further increase in fuel costs. I do not expect you will give us any numbers at this stage but if you could give any guidance in terms of next year? Also, related to that, I wonder whether you feel there is any further scope for increasing fuel surcharges beyond current levels if there is no longer any increase in the market price of oil? My second question relates to the Chairman's initial comments about US ownership restrictions and the proposal there. I wonder whether you could elaborate further on what you think would be a meaningful proposal – you said this was not a meaningful proposal?

John Rishton: On fuel, Jonathan, you are quite right, I shall not give you any guidance for next year at this stage. We shall pick that up later on, almost certainly at our Investor Day. Trying to forecast fuel costs even for this year is a challenge for the Board that we have seen recently but, as I said, with fuel prices where they are today, you would expect fuel costs to go up again next year.

In terms of surcharges, we continue to monitor the situation on surcharges. They have worked well to date but we have no plans to increase them further at the moment.

Martin Broughton: On the EU-US ownership issue, Willie made the comment about the bilaterals, and you have to put this into context. The historic chronic unprofitability of the airline industry is the bilateral structure of regulation. It prevents the normal rules of the market working, it prevents the survival of the fittest which results from the normal rules of the market working.

What we are seeing at the moment is a huge opportunity to break that system, and what we see on offer is really an extension of the bilaterals. The big offer from the US so far has been to recognise almost 40 years after the Treaty of Rome that the EU exists, and that you want to transfer the bilateral system from a member state bilateral to an EU bilateral, but it is an extension of the bilateral, and it continues to have the current 25% ownership rules. This is an opportunity to have a genuine transatlantic barrier-free aviation market, which will lead to the complete breakdown in the bilateral system. This would then set a precedent and you would see a domino effect around the world, and you would get the end of our bilaterals. That is the opportunity that the EU open aviation area offers, and it is not something which should be thrown away when you have the best chance of achieving that. Therefore, to go and accept something that really plays around at the edges and says as long as it is still a US President and a US leadership in the management, we will allow a foreign company that has up to 25%, or maybe up to 49%, to have a little more influence over operations. What kind of offer is that frankly? It is a complete waste of time.

Chris Avery (JP Morgan): Following up on that reasonable line set here in London, it is Brussels that has negotiated with an EU mandate. What is the risk that the UK's voice is overruled in the EU's haste to do a mini deal and Heathrow does get opened up early before the terminal facilities are available, it would still give rise to a significant increase in short-term competition and a reduction particularly in business class fares into Heathrow? That is my first question. Secondly, on the new revenue guidance for the full year, if I work it out that presupposes second half yields could still be down and the last revenue fuel price surcharge went on just at the start of the second half, isn't that a little pessimistic to think that all the benefits of the fuel price surcharges in a Winter over a previous Winter – is the risk on your revenue on the upside, would you be prepared to accept that?

Martin Broughton: A quick answer to your first question is that there is a very substantial risk that the EU will reach an agreement and waste the opportunity.

Willie Walsh: To comment on the EU, I have met with the Transport Commissioner who understands that this is a unique opportunity to do a deal that really transforms the industry. Therefore, I do not believe they are completely out of line with the view that we have expressed. When people stand back and analyse what is being proposed by the US, they will say that there is really very little new in it. That is our initial assessment of it. I fully expect that that will be the assessment of any rational observer of what is going on.

John Rishton: Chris, as far as the revenue guidance, we have not seen any significant change in the market conditions as the Chairman said in his statement. They are broadly unchanged but we are continuing to see some improvement in the mix, driven largely by the growth of leisure premium traffic. It is really difficult to forecast a revenue outlook but, based on where we are today, we are confident that our 6-7% guidance is right but, frankly, with rising fuel costs starting to flow through the economies, it is not clear how that will affect the economy and it has not been so for some time. It is not clear whether the reasonable capacity growth that we have seen in the first half of the year will continue in the second half of the year. We have all heard that the US carriers are talking about putting further capacity onto the Atlantic. With those provisos, we believe that this is a reasonable place for us to be at the moment.

Nick van den Brule (BNP Paribas): I take the point about no slot concessions for opening up Heathrow, but if you were to reapply for anti-trust immunity, presumably you would expect some slot concessions given that there is a different negotiation there. If I remember correctly, the last time the Department of Justice had asked for 200 slots to be conceded, so would you be looking for something less than that in order to obtain anti-trust immunity for American? Also, in the context of timing, if there were an Open Skies, whether it is a good one or a bad one, how rapidly would you move to make the application for anti-trust immunity with American Airlines?

Willie Walsh: We shall only seek anti-trust immunity where we believe that it benefits the business and we shall not look at anti-trust immunity where there is a significant slot penalty – I would argue where there is any slot penalty in the circumstances. The issue for us is that Heathrow is our home base, we have a reasonable slot portfolio at Heathrow, we are not giving up any slots at Heathrow. Therefore, new airlines wishing to enter Heathrow will have to acquire slots from other carriers. If a deal is done, we shall move very quickly to respond to any opportunities that are made available to British Airways, and there are opportunities.

We operate routes out of Gatwick that we would like to operate out of Heathrow, so we know exactly what we shall do and we shall move very quickly to do it.

Andrew Lobbenberg (ABN): I have three questions if I may. JAL are joining Oneworld, what opportunities does that bring to you? Secondly, you have gone through a couple of months with disruptive catering on shorthaul. What has that taught you about consumers' acceptance of a voucher for a Pret à Manger sandwich, and what opportunities does that open up? Thirdly, on the October traffic data, premium grew faster than overall traffic but the wedge between premium and overall was somewhat smaller than we have seen in recent months. Is that a clear trend that you see going forward, or are you thinking that that gap will widen back up to where it has been recently?

Willie Walsh: We have worked closely with JAL over the years and I see that their potential entry into Oneworld, or their decision to enter Oneworld, as being positive to the business. It will help to strengthen the relationship that we have with JAL and we look forward to working with them.

On the issue of catering, we have conducted quite a lot of customer research over the period and the results that we have seen have been no great surprise. Catering is an important part of our product, it is very important to our customers and we shall continue to supply our customers with the products that they want and are prepared to pay for. It is clear, however, that we can make changes and we do make changes all the time. We may make some minor modifications to the product that we have on board the aircraft, but we shall retain catering and refreshments on the aircraft moving forward, because we believe it is the right thing to do and the customer research we have done clearly demonstrates that.

The October passenger figures are a good result. Growth in premium traffic of 6.8% is positive and we are seeing no change in the demand that we have witnessed in recent months, so we do not anticipate any significant change going forward.

Owen Gibbons (Cheuvreux): I have two quick questions. One is on the landing and route charges, which were flat in the second quarter. Could I just ask if that is a combination of mix between ATC and charges at Heathrow going up well in excess of RPI, or is it simply down to the disruptions, because your capacity was still up 2.2%? Secondly, on the pensions, you said in the release that in 2006 we shall discuss options to address the issue with the trustees and unions. If you are going to pay a whole lot of cash in, you probably will not need to speak with the unions, so is my assumption in the statement, therefore, that you will be discussing the possibility of either employees paying higher contributions or of you giving lower benefits? Could you talk a little more about your thinking on that at the moment?

John Rishton: On the first one concerning landing and route charges, you are right that there is a mix of things going on there. There are price increases in some areas offset by price reductions in others, so we have negotiated price reductions in some other airports we fly to outside of Heathrow which offset the increase we are seeing at Heathrow.

Willie Walsh: On pensions, the critical issue for us is that we have to address the deficit. The exercise we are engaged in at the moment is to inform our people around the nature of the problem so that they can understand why the deficit exists and what will happen going forward if we do not address it. That is an important issue for us to do before we start tackling or facing solutions to the problem. However, it is clear that changes will have to be made. The deficit is real, it will not go away, it will not sort itself out. We have made it clear that we shall have to change our arrangements going forward, that is something that we shall have to do through negotiation with our trade unions and through the agreement of the trustees, but we are at a very early stage yet. The critical issue for us is that we address this situation and resolve it once and for all. We do not want to make the mistake of trying to address it now and then having to come back again or even a third time around as some organisations have had to do. Therefore, to do it and to do it properly, people need to understand what the problem is, how it has been caused, what will happen going forward if things do not change and then we shall engage in negotiation with the relevant stakeholders to ensure that we resolve the issue.

Mike Powell (DRKW): I have two questions. The first is on Terminal 5, I believe you have mentioned the number of £300 million as a cost for moving over to T5. Could you break that down for us a little, I assume it is a capital cost, and what kind of things will you be spending that money on? Also could you tell us if there will be any kind of cost duplication on pure operating costs during the transition period when you move from the existing facilities into the new ones?

My second question concerns capacity growth. We have become quite used to a run rate of perhaps 3% or 4% in terms of capacity and it seems to have been picking up in recent months to 5% and almost 6% in the last set of figures you have just produced. Why is it that you are growing capacity, how are you growing capacity given that you do not have any increase in the number of aircraft in the fleet, and what kind of capacity growth will you look for this year and next year?

John Rishton: I shall take the T5 question. The £300 million is capital spend, that is an approximate number we have put out and we shall get back to you next year with more detail in terms of the spend and the transition costs. The spending will be for IT, accommodation, lounges and all those kinds of things, some of which is substitutional for the spend we would have made whether we stayed in T1, 3 and 4, so it is not all incremental. For example, as far as our lounge expenditure we would have to refurbish our lounge at some point in time, and this is an opportunity to do that. There is also some spend on vehicles, so it is a mixture of all those kinds of items, but we shall go through that in more detail in 2006.

As far as the transition, again, that is a topic that we shall pick up on in more detail next year and it probably isn't something that we shall cover today.

Mike Powell: In that list, you did not mention the baggage handling system. Is there an issue there between whether or not you lease it or buy it off BAA in advance, so could that £300 million increase by quite a substantial amount if you chose to own it yourself?

John Rishton: The simple answer to that would be yes. There is an issue around who pays for it and how we pay for it. Our preferred solution to that is that we pay for that on a usage basis rather than owning it and I think that is where we shall end up.

Willie Walsh: On the issue of capacity, some of the figures in recent months are flattered by the fact that we have taken capacity out this time last year. So we shall be able to continue to grow capacity using better integration of our aircraft. We have improved aircraft utilisation. I believe our shorthaul utilisation has increased by about 15% since 2001, and there is still scope for us to improve shorthaul utilisation. We shall get a step change in utilisation when we move to T5 because we can better integrate the schedules in T5, but we can continue to get increased utilisation out of our aircraft between now and then. As I have said, we shall address the issue of seating capacity. As far as longhaul capacity, we shall configure some of the 767s that currently operate on shorthaul into longhaul. We shall reconfigure some of the existing longhaul aircraft to give us growth in the premium cabin, so it is very much targeted at where we see demand for our products and we can adjust our configurations to take advantage of that demand.

Mike Powell: Can you put a number on capacity growth this year and next year?

John Rishton: For the full year it is about 3%.

Andrew Light (Citigroup): I have two questions. First, on the cost side can you put an order of magnitude on the kind of cost reduction ex-fuel you would like to see eventually? Secondly, on capital spending would you expect it to run at about this level of £350 million a year for the next three years, even including the T5 investments? With the surplus cash flow, would you just build up the cash or would you continue to pay off debt early as you have done in the past?

Willie Walsh: On the magnitude of cost reduction, I shall not put a figure on it but what I shall say is it is very clear that our performance has slipped in the last few months. The unofficial industrial action on 11 and 12 August was a distraction to the business and we need to get back to doing what we have done well over the last four years and re-energise that cost reduction programme. Our intention is to become much more aggressive in terms of how we manage our costs, not just in controlling costs but in looking for opportunities to drive down costs. If you analyse our cost base, we have about 30% of our costs in payroll, 20% in fuel and then 50% making up the rest. There are very significant opportunities for us to control and reduce costs right across the board. We have made significant advances in terms of selling costs, that continues to be the most significant area of cost reduction. However, in ba.com we have an excellent website. It is not only a tool for selling but an excellent tool for servicing our customers as well and we expect to see further benefit from that. It will very much be a case of looking at every single aspect of the cost base, questioning whether we are getting value for the money we are spending and looking to improve the cost performance right across the board. In any area where we can control the costs, we shall attack that and it is just a case of getting back and re-energising the focus on cost control.

Andrew Light: Are these opportunities beyond the £350 million you identified in the business plan last year?

Willie Walsh: The £300 million target that we have said we shall deliver by March 2007 we shall deliver on that. So we are determined to deliver on the commitment to achieve that £300 million saving by March 2007, and we shall look at every aspect of the cost base. I do not like picking out one, because it is a case of focusing in on everything.

John Rishton: On capex, I would say for the next three or four years we shall be cycling around the £400 million mark, a little bit plus some years, a little bit minus some years depending on the spend, for example, on things like T5 as that falls out, but it will be that kind of level. As far as the cash flow as a consequence, we shall continue to reduce our debt and we shall look for opportunities to make early debt repayments.

Steve Frank (Morgan Stanley): Have you done any scenario planning on the potential impact of bird flu and a pandemic, and can you give us an idea of what your thoughts are? I know it is rather a grim thing to talk about but we would like to know what your thoughts are and how these would drive things. Also can you give us an idea of what kind of distressed assets in the US you might find particularly attractive, and at what point do you think the competition and business out of Stansted really starts to have an impact?

Willie Walsh: On the issue of flu, we need to be careful here not to talk up a situation, so we are very much focused on the facts and we have analysed the potential issues. It is an unfortunate thing for people in the airline industry to have to say that we have experienced quite a number of crises over the last few years. We are very clear about what we can do and what we shall do, and we shall move very quickly if there are any signs that would concern us. However, we are not getting carried away by media headlines on this issue. Our analysis is that the issue is in no way as large a crisis in reality as the media would make out at this stage, and we have to focus on what could realistically happen. If there are difficulties, we shall move quickly to address the situation, so we know exactly what we would do.

As far as competition, we face new competition all the time. That is an indication of just how competitive it is. People talk about and focus on Heathrow but we face competition in every aspect of the route network that we have and we are likely to see competitors come and go. We treat all new competitors seriously. There is no doubt that the operation at Stansted will be attractive to some people, to others it won’t. Many of our customers want certainty, they want to know that there is some back-up, they want to have options to change, so the schedule that we provide is critical. We shall continue to focus on what we do well and continue to focus on providing the customer service that we are renowned for, so I have no doubt that we shall be able to compete successfully who comes into the market.

We have an excellent track record, which is something we can say with confidence. We have faced up to new competition right across our network and have done so successfully. If you look at our financial performance, we are one of the few airlines in the world that is making progress, and we are doing that because we are very targeted. We are doing that because we recognise the competitive nature of the industry, and we recognise that there is still more that we can do. That is why I have said today that we need to get back to re-energise the focus that we have had on cost control and cost reduction to ensure that we are in a competitive position. Therefore, the challenge for British Airways is to continue to offer a world class service but to do it whilst continuing to reduce our unit costs. It is clear to us that, while we have achieved a great deal in recent years, there is still more that we can do and still more that we definitely shall do.

Martin Broughton: That is a very good summary on which to bring proceedings to a close. Thank you very much.

- *Ends* -