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PRESENTATION

Martin Broughton - *British Airways - Chairman*

Good morning everyone and welcome. I think it's obvious to everyone that we're facing a grave economic crisis in the aviation industry, and that's scheduled to last considerably longer than originally anticipated.

That's reflected in the results that we've announced this morning. The fourth quarter of last year produced our worst financial performance on record. And the current levels of traffic, both in terms of volume and yield, show no improvement.

Forecasting, even in the short term, is becoming increasingly difficult and accordingly we have decided not to give any guidance but will, of course, continue to publish the monthly traffic stats. In light of these conditions the Board has determined not to pay a dividend.

However, while in the past our financial performance suffered through poor operational performance that is no longer the case. We are achieving record levels of punctuality and record customer satisfaction ratings. And that can only bode well for the future when the market recovers.

We need to ensure that we are the leading global premium airline, so that in the long term there'll be a strong correlation between operating performance and financial performance. There is some evidence that our significantly improved operational performance is already reaping benefits.

Every month when we see our traffic stats it's easy to get depressed. But when we see the IATA industry numbers, and then we realize we are in a relatively strong position and picking up market share. And it's nice to see us more determined to continue to focus on improving customer service despite the difficult conditions.

Merger talks with Iberia continue, though at a slower pace than originally envisaged. Our pension deficit is a concern for Iberia but we remain confident that this is an issue that can be resolved.

As mentioned on Investor Day, corporate governance remains the main issue between the two airlines. And by corporate governance what we mean is a governance structure that enables the synergies to be achieved. And in the current economic crisis when both airlines are focused on their own individual businesses it's inevitable that these discussions will be protracted.

I'm going to leave Keith to discuss the detail about pension funds, and there's a lot of detail in the accounts, but it's little wonder that the Spanish have such difficulty understanding them. It's clearly time that the actuarial and accounting worlds got together and recognized the folly of having mechanical processes in place that produce such divergent results, neither of which really seem in touch with reality.

If you look at our balance sheet you get the impression that the pension fund situation has improved whereas the actuarial assessment will show you a significant deterioration. Both methods use asset and liability measurements that do not reflect the way pension funds are actually run. And it's time that the whole system was overhauled to help shareholders and not just the Spanish understand what the real situation is.

I'll pass over to Keith. Thank you.

Keith Williams - *British Airways - CFO*

Thank you Chairman and good morning everyone. There has been and there continues to be speculation that some economic recovery is around the corner. So although that may well be the case, and it's true that airlines sometimes lag general economic recovery, at British Airways we've yet to see any signs of revenue improvement.

Looking backwards we predicted very challenging conditions for our fourth quarter to the end of March and were unfortunately not disappointed, fourth quarter revenues declined by 8% despite being helped from exchange. And it's the first decline we've seen since 2007.

We still delivered on our latest financial forecast for the year, but this was achieved more from making greater progress on costs and was against a slightly weaker revenue picture than we'd envisaged. In the end the revenue for the year was up just 2.7%.

Now this might not be altogether surprising as economic forecasts also fell away in the early part of this year. For example forecasts for the UK GDP fell from 1.9% in the quarter to March versus an earlier forecast of 1.5%.

It's against this backdrop that we're seeing poor conditions continue as we start this year. We're experiencing significant yield reductions to achieve more stable passenger volumes. The first quarter, indeed the first half, will be difficult from a revenue perspective. And as the Chairman said, given the current environment we don't think it appropriate to give any guidance. I'll come back to that later.

The key to performance this year will be the timing of any economic recovery if any and our ability to drive out costs from the lower capacity. And Willie will talk you through in a moment the capacity plans that we have in place for the winter on top of the capacity reductions we've planned for the summer.

It's also apparent from recent economic forecasts that airline traffic is likely to remain below its previous trend over the short and medium term. We will therefore need to readdress the cost base to match to the new environment. I shall cover this off in a bit more detail in a moment, but firstly let's talk you through the results.

Now the results for the year were in line with forecast as I said. Revenue was up 2.7 percentage points, but if we strip out exchange benefits on an underlying basis the revenue was down just under 4%. Costs were up, driven largely by higher fuel costs which were up 44% year on year. Excluding fuel costs, were up just over 7%, again driven largely by exchange. On an underlying basis, as I'll show you in a moment, costs were flat.

The operating result for the year was a basic operating loss of GBP142m, on top of which we've incurred GBP78m in respect of restructuring costs, leaving a resulting operating loss of GBP220m and pre-tax losses of GBP401m.

And if I turn to quarter four, we'd already spoken at Investor Day in early March on the expected slowdown in the fourth quarter. We were expecting passenger revenue at that point in time to be down more than 5% and in the end it was down 8%, firstly from the poor weather that we saw in February and secondly from weaker yields.

Cargo similarly was much weaker than anticipated with revenue down some 17% and that left the total revenue picture down just over 8%. However to stop there would give a flattering view of the revenue in the quarter. Adjusted for exchange impacts revenue was down on an underlying basis just over 20%.

The rate of increase on fuel costs slowed down through the quarter and fuel was still up 33% at GBP725m. Similarly the rate of increase on non-fuel costs slowed to around 6%. Now that may not sound impressive but again if we strip out exchange costs in the quarter, non-fuel costs were down some 5%.

This resulted in an operating loss for the quarter of GBP309m. Now this is the single largest quarterly loss in the company's history. It goes without saying that the rate of slowdown in the second half of the year and into quarter four has been dramatic. GBP140m profit in the first half has turned into a GBP220m operating loss for the year.

Now if I briefly touch on the split of the revenue. Passenger revenue was up 3.1%, cargo revenue was up 9.4%. Both were driven up in part by fuel surcharges, particularly in cargo, in the first half of the year and from exchange, mainly in the second half of the year. Underlying passenger revenue was down 2.9% and cargo revenue up just over 1.3%.

Now looking at the key statistics, I mentioned the dramatic shift that we've seen during the year, and you can see that effect if we look at the statistics firstly for the 12 months and then I'll show you the statistics for the fourth quarter.

Over the course of the year yields were increased by almost 7%, on volume in terms of RPKs off just over 3.4%, with ASKs roughly flat that left the seat factor down just over 2% to 77%. On the cost side, unit costs increased as a result of fuel, exchange and the volume effect of the move into Terminal 5.

So that's the statistics for the 12 months, but if you look at the statistics for quarter four there are a number of key changes. And the immediate one is the yield decline which I'll come back to in a moment. And it's difficult to find some good news in quarter four. However I would point to two things that we've been able to move on.

The first is that we've managed to fare fairly well on seat factor but it has taken significant yield reductions to achieve. The second is that we've been able to take out costs because we've reduced capacity. And for the first time in the year we saw an improvement in underlying costs and unit costs, and I'll come back to both of those in a moment.

So looking firstly at the yield, in the first half of the year, as you are aware, we were able to maintain significant price increases from both basic prices and fuel surcharges. In the first half of the year reported yields were up some 10% without any impact on volume.

The impact of the financial crisis has been brutal. We first started to see volume declines in September, and with the impact of the economic slowdown, the financial slowdown, and the decline in public confidence this gained pace very quickly.

Now I remember a number of you asking at the half-year in November about yields. And we answered at the time that we had very strong yields and that was better than not in that it gave us the ability to respond with low prices if volumes declined. And that's obviously proved to be the case.

In quarter four we've been able to stimulate the poor market in the UK with lower yield, and left more selling capacity available overseas to encourage more sales in transfer traffic with better currency. And I'll show you a slide on that in a moment.

Now all our major competitors in Europe have seen volume declines over the last quarter and have responded with capacity changes as you can see from this slide. In our own case we took out 3.4% ASKs in quarter four. This is helping to dampen the impact of lower passenger numbers, down around 7.5%, and lower RPKs, down about 5.6%, with the effect that the load factors were down just 1.7 percentage points.

Now this slide shows you the evolution of yields and volumes represented by load factor over the last couple of years and in terms of RPKs. The best result of course is to see yield and volume increasing at the same time. Yields turned negative for the first time in quarter four for the first time in 24 months. But equally it's worth pointing out that we're cycling against an incredibly strong yield in quarter four last year.

Within the yield premium traffic decline has had a major impact. As you already know, the premium market remains very weak worldwide with our premium volumes down between 15% and 20%. This is outperforming the market we are seeing overall volumes at slightly higher levels.

Non-premium traffic remains relatively robust, though April in this chart is flattered by both the timing of Easter, and if you look you can see there is a prior year poor comparative as you can see from the chart.

I mentioned transfer traffic, we suffered very significantly from the slowdown in the UK and from the financial services sector in particular. The move to Terminal 5 has allowed us to take advantage of better conditions for transfer traffic, and we have increased volumes steadily over the last months.

Volumes were very high over the winter as we took advantage of weak sterling to stimulate overseas revenues. The volume has subsided a little, as you can see from the chart, in the early part of this year and the trade-off obviously is between price and where we make price available and currency.

You can see the overall impact from this chart, which looks at the make-up of the yields. Overall yields in the year were up 6.7%, as I spoke about earlier, but behind this we see a pretty significant decline in price in quarter four.

The chart here includes fuel surcharges which of course were reduced at the back end of last year. The impact was pretty noticeable for quarter four though much of the impact was offset by the strength of the euro and to some degree the dollar against sterling.

Now looking at cargo for a moment, the story of cargo is actually very similar. In the early part of the year both yield and volumes were increased. Volumes were up around 3% while yields were anything up by about -- up to 30% driven by both price but also by significant level of fuel surcharges.

The second half of the year has seen a collapse in volumes as worldwide economic slowdown has taken hold and the freight market suffers from oversupply. Although the freight volumes have stabilized there is no sign of yield improvement.

And if we look at our own performance in terms of CTKs, volumes as you can see from the chart here went negative in December, slightly behind the worldwide market, but have been negative throughout the period since.

And again we've fared slightly better than the worldwide trend, as you can see here from the IATA data, where in particular the cargo market has been weak in the Far East. That's in terms of volume and if we look at yield, yield and volume turned negative in quarter four.

Now turning to costs and capacity, the cost picture for the last 12 months has been made difficult by three factors I think. One is exchange. The second is the additional costs which we said we would incur on the move to Terminal 5 as we operated from numerous terminals across Heathrow, and thirdly the changes that we've seen in capacity.

With regard to exchange, most of the impact of exchange was offset by gains in the revenue line. So in overall terms we were naturally hedged. The impact on costs however has been significant. And I showed you earlier, costs excluding fuel were up some 7%. But if we strip out exchange we find that they're actually flat.

Now the move to Terminal 5 increased headcount and costs over the summer as we moved across the terminals. Overall headcount increased in the early part of the year but overall for British Airways it's now down around 4% from its summer peak. And I'll let Willie show you a chart on that in a moment.

Finally, we had put a small amount of additional capacity in last summer. But this went into reverse and we took out about 3.5% capacity during the winter, slightly over that. We've been successful in taking out the additional costs associated with those capacity changes before fuel savings, and I'll show you a chart on that in a second.

Now although we announced the planned capacity reductions for the summer, and today we've announced further capacity reduction for the winter of around 4%, and Willie will cover that off in a moment.

Now the headline costs for last year look poor with total costs up more -- almost 17% driven by higher fuel prices and I said earlier from exchange. Again if we strip out fuel then the costs were up just over 7% and were flat before exchange. Unit costs were up 2.9% driven by the factors I've mentioned. And I've already spoken about the improvement in unit costs in quarter four which I'll show you in a second.

Now, however the yield did fall into two parts, if we look on an underlying costs basis, the first half we saw the cost increases that you can see there. And in the second half we've been successful in taking out more and more costs, and that's partly down from the management reductions, building on the success of Terminal 5 and in line with the capacity reductions.

And if you look at it in terms of a unit cost base, I think one of the encouraging factors is that the unit cost reduction in quarter four was in line with the capacity reductions that we had over that period. Now we're already working on ensuring that the further capacity reductions are similarly met with cost reduction.

Now looking at the cost lines -- across the cost lines, on the face of it there was an increase across the board. A lot of that is exchange driven and if we strip out the impact of exchange then you do get a very different picture.

Employment costs were down before the additional charge for restructuring costs of GBP78m, the employment costs there. And the main cost increase is in landing fees which is associated with the charges at Terminal 5 and at Heathrow. And briefly if you look at costs for the quarter, costs for the quarter have been similarly influenced from exchange movements.

Now moving on to fuel, what started the year as a fuel crisis ended the year as an economic and financial crisis. But we should not forget that even at $50 or $60 a barrel fuel still represents a significant cost to airlines. And even the price fall in the last four or five months only takes us back to where we were in 2004/05, as you can see from this chart here.

I've taken the chart deliberately back to 2000/01 which is the events of 9/11, and you can see after 9/11 we had a very serious revenue reduction. But as you can see from this chart is actually the oil price also fell and was just over $20 a barrel. So it was a very different circumstance to the one that we're seeing today.

And if you look at our spend for the year, last year, it was relatively evenly spread despite the spike in the oil price. And that was because in the first half of the year we had a significant hedging profit and the benefit of lower exchange, whereas in the second half of the year you can see we had a hedging loss. And because of the relative movement on sterling that impacted our spend in sterling terms. So overall our fuel spend was relatively evenly spread for the whole of the year.

Now in terms of hedging, we've added some additional hedging cover in the early part of this year when the prices dipped to around $40 and this has brought down the existing cover. And this chart is showing you the breakeven point based on the cover that we have in place at the moment. And we're about 55% covered for the rest of this year.

Just looking at how that cover is placed, you can see here where the cover is covered in quarter one and the rest of the year, and the red bar there represents the additional hedging that we've put in place recently.

So what you should see in quarter one and the first half, we should get some benefit on the guidance that we gave at Investor Day. And overall we're now anticipating our fuel bill for the entire year to be down some GBP400m from last year's levels.

Now George covered off the balance sheet at some length at Investor Day, but I thought I'd give you just a couple of pointers. As you can see from this chart here, this is a summary of the balance sheet.

Cash fell in the course of the year as we'd anticipated and fell to a final number of just over GBP1.38b. And that was slightly higher than the target that we'd set at Investor Day of GBP1.35b.

The other point to point out on this chart is that the main pension schemes are on the balance sheet and they're actually on the balance sheet as an asset, which you can see in employee benefit assets on this chart, some GBP340m. And I'll come back to that in a second.

The significant movement on reserves, now that relates firstly to the losses for the year which post-tax were some GBP370m, just under GBP370m. But what we've also got impacting reserves is the mark to market movement on fuel hedging and on cash flow hedges. And it's alas showing a loss because of the weakness of sterling at the balance sheet day.

Now I mentioned the cash. This shows you the make-up of the cash flows during the course of the year to March 31, 2009. You can see there's a positive operating cash flow. A lot of the CapEx was financed already, which you can see from this chart, and that's something that features going forward. We had debt repayment. And, of course, we paid out in cash terms the dividend that was declared for the previous year. And that left us with the cash balance of GBP1.38b.

In terms of committed facilities, these still stand at about GBP3b. As you know we have most of our aircraft deliveries covered off with committed facilities as you can see here. And we also have some general purpose facilities which you can see at the bottom of the chart there.

Now pensions, we've covered off pensions in the past and again at Investor Day but let me give you an update. I said at Investor Day that the company has put the best part of GBP1.5b into the two main pension schemes over the last three years, which incidentally is more than the company's profits over that period.

At the present time the company is contributing around GBP320m a year in terms of contributions. And that's the figure that's agreed with the trustees at the last valuation of what the company can afford to pay based on its prospects of profitability at that time.

Now we are going into a downturn, as you know, and the company has shared its plans going forward with the trustees, and the trustees are receiving a report from Price Waterhouse as advisors to the trustees and that will be made available to them at the end of this month.

Now obviously it's ultimately a question of negotiation between the trustees and the company as to what the level of ongoing contributions should be. But given the history it does not seem likely to me that there will be an increase in the level of contribution from the GBP320m that we're contributing today.

What the company and the trustees will need to do at the same time is to agree what to do about the deficit. And it's too early to give you absolute clarity on that while we're still pending what the final valuation is.

The Chairman described three years ago what he called arcane accounting rules on pensions, and at that time by coincidence the pension deficit for accounting purposes and the actuarial valuation were both around GBP2.1m. That was purely coincidence because they were actually derived on very different bases.

At this year end we will have a small accounting asset and a significant actuarial deficit which I'll cover in a second. Now to see why you need to look at what's happened now asset values have fallen, and clearly that is common to both actuarial and accounting valuation.

However, the liability position is very different, because the accounting uses bond rates to look at the liabilities where the valuation uses scheme specific assumptions. Now one of the consequences of the credit crisis was that the corporate bond yield increased significantly. And this chart shows you what happened to real AA corporate bond rates and yields.

Consequently the accounting discount rate has gone up which has made the liabilities smaller. And it's that that in accounting terms is driving the accounting valuation of the liabilities. And if you look at what's happened is that the aggregate accounting position is some GBP1.2b worse.

Now that should be followed to some degree by the actuaries, so one would expect that the actuarial valuation, the starting point, will be at least GBP1.2b worse than it was at March 31 2008. And the actuarial -- this chart just shows you where the actuarial valuation was over the period of 2006, 2007 and 2008.

Now a couple of factors I would mention in relation to the accounting is that, because of reduced asset values that will lead to lower expected return on assets, and that is taken through as a below the operating line item. And this year we're expecting the total financing expense in relation to pensions to be around GBP180m. And that you will see go through below the operating line this year.

So finally just to summarize on where we are, quarter four revenue weakness is continuing as we go into the start of this year. We are seeing some signs of improvement in fuel, and we're forecasting that our fuel bill this year will be down some GBP400m from last year. And we guided at Investor Day at the non-fuel costs being up this year in the first half and clearly that position is improving.

And with that I'll pass you over to Willie.

Willie Walsh - *British Airways - CEO*

Thanks Keith. Good morning everyone. We have for some time been trying to convey both the scale and nature of the challenge that the industry is facing at the moment. And I've pulled out a couple of slides from IATA that I think demonstrate it quite well.

This slide was presented to the Board of Governors of IATA back in December of last year. And while the downturn in the first quarter of 2009, IATA works on calendar year, was deeper than IATA forecast, I still think it's good for illustrative purposes.

This shows you the pre and post-crisis forecast for growth in the industry. And I think what it clearly demonstrates is not just the depth of the downturn, demonstrated by where we are likely to be this year versus where we had planned to be, in other words 17% lower, but also the challenge in terms of getting back anywhere close to the pre-crisis growth plans. And IATA has predicted that at the end of 2016 we'll still be about 14% lower than the forecast pre this particular crisis.

And this slide I think is useful because it compares previous downturns going back to 1979, coincidentally the year I joined the industry. And it just demonstrates here the trend pre the downturn. You can see that on the right-hand side of the chart.

But it also clearly demonstrates that the industry rarely recovers to the pre-crisis trend. And even when it does, and the only example of that was post 9/11, it takes a long time and in fact it took about seven years to get back to the trend. So, as Keith has said, we see this as a structural shift in the nature of the business and clearly we need to respond appropriately.

Now when I showed you at Investor Day our approach to this, I said that we were carefully balancing the need for focus on short-term survival against the requirements of continuing to invest in the business for the long-term competitiveness, and long-term strength of the business. And that we would focus on in particular our customer performance cost, the cash that Keith has highlighted and also investment requirements.

Now this is still valid, but given the ongoing difficulties or downturn in the revenue environment it will not surprise you to hear that we are even more focused now on costs, cash and investment.

I am however pleased to say that on the first issue of customer we start this from a very strong position. In fact we are producing record levels of operational performance.

I would argue that we're probably top of the league now in terms of both operational delivery, regularity, baggage performance and punctuality, but also record levels of customer satisfaction with the figure in March of this year 2009 up 13% versus last year. And the annual figure for last year at 71%. And in fact we've set record scores on every single customer metric. So we're delivering a very strong operational performance and a very strong customer standard as well.

Now this is a truly global crisis and I think that's demonstrated by the figures produced by IATA. And I've just plotted what the industry has seen in terms of RPKs against what British Airways has seen, both in terms of premium and non-premium.

And just to focus for a moment on the premium side, you can see that in general -- well in both actually we've been performing better than the industry. But if I look to the March figure where we reported a 13% fall in premium traffic, IATA reported a 19.2% fall in premium for March. And if you look at the first three months of this calendar year our premium traffic was down about 15% against an industry downturn of again 19.2%.

And what is interesting, we don't give you a breakdown across our network of premium figures but IATA does give you some regional information. And for the first three months it shows that transatlantic traffic was down 17.8% against the average of 19.2%. Premium within Europe was down 24.2%, within Asia down 26.6%, and on the transpacific down 27.2%. So you can see transatlantic has actually been performing better than the average across the network. The only area that really has performed strongly relative to the others is the Middle East.

The other thing that it shows for March, just the month of March, is that both within Asia and across the Pacific premium traffic was down over 29%. So this is a global downturn. It's probably more noticeable in Asia than it is on the transatlantic. And we're clearly doing a little bit better than the industry in what is a very tough environment.

Now against that the areas we are focused on will not surprise you, capacity, fleet, capital expenditure, costs and clearly revenue. And I'm just going to talk you through some of these.

We previously gave you guidance in relation to capacity reduction for this summer season, this season we're currently in, and for next winter. However following the decision to set aside the 80/20 rule in early May, the European Parliament voted to suspend the 80/20 rule, we have taken some additional cancellations and therefore that increases the capacity reduction this winter from about 2% to 2.5%.

The winter reduction of 4% is based on the 80/20 rule being in place. The European Commission and the Parliament have at this point only agreed to set aside the 80/20 rule for the summer season. In a bizarre way we don't see much prospect of getting an alleviation on the 80/20 rule for this winter, certainly at this point. Quite honestly I don't think the regulators and the politicians get the scale and the nature of the challenge that the industry is facing.

So that winter capacity reduction assumes that the 80/20 rule will be in place. And just to put it into context that 4% reduction is against an original plan for winter '09 of a 5.3% growth. And you can see there that it's our intention to ground 16 aircraft, eight of the oldest 747s and eight of the 757s.

And as Keith previously advised you we have reached agreement on the sale of 11 of our 757s. So we will start taking those aircraft out of the fleet this winter. So that just helps you to get a better understanding of what that capacity reduction means in fleet terms.

To remind you again, a chart that we have shown you previously, we continue to have quite a bit of flexibility around the fleet and this chart shows you the number of aircraft, long-haul aircraft that are 20 years or more. So there is further capacity available to us if we believe it's necessary to take capacity reductions. But we've got to balance that against the need to protect the network, clearly deliver to our customers, but also protect the slot portfolio and that's particularly true of Heathrow.

Now given the focus on cash we are reviewing all of our fleet plans. As you know we're fortunate to have had financing in place for all of the aircraft purchases through to the end of 2012/13.

However there is a mismatch between the funding and the actual flow of capital because there's significant infrastructure costs associated with the introduction of new aircraft types and clearly pre-delivery payments as well. So we are in discussions with the manufacturers to address that mismatch between the CapEx and the financing.

One decision we have taken is to defer the replacement of the 19 737-400s at Gatwick. That was in the CapEx profile that we showed you previously on Investor Day in 2012 and 2013. These aircraft are 16 years old. And we've assessed their operational performance and we're satisfied that we can comfortably defer replacement of these aircraft and that's a sensible thing to do in the current environment.

And we have taken a comprehensive review of all CapEx proposals over the next two years. We're particularly focused on any CapEx that does not deliver immediate return or is not critical to the delivery of high standard of service to our customers.

Now, Keith has mentioned this that, at a time like this we've got to make some difficult trade-offs. We clearly have to try and balance the capacity we're offering against the demand that we see. And forecasting demand in this environment is very difficult.

More importantly what we've got to do is ensure that as we adjust capacity we can adjust our cost base. And that's something that I think we've done very well this winter. Now clearly the more notice we have of taking capacity out the easier it is for us to get the cost out.

But this clearly demonstrates that going forward we've got to continue to focus on greater flexibility around our cost base. But I'm pleased with the way we've been able to strip the cost out at the same time as we've taken capacity out through the winter. And that's given us a lot of confidence going forward.

And then ultimately we've got this very delicate balance between a focus on volume and yield and getting that balance right to ensure that we maximize our revenue.

Now pay and productivity is a critical issue for us. And pay costs are our largest controllable cost. And we've had a lot of focus on this in recent months. And as you will have seen from the IATA presentation, the IATA slides, we believe this is not a temporary downturn, but in effect this is a structural change. And we've got to respond with both permanent and structural change in the way we operate within the business.

Now we've done good work, I think, in taking manpower out of the business. And you can see the figures there for yourself, just over 40,500, 40,600 at the end of March. And that's about 2,500 down from the peak figure in August of 2008.

And looking at that specifically in relation to T5, and Keith mentioned T5, we have taken over 1,200 MPE out of Heathrow. And you can see the target there for March of next year. So there is further capacity for us to take headcount out of the business.

And it's important to point that we've been able to take that headcount out at the same time as we've improved our operational performance and improved our customer service delivery. So it is not impossible for us to continue to take headcount out. In fact we're very confident that we can take these heads out of the business and improve the standard of customer service, and continue to improve the standard of operational performance. And we've clearly demonstrated that over the past 12 months.

In Heathrow we estimate that our costs will be down by about GBP50m against the baseline here before we moved into T5 at 13% reduction. And we are running, as Keith told you previously, ahead of our business plan in relation to T5. And there is clearly further work that we can do.

It's not just coming out of headcount. We're seeing the benefit coming out in other areas of the cost base as well. And that's clearly been as a result of moving the vast majority of our operation into a single terminal. So we are getting benefit on our external spend as well as our internal spend.

And just to reinforce the message in relation to the improvement in our operational performance, you can see here the benefit of that in terms of the reduced cost of disruption. That gives you an indication of the significant reduction in disruption costs solely related to baggage performance that we have seen in T5.

Baggage performance on a direct basis is world class. We are consistently delivering standards that beat airports all round the world. We continue to be somewhat challenged on transfer. But in fact we have now overtaken the transfer, the overall performance of the main European hubs at Schipol and Paris Charles de Gaulle. And I believe the latest AEA figures that should come out next week will show that we've also overtaken Frankfurt.

So we have transformed the operational performance at Heathrow. Some of the issues we face are related to the infrastructure issues at Heathrow, no direct baggage link between T3 and T5. But the main issue that we see on transfer bags actually relates to other airlines transferring their bags to us. For BA to be a transfer performance, it's the best it has ever been, as is the BA direct performance.

Now on the pay and productivity, we have for some months now been in detailed discussions with all of our main groups on pay productivity and performance. As you know, we have proposed a pay freeze in the current year. We have signaled that there will be no management bonuses paid.

Today we are going out offering unpaid leave to all employees in the business. We're offering temporary and permanent part-time to all of our major groups. And we're also focusing on our supplier spend. And I'll go into these in a little bit more detail now.

We have, in the main, five main negotiating groups. The first is our GSS, Ground Service Staff. But it also includes cargo operation and Gatwick. We have concluded negotiations with that group. And we signed an MoU that is currently being balloted on. The ballot should finish early next week. And that is a fundamental change in the working conditions in the agreements we have with those groups.

With our Engineering section we've also reached agreement on a -- and signed an MoU that will be balloted on starting next week. Our engineering trade unions are recommending acceptance of that. It's a fundamental change again from the agreements that we've had in place. We've had good progress in our discussions with pilots. And they have indicated that they intend to ballot soon on changes that are proposed.

Progress in the other two areas has been slower with our administrative staff, and in the main our customer-facing staff in the terminals. We are making some progress, but it is slow. And we've injected some urgency into those discussions over the last few days. And regrettably the one area that is lagging behind the other groups is with cabin crew representatives.

Now there is a difference in attitude and approach being adopted by the official trade union versus the, if you like, the officials, the paid trade union officials and our elected representatives. The official line is that this is a temporary issue and should be solved by temporary change.

I'm pleased to say that the vast majority of our people recognize that temporary change and temporary solutions are not enough, and have faced up to structural change, and permanent change to address the nature of the challenge that we see at the moment.

So I am confident that through negotiation we will be able to agree acceptable terms to transform the way we operate at British Airways. But there is significant discretion available to management in terms of implementing change. And clearly we will not hesitate to implement change where we believe it is necessary, not just for the survival of the business in the short term, but to ensure that the business is well positioned for long-term benefit.

On our suppliers, we have significant supplier spend. Our top 250 suppliers represent 92% of our spend, and we've engaged in direct discussions with all of those suppliers with a view to improving the contracts that we have with them. We've had a very positive response from most, and those discussions are ongoing.

We've taken strict action in relation to controlling discretionary spend. We've stopped all consultancy spend, my apologies to any consultants in the room. We will terminate all non-mandatory training where there is a cost involved in it. Some training we can do within the cost base of the business, but in the main we will stop all non-mandatory training. And we're targeting a 15% to 20% cut in our contractor costs. That work is ongoing as well.

Now briefly turning to revenue, revenue I think is the area that really is challenged by the underlying economic environment. And we're very clear we need to respond to the needs of our customers. And that's both in terms of the corporate dealing that we do. But also to ensure that we do everything we can to retain the customer loyalty that we have. And we have made some tactical adjustments to our frequent flying programs to recognize long-term loyalty and ensure that we can retain those customers.

We have a unique asset in T5 and we intend to fully exploit that. You have seen some of the things we have done by focusing on higher volumes of transfer passengers. And that really is to take advantage of the benefit of the stronger currency. And that has been of significant benefit to us, as Keith has demonstrated to you in the fourth quarter and last year.

Now we will have a very careful focus on market share, and particularly in premium market share. And we will focus where we believe that the market share is sustainable and profitable in the long term. We are seeing some irrational pricing by some competitors and clearly we're not going to get dragged into that. So I am prepared to see some of our share shift while that sort of activity goes on.

But we will be very carefully focused on retaining and, in fact, where we can see the opportunity to grow market share and to also take price increases. And we do believe there are some, some opportunities I'd say these are limited opportunities, to take price increases where we can.

So to sum up, before I comment briefly on Iberia and American, I think we are well positioned in terms of our operational performance and our customer standards. Clearly at a time of excess capacity it's important to be delivering a strong operational performance, and also important to ensure that we've delivering a higher standard of customer service. And I believe that the transformation of our business since we moved into T5 puts us in a strong position there.

And we'll continue to look at every opportunity to adjust our cost base, both short term and long term. And we'll pursue changes in work practices and contracts to ensure that the business is well positioned through this challenging period but also very well positioned for the long term.

And finally, a brief comment on our ATI application and Iberia. I'm pleased to say that the file has been formally closed on the ATI application at the end of April. The clock has started and we will get a result in relation to that by the end of October, October 31.

The DLT refused a last-minute plea by Virgin to keep the file open. And the period for public comment has also now closed. That closed on May 18. And I remain confident that we will make progress and will get a successful outcome in relation to this application.

On the EU side we have decided to turn down the offer of a fast-track approach from the EU Competition Commission, and have requested that they proceed to present their statement of objections to us by the end of July. Normally you would have three months to respond to the statement of objections.

We've indicated that we will respond as quickly as possible. We don't believe it will be necessary for us to take the full three months allowed. And we will be targeting a response within four to six weeks. And we believe that that will help to align the Commission's timescale with that of the US DoT, and that we will get a response to both by the end of this year.

On Iberia the Chairman has already commented. The discussions with Iberia continue. I have to say that we've made little if any progress in the last few months since I spoke to you last. We understand the concern that Iberia has in relation to our pension deficit. We recognize that that is a genuine concern. But I remain very confident that we can address that concern.

The main issue between us remains the issue of corporate governance. And we've made little progress in relation to that. But we are still talking to one another. And I do believe still that this is a significant, positive development for Iberia, for British Airways, for our customers, for our shareholders. And we remain both calm and patient in relation to the time that it's taking.

As Fernando Conte said when he was delivering his results recently, his primary focus is on the core business. And you would expect that that's my primary focus, given the challenges we face at the moment. But we do remain positive and optimistic towards the proposed merger between British Airways and Iberia.

Okay, thank you. I think we can move on to your questions.

Martin Broughton - *British Airways - Chairman*

Okay, the call turns now. As usual, please, for the record state your name and the organization you represent.

QUESTIONS AND ANSWERS

Andrew Light - *Citigroup - Analyst*

It's Andrew Light from Citi. I've got two questions. First for Keith on cash, you say you've got facilities of GBP3b. But it seems that the vast majority of that was tied to CapEx. And I think you told your staff that cash burn is running at the rate of about GBP1b a year.

How comfortable are you with the general facilities you have of $275m? And are you confident of being able to boost liquidity further? And are you considering other issues, I don't know, like selling frequent flier miles and disposals?

And the second question on the outlook. In the press release you say the recovery is taking longer -- is expected to take longer than initially envisaged. When did you initially envisage that recovery? Was it the Investor Day or some time before then?

Willie Walsh - *British Airways - CEO*

Let me address the second one, because we discussed this yesterday. I have been saying for some time that our plans are on the basis of this economic downturn lasting 24 months. But I think I've been saying that now for about nine months.

So I think the information that we see from the economic analysis of what's happening and the projections that we see, to us, it shows that the recovery will not take place in 2009. But the US may see some signs of recovery in early 2010 the UK will lag behind that.

So we still think that the general economic environment this year will be tough and will continue to be difficult next year, but that the recovery is towards the latter part of 2010 rather than the earlier part of 2010.

Keith Williams - *British Airways - CFO*

If I take your question on cash. As I said in the presentation, we finished the year with slightly higher cash than we'd anticipated at one point, GBP1.38b. At Investor Day we'd forecast that that would be GBP1b by the end of March 31, 2010.

Now clearly what we're seeing in a challenging revenue environment that there's going to be some risk to that. We do have the general purpose facilities that you mentioned. But clearly we will take further action. One is on costs the other is reviewing CapEx, as Willie has mentioned, to look at how we preserve a healthy cash balance going forward, because cash is clearly king in this environment.

Penelope Butcher - *Morgan Stanley - Analyst*

Hi, Penny Butcher from Morgan Stanley. Three quick questions, the first is just a bit of an extension of Andrew's on the outlook. I appreciate that it's very difficult to give any sort of revenue guidance. But your comments with regard to the current trading environment do seem quite a bit more bearish than the peers. Could you perhaps suggest why your comments are -- is it more realistic of the trading situation, or something specific?

The second question is on the winter capacity. The 4% decline, would you perhaps be able to give some idea of what the short-haul, long-haul split is in that cut, or anticipated cut?

And the final question, just with regard to that pension interest cost guidance that you've given for this year of GBP180m. Is that compared to the amount of approximately GBP30m that you recorded this year? Is that the same line you're referring to? Thanks.

Willie Walsh - *British Airways - CEO*

Okay. I think on the outlook, I think we are being more realistic. And I think if you look at the track record over the last 12 months, I think we've called this sooner than most of our competitors. So I think we've called it as we've seen it rather than waiting to see what happens. And I think we are being realistic in terms of the outlook.

Clearly the fourth quarter revenue environment was difficult, as Keith has outlined. And it's impossible to give you any guidance because the visibility that we have is very limited. So I think we've called it more accurately and we're calling it more realistically than some of our competitors. I don't think we're necessarily more bearish than them. I think they'll ultimately get to the same position as us.

Keith Williams - *British Airways - CFO*

And the answer to your last question in short is yes.

Willie Walsh - *British Airways - CEO*

And on the breakdown. I'm not going to give you too much detail, because clearly we're not going to disclose the particular areas where we're going to take capacity out. But I think the trend will be broadly similar.

One of the issues we've got to do is make sure that we protect slots in an environment where the 80/20 slot rule has not been set aside. So you will see a shift between long-haul and short-haul flying. So we'll be putting in short-haul flying to protect long haul slots.

So I think we'll give you a more detailed analysis of that at the first quarter when we will have disclosed the specific route changes that we're going to be making.

Penelope Butcher - *Morgan Stanley - Analyst*

Thank you.

Martin Broughton - *British Airways - Chairman*

As Willie said earlier, it is eight 747s and eight 757s that will be [grounded]. Any other questions? Please.

Neil Glynn - *NCB Stockbrokers - Analyst*

Hi, it's Neil Glynn from NCB. Just two quick ones, the first one again unfortunately in terms of the revenue environment, you've obviously got quite decent visibility on Q1 at this stage. Can you give us some insight into the type of run rate you're seeing there year-on-year?

Then secondly in relation to costs you're obviously continuing to chip away there on the costs line ex-fuel. Can you give us some insight or some update on how that GBP220m cost saving you highlighted at Investor Day looks now, or perhaps the scope to outperform on that?

Willie Walsh - *British Airways - CEO*

On costs, we would expect to outperform on the cost reduction that we've previously given you. Our intention is to go deeper with cost reduction and to continue to accelerate longer term plans that we have around cost reduction. So we're going to be pushing very hard on costs. I'm confident that we'll be able to achieve that.

Quite honestly, I'm not going to give you any outlook for the first quarter. I know you think we have a lot of visibility. But there is a lot of moving parts on it. All I'd say is that the trend that we saw in the fourth quarter, we've seen continue into the early part of the first quarter of this year. And you can see from the traffic stats that we will deliver -- report.

So I think the decline in premium traffic is broadly in line with what we had expected. And looking at the limited visibility it continues to be broadly in line with the trend that we've seen on premium traffic decline.

Martin Broughton - *British Airways - Chairman*

Could you pass to Michael?

Jonathan Wober - *Societe Generale - Analyst*

It's Jonathan Wober from Societe Generale. Just again coming back on the winter capacity plans, if the 80/20 rule is suspended again for the winter season, what additional capacity measures might you take? That's the first question. Secondly, what guidance can you give for CapEx over the next two to three years?

And thirdly on consolidation, obviously the Iberia talks are ongoing. But whether they succeed or not, do you have any other thoughts on consolidation, any other potential targets? What are your options if Iberia doesn't happen or even if it does happen, what further options do you have with consolidation?

Martin Broughton - *British Airways - Chairman*

If we had them, we wouldn't tell you anyway.

Willie Walsh - *British Airways - CEO*

Winter capacity, I go back to what I said. The 80/20 rule we believe will remain in place. As a result of that, we clearly need to take action to protect our slot portfolio. That ultimately means you end up doing short-haul flying that you wouldn't do if the 80/20 rule was in place. So if we had alleviation on the 80/20 rule you would see us take more short-haul capacity out for the winter. We're unlikely to take any additional long-haul capacity beyond what we have targeted. But we may adjust that slightly.

I think the regulators and the politicians, when considering this, really haven't fully appreciated the scale of the change in demand. But more importantly don't appreciate the need to get visibility in relation to these decisions early. So we got a decision on the summer 80/20 rule at the beginning of May when we're planning for the summer season, as you all know was in the latter part of last year.

So the sooner we get decisions in relation to this the better for us. And that's why I say our view at this point is that we won't get an alleviation on the 80/20 rule for the winter, and that's based on the covenants that were made during the debate on the summer alleviation, and some analysis that we've done of the mood around the Commission and the Parliament. But if we got alleviation we would take more short-haul capacities.

Keith Williams - *British Airways - CFO*

And in respect of capital expenditure, and you should expect in the short term that the capital expenditure will get smaller, slightly smaller. But a lot of that capital expenditure is tied up in aircraft deliveries. It's pre-payments on aircraft deliveries.

As Willie mentioned in his talk, is that we're looking at the profile of that expenditure against the financing of that expenditure, because it's financed in the long term. But in the short term we have quite a number of progress payments to make.

And then in the slightly longer term, and Willie again mentioned the 737 program, and that will obviously have some impact on the big spike in expenditure at the latter part of the CapEx profile that we've given you previously.

Andrew Lobbenberg - *Royal Bank of Scotland - Analyst*

Hi, it's Andrew Lobbenberg, from RBS. Can I just ask about the impact of volatile ForEx rates? Keith, you said that the impact broadly washes out once on the P&L. So can you just let us know what the impact was at the EBIT level for the full year, whether there was any difference in the fourth quarter and how we should look to the year ahead?

And then a second question. Given your view that the downturn is going to endure, does that change your thinking about adjusting configs, because obviously your configs were set up with an eye to the peak of the cycle, and recently have been increasing the amount of business class seats.

And then finally, a question, at Investor Day, I think Willie repeatedly fixed us all with a steely gaze and said there would be no rights issue. How firm is your steely gaze at this time?

Willie Walsh - *British Airways - CEO*

(expletive deleted), let's see what I said. I'll let Keith deal with the currency.

Keith Williams - *British Airways - CFO*

Yes. In terms of currency overall, as you saw on the presentation, is that currency was helpful to the revenue. It was negative on the OpEx side. And so the year overall, at the EBIT level, the difference was GBP180m for last year. In quarter four, just to give you a comparative, it was about GBP30m, slightly over GBP30m. Now clearly since year end we've seen a movement on sterling dollar to around 1.57. So that should be slightly helpful at the EBIT level. Again, it will depress the revenue but will improve the cost.

Willie Walsh - *British Airways - CEO*

On the configuration of our aircraft, we're not going to adjust the configuration because there will be CapEx associated with that. So we have been looking as Drew Crawley said at the Investor Day, tactically how to use all of the capacity on board the aircraft.

We have been -- had been booking, overbooking in the economy cabin with upgrade to the premium cabins. One of the things we did recently as you probably know was a two for one offer in our business class. We did that to get some solid booking base in the premium cabin, which we felt was better than trying to sell non-premium tickets later on and upgrading.

So we've been looking at a lot of issues around how do we tactically play around with the capacity that we have on the aircraft. But we're not going to adjust any of the configurations on the aircraft, because that clearly would involve additional CapEx and we see no need to do that.

The aircraft that we have ordered, the four 777s that get delivered this year, do not have a first class cabin. That was always the intention. And clearly we have opportunities to look at the configuration of new aircraft that will be delivered. But we're not doing it at this stage.

The one comment I would make is that despite the fact that we have seen a downturn in premium RPKs, we do still see healthy seat factors in the premium cabin. And that's why we remain confident that the longer term focus on presumably long-haul premium remains a sensible focus for the business.

On short-haul premium -- that changed structurally I think ten years ago and continues to decline. And you will have seen that recently we changed to a two by two configuration with the middle seat empty.

Going forward, that makes it much simpler for the business in terms of the configuration of the new short-haul aircraft where we won't add the complexity of variable geometry seating and the weight associated with variable geometry seating.

We'll just move to a standard all economy seating configuration and leave the middle seat empty. So that brings simplicity, lower costs, both in terms of the CapEx cost but also then lower operating cost because of reduced weight on the aircraft.

Douglas McNeill - *Blue Oar Securities - Analyst*

Thanks, Douglas from Blue Oar Securities. In light of your dual focus on short-term survival and the long-term competitiveness, can I enquire about your appetite for adding slots at Heathrow, because presumably it's a market that's far, far less tight than it has been for ages? But would it be correct to assume that you have no interest in adding slots, therefore it's some considerable time?

Willie Walsh - *British Airways - CEO*

It's an excellent question. I think in the past we've suggested an approach of bidding for every slot that becomes available. We haven't bought every slot that becomes available because we do have a clear price in mind.

I think you're right though, when you say that we're not -- we don't have the same appetite that we would have had if slots become available. And that's why to some degree we supported the alleviation on the 80/20 rule, because we're not really in the market to buy any additional slots at Heathrow. And therefore we felt that it was sensible to support that.

Edward Stanford - *Cazenove - Analyst*

It's Edward Stanford from Cazenove. Actually following up on Douglas's comments, and asking the question in a different way, given that you are effectively under-utilizing your slots at the moment, if you had your way, how long would you like the 80/20 rule to be suspended, given your view of the structural change in the market?

Willie Walsh - *British Airways - CEO*

If I had my way and a decision could be taken to suspend it through to the end of 2010, I think at this point -- I'm sorry through to the -- I would take it into the April of 2011. I think that would be a welcome move on the part of the European Commission and the European Parliament. I don't think that's going to happen. But I think if we had that flexibility now, we could adjust capacity and our cost base much better, knowing that the 80/20 rule had been set aside

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Martin Broughton - *British Airways - Chairman*

Okay, any last questions? If not, thank you very much.

Willie Walsh - *British Airways - CEO*

Thank you.
