FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, good afternoon. Thank you for standing by.

(OPERATOR INSTRUCTIONS)

Now I will turn the meeting over to Mr. Willie Walsh, please go ahead.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Thank you. Good afternoon, everyone. Good morning to those of you joining us in the states. Thank you for taking the time to join us for our first quarter results.

With me today is Keith Williams, Keith will take you through a presentation, and then we will take your questions. Keith, over to you.

Keith Williams - *British Airways - CFO*

Okay. Yes, good morning, and good afternoon, everybody. At investor day in May, we outlined our three priorities for this year. And, one of the main priorities was to fix our core business, brought about by the need for structural change.

The results of higher-fuel prices, and permanent change in customer behavior, particularly in the short or premium segments. At the same time, we have a number of other business issues to resolve. The most pressing of these is our pensions deficit. And, I am pleased to say today, that the pension regulator has now approved the recovery plan, in terms of the recovery plan, for the pension fund. So that is now behind us. And the last few weeks, we have also seen significant regulatory progress on both the ATI application with American Airlines and Iberia. And on our proposed merger with Iberia.

ATI was approved by the EU on the 14 of July, and regulatory clearance from the US Department of Transport on the 20 of July. We are now in a detailed planning phase. On the same date of the approval of the ATI application, the EU gave us approval for the merger with Iberia, and that is moving forward as planned. As I said earlier, the main focus was to resolve our core business, so lets have a look at what's been happening.

This first chart shows you the financial trend, looking at performance of the business on a rolling 12-month basis. And, as you can see, we have now achieved three quarter's improvement, from September 2009. And would have seen even more progress in the last quarter, reaching profitability, had it not been for the ash threats and industrial dispute. The impact of the volcanic ash threat and the industrial dispute in the quarter are in line with previous estimates of around GBP250 million. We lost some GBP106 million revenue during the period of the volcanic ash, and incurred numerous costs, including some GBP26 million, direct costs associated with the compensation, the ground handling, and other costs such as hotels and repatriation.

That was offset in part by fuel and other cost-savings from the closure of airspace during the seven day period in April. There will also expect to be 23 days of action from the cabin crew accident. The impact of the cabin crew dispute was mitigated from the significant flying program that we launched throughout that period, and the net-saving on costs was some GBP32 million.

These figures do not include the benefits from change of working practices, which have been brought down the cost phase, and this is a theme I will come back to a little bit later. The story of the revenue in the quarter was the improvement around yields in both the passenger and cargo businesses. We had plans for lower capacity during the summer and expect the volume this quarter would be slightly down on last year. We've reduced capacity, and we'd been forecasting some improvement in yields.

However, the actual result, which you can see in this chart shown in yellow, shows a severe drop in volume, due to all the disruption. In the end, volumes of passengers, measured in RPKs, were down 14.9%, and total passenger numbers down 16.7%. The rebound following the disruption in April and May has been significant. And I will show you some slides on that a little bit later.

Though yield improvement was the main driver, we still made further progress on costs. And this slide is looking at the progress on non-fuel costs in both absolute and unit-cost terms. The first set of data at the top of the slide looks at the cost picture excluding fuel. Non-fuel costs declined by 4.3%. This was before exchange.

Exchange was slightly adverse. And although the position of Sterling was improved versus the Euro, it was still weaker versus the dollar and other major currencies. A constant exchange, non-fuel costs were down 5.7%, with most cost items being down -- I'll show you a little later. The picture was slightly flattened by the cost saving from the lower flying programme, I mentioned earlier. Nevertheless, the trend on cost is still downwards.

The picture on unit costs was clouded by the amount of the capacity reduction. In the end, ATKs were down from 8.2%, against that backdrop, it was inevitable that unit costs would increase. But, were up a lot less than the capacity increase. 4.3% on a recorded basis, and 2.7% excluding currency.

That covers the highlights of the quarter. Let's now get into the detailed numbers. Looking at the headline numbers, reported revenue was down only 2.3% versus the previous year. Despite the impact of the disruption in the period, which I mentioned earlier. There was some currency benefit, but this was worth only 0.8%. So that the underlying revenue was down just over 3%. This is better than expected as a result of strong yield performance, as you saw earlier. Fuel benefited from the lower volume of flying, and although fuel prices showed a significant increase, there was a hedging process in the period, meaning that fuel costs overall were roughly flat.

Control of non-fuel costs is again excellent, and although exchange was adverse, reported costs were down 4.3%, and 5.7% before currency impact. This left an improvement in the operating margins, though the operating margin itself was still negative, at minus 3.7%. We're still a long way off from a return to profitability, and the pretax loss for the quarter, was some GBP164 million. Up slightly from last year, as a result of additional financing costs and non-exchange impact, and the translation of non-Sterling debt.

Now looking at this split of the revenue, the passenger revenue is down from volume, but both price and mix were positive. As we saw earlier, exchange was marginally favorable. And on an underlying basis, revenue was down 4.1% in the passenger area. The cargo performance in the period was impressive, though against a very weak base in the previous year. And I will come back to this in a moment. Other revenue was down in line with the volume declines in the period.

So, turning back to cargo for a moment, this chart is showing you the IATA statistics for ATKs, plotted on the left-hand scale. And, CTKs, plotted on the right-hand side While we did see some decline, particularly in the last two winters. Our overall volumes have remained relatively stable, throughout the period.

The main changes you can see is being in the yield, which is shown on the red line here. In the quarter, cargo revenue was up just under 37%, with most of this attributable to a recovery in yields, against the backdrop of volumes just up over 2%. Now, looking at the individual cost lines, as you saw earlier, overall costs were down 3.3%. And, with most costs lines down in the quarter, despite negative exchange impact. I'll come back to the employee costs in a moment.

The other main cost lines to note, the landing and en route charts, which were down in line with volumes. And, handling and catering costs, which were down despite the compensation pay for ash. Mainly as a result of lower volumes, and improved efficiencies. Other costs were up, mainly from currency differences, which amounted to a credit of GBP7 million this year, down GBP13 million from a year earlier.

Now, coming back to the fuel for moment. The picture on fuel was complicated by the lower amounts of flying. With the volume saving, as you can see here in green to the right, GBP78 million. The actual price of fuel -- the average price of fuel, was more than 50% higher than it had been a year previously, an average of GBP723 a tonne. Although much of the effect of this increase was offset by hedging. Exchange was more or less flat, and the results overall that our fuel costs were flat year-on-year, GBP592 million versus GBP596 million a year earlier. I'd like to come back, however, to the outlook for the year in a moment.

Turning to the other major cost item, employment costs. As you can see from the chart here, we're still making progress. We've continued to make significant improvements, in terms of productivity. And manpower for the period was down 2,724, or 7%, over the last year. The savings of the result of the structural changes we've been making over that period.

I have highlighted the change in crew compliments, which generated GBP17 million of savings in the first quarter. The effect of all of this was to see an improvement in the cash generated from the operation, which rose significantly up on the previous year, at GBP209 million. Around half of which came from operational cash flows, and half from working capital improvement, particularly in the area of advanced ticket sales.

Overall, therefore, cash balances rose to just under GBP1.75 billion, GBP1,749 million, and net debt reduced by GBP37 million. Now that covers the quarterly results. Let's take a look at the picture for the full-year, and looking forward.

At investor day, we said we were charging something like a 6% revenue increase, with costs overall flat, resulting in a target break even at the profit before tax line. Now revenue was stronger in the first quarter, offset by disruption, and some help from exchange, while costs were down, despite some adverse exchange impact.

But, let's take a look at the revenue outlook and I've got a couple of charts her just to show you what's happening to bookings and revenue at the moment, and then we'll give you a view of the longer-term outlook. This chart is showing you the number of bookings made each week over the period, with this year shown in red. As you can see, we're now seeing booking levels higher than we have seen over the last two years, 2009 and 2008. If you look at how that translates into the revenue, the revenue pitch is encouraging at the moment. With revenue back to the levels that we last saw in 2008, and significantly above last year's levels.

And what I thought I'd show you as well, is just how the picture has looked for July. And this chart is showing you how July is being -- fairing, essentially over the last six months. The chart shows you how the level of revenue for the month of July has changed and looking out from the weeks of departure.

And, now, as you can see in both premium and non-premium segments, revenue is being above last year, and is being very strong in the weeks closer to departure, reflecting the strong booking trend post industrial dispute and ash. I should add that we're seeing particularly good yield performance in both long-haul premiums, and in long-haul non-premium segments.

Now looking forward, we've experienced higher yield in the first quarter, than we anticipated. This is a chart that we showed you on investor day, and certainly its true that quarter one is slightly stronger than we had anticipated. However, we're likely to see some slowdown in the second half of the year from a number of factors. How the comparatives, the higher APD charges will take effect from November. And both capacity and volume will come back into the market, which we expect to have some impact on yield.

Now, just to give you some support for that, we thought we'd give you some expectation of where the market is anticipating most passengers to come back. And as you'd expect, it's driven primarily out of Asia and the far East. Although, you can see there is some additional capacity coming out of the US, with Europe remaining the weaker geography.

Now, looking at our position within that, we had previously spoken about reversing some of the cancellations of last year, which saw capacity overall down just under 5%, 4.9%. And winter capacity down around 6%. We had planned a small drop in capacity in the summer, and as you've seen, that has been exacerbated by the recent disruption.

As you know however, we've recently announced that we've stand up a 747, we announced that at investor day. And, we're taking delivery of three 777-300's, this year. On an underlying basis, seat capacity growth in the winter is expected to be around 3%. Although clearly, the recorded number will be somewhat higher, due to the tactical cancellations, and disruption of last winter. The capacity change will of course have some impact on the variable costs of the business. And overall for the year, we're expecting the cost performance in the first quarter not to be repeated throughout the year as a whole.

So that's non-fuel costs. As we look at fuel. We have a strong hedging position as you can see from the chart here. As you saw earlier, the fuel cost was flat for the first quarter, with the additional volumes for the rest of the year, were expecting our fuel bill to be up some GBP200 million, year-on-year.

So finally, just to summarize. The strong yield in both passenger and cargo, are being sufficient in quarter one, to offset most of the adverse impact of the various events which led to a lower flying programme. Underlying revenue growth is being strong in the first quarter, and this is continued throughout July. The main risk on the revenue side remains of course, that the economic slowdown, and the double-dip recession might happen in the latter part of the year. And that we have some adjustments to yields, as capacity comes back into the market, and increased passenger taxes take hold. Cost performance again has again been strong, although some of this will reverse as we put more capacity back into the market. Our objective overall continues to seek unit cost improvements over time. We're still on track to reach our target to break even for the full year. And, we are making significant progress along some of the strategic priorities. And with that, I'll pass you back to Willie and open up to questions.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Okay. Thank you. So, we are now ready to take questions, and ask the operator to introduce us.

QUESTIONS AND ANSWERS

Operator

Thank you.

(OPERATOR INSTRUCTIONS)

And I'll just wait a few moments for the first question. The first question comes from Samantha Gleave, please go ahead.

Samantha Gleave - *BofA Merrill Lynch - Analyst*

Thank you. Just a couple of questions. Maybe just coming back to your points on cost keys, as you see capacity come back in -- during the winter months. Can you maybe just give us a bit more color on the outlook for costs excluding fuel, over the remainder of the year. Clearly there was quite a good performance in Q1.

And secondly, I was just wondering if you could give us some color on the pricing -- mix trends, in the short-haul segment. And finally on cargo, we've seem very strong numbers coming through there. Any signs of a slowdown in that market? Thank you very much.

Keith Williams - *British Airways - CFO*

I'll cover the costs. In a minute I'll ask Willie to cover it -- the cargo. And, I'll cover the pricing mix.

In terms of the costs, excluding fuel, as I said, costs in the first quarter were excellent, down GBP68 million. We are seeing the benefits, as you can see, from the impact of the cabin crew changes which took effect from the autumn last year and clearly that won't be repeated in the base.

So,going forward, we'd expect the costs, excluding fuel -- improvement that we've seen in the first quarter, to dissipate in the second half of the year. As I say, as we go against a stronger base and we bring back that 3% capacity. So your overall, I think, achieving costs of flat, will be a good performance.

Samantha Gleave - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

Thank you, the next question comes from Tim Marshall from Redburn. Please go ahead.

Tim Marshall - *Redburn - Analyst*

I will wait until you've answered all of Samantha's -- .

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Allow me just to address the cargo, and then Keith can come back on the other issue. Cargo performance has been very strong, and remains so. The outlook from our cargo people remains positive. They're not seeing anything at all at this stage which would lead them to suggest that there is any weakening in terms of demand or pressure in terms of yield.

Now it is important to point out that the strong yields improvement is off a low base following the decline in yields that we witnessed during 2009. But at this stage, our bookings remain strong, yields remain strong, and we're not seeing evidence in any of the markets we operate in to suggest that there is any change in that.

We are aware of some comments -- and from -- we believe, freight forwarders, talking about some yield decline in Asia-Pacific. We're not seeing that. And I think you could argue that it would be in their interest to promote that idea. So, yes, the outlook for cargo remains quite positive.

Keith Williams - *British Airways - CFO*

In terms of the yield, I'll give you the stats overall. I'm not going to break out the short-haul, but let me give you the mix overall. Its price was up, just over 12.4%, mix about 0.3%, and exchange 0.8%, and that's the breakup of the 13.5%.

Tim Marshall - *Redburn - Analyst*

Shall I crack on with my questions? Hi Willie, hi Keith. The other revenue, I wonder if you just -- and tell us what's going on specifically in that. So the main questions, just with regards to the antitrust immunity you've received clearance for. American is actually, -- and -- tried to put some numbers on that. I wondered if you might try and do the same for us.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Let me address the ATI, and then Keith can talk about the other revenue. We're not going to put any numbers on it at this stage.

I think the important point to remember is we only got the formal ATI clearance on the 20 of this month. There is a lot of data that we're now analyzing, and this is data -- information that we were unable to share with one another. All of that work is now ongoing, and quite honestly, we need to assess all of that before we can give you any accurate view as to what the ATI will be worth to us. We will do that as soon as we can. And, we certainly try and give you an update on that, at the half year results.

But quite honestly, the real work only starts now. I think the efforts by American, we're, fingers in the air. Just trying to give some estimate. We'd prefer to complete the analysis of the data that we have, and we've only just been able to access that following the formal appearance on ATI.

Keith Williams - *British Airways - CFO*

In terms of the other revenue, there's nothing particular there. As I said, a lot of it is down in line with the lower volumes. So for instance if you take say, air miles, or BA holidays, which are both reflected in other revenue,. It reflects the lower amounts slide, during the quarter.

Tim Marshall - *Redburn - Analyst*

So that should recover as we get back to more normal --?

Keith Williams - *British Airways - CFO*

That should recover in line with the general recovery. Yes.

Tim Marshall - *Redburn - Analyst*

Okay, great. That's great. Thanks a lot.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Thank you.

Operator

Thank you. The next question comes from Jarrod Castle for UBS London, please go ahead.

Jarrod Castle - *UBS London - Analyst*

Good afternoon, gentlemen. Two questions, please.

Just one on the volcanic ash, first of all. EasyJet announced that they don't -- well that they won't get anything back from the UK government. Do you still think there is a bit of a chance you could get something back?

And, secondly, I don't know how much you can say on this one. But just in terms of your approach now, in terms of getting the cabin crew on side. How do you see next steps, in the next coming weeks, in terms of meetings and maybe putting new offers on the table. Or is it for your (inaudible) now, to come to the table, and say something, which you're in agreement with.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Volcanic ash, I would share the view expressed by EasyJet. I think we had some reason for optimism in the immediate aftermath of the closure of airspace given the statements made at the European level, and at the national level. But, it's clear to us that, given the state of the public finances, there's no desire on behalf of the government here to look to compensate airlines. And, we believed that, that view is shared by other European governments.

So, the fear of the Competition Commission in Europe is that they will only get involved on issue guidelines if there is a request from a number of European governments to provide compensation to their airlines. And, at this stage, they've not had requests from any European government. So, I think at this point, there is nothing to give us any confidence that we will recover any of the costs that we incurred as a result of the unnecessary closure of airspace.

We are continuing to look at all of our options there, but we're not anticipating recovering anything in the form of compensation from the government.

In relation to cabin crew, we will be meeting next week at the request of ACAS. I take some, you know, I think there is some reason for being optimistic following the ballot results on the proposal that we tabled. The numbers rejecting the proposal declined by just over 2,000. I think there were 2,200 cabin crew less rejecting it this time round, despite a campaign by BASSA the branch within, unite to have the proposal rejected. And, I think the turnout, which was around 45%, must have been disappointing for the union. And I think it clearly demonstrates that support for ongoing industrial action is waning.

Now we have seen some figures put out by the union in terms of numbers of the cabin crew who participated in industrial action. I've seen figures in excess of 6,000, and indeed somebody mentioned a figure close to 7,000 cabin crew. I can assure you that the numbers of cabin crew that actually participated in the industrial action was less than 5,000. As we had previously indicated, and quite a high number in terms of, surely, hundreds of cabin crew, and supported some industrial action early on, but then came to work during the later phases. So, we saw support for it decline over the period, and overall counting every individual cabin crew that participated in the industrial action since the beginning back in March, through to the end, on the 09 of June, it was less than 5,000.

We're also very encouraged by the number of cabin crew who are accepting the offer on an individual basis. Now, the offer can only be accepted by cabin crew who declare that they were not a member of the trade union on the date the offer was made, I think it was the 25 of June. And, the trade union tell us that they represent all but 900 cabin crew. And we have no way of confirming that. We don't know how many cabin crew are members of the trade union because there are people who pay for their membership through a direct debit, so we don't have information to confirm those numbers. But what I can say is, if there are only 900 cabin crew that are not members of the union, and every single one of those has accepted the offer on an individual basis.

So, I think there's reason for us to be cautiously optimistic that we can see some resolution of this. It may not happen next week. We're not proposing to table any new offer. The offer we have on the table is still available. And, the discussions that we have with the trade union will be using that offer as the bais of a resolution of this dispute.

Jarrod Castle - *UBS London - Analyst*

Thank you very much.

Operator

Thank you, the next question comes from (inaudible). Please go ahead.

Unidentified Participant - - *Analyst*

Thanks very much. First of all, if I can just clarify what Keith said earlier on cost, to make sure I've got it absolutely right. When you said that flat would be a good performance, were you referring to total costs, or non-fuel costs? That's the first question.

And the second question. The chance that you showed giving bookings and book revenue, which were very interesting. Are there any regional differences, and in particular, is that picture that you showed reflected on the Atlantic currently?

And then the final question, just a quick one. What's the expected year-end, full-time equivalent? Thank you.

Keith Williams - *British Airways - CFO*

And just for the clarification of the other one. Like I said, fuel costs we're anticipating at this stage being up around GBP200 million based on hedging, and the current prices. And non-fuel costs around flat. As opposed to GBP68 million down in the first quarter.

Unidentified Participant - - *Analyst*

Okay, so that would assume total costs of about GBP200 million then?

Keith Williams - *British Airways - CFO*

Yes, Yes.

Unidentified Participant - *- Analyst*

Okay, thank you.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

And on the bookings, we're not seeing any significant regional variation. There is always some, but looking at it, we're not really seeing anything that would be worth noting, to be honest with you. Nothing unusual. And nothing out of line. Bookings in all areas are generally positive.

There are some areas where we've taken capacity out, and bookings are lower as a result of the change in capacity. But, in the main, we're pleased with the levels of bookings and revenue in all the markets were operating in.

Keith Williams - *British Airways - CFO*

And, your question on MPE, you should expect that to continue to trend downwards. Not at the rate that is has year-on-year. And, year end, you should see something in the region of about 35,800. Something of that nature.

Unidentified Participant - *- Analyst*

Okay, thank you very much.

Operator

Thank you, the next question comes from Geoff Van Klaveren. Please go ahead.

Geoff Van Klaveren - *Deutsche Bank - Analyst*

Good afternoon. Just first question on antitrust immunity. So, can you say what elements you reckon can be rolled out, sort of more quickly, and what will take longer? For example, do you think you could have codeshares in place by next summer?

And second question, on the cabin crew dispute. I mean, I understand that the travel concessions is the last remaining obstacle to a settlement. So, can you can tell us what proportion of crew have actually lost their travel concessions? Is it as much as the 5,000 that you mentioned earlier?

Willie Walsh - *British Airways - Executive Director, Chief Executive*

On the ATI, we would expect to implement as much of it as possible, as early as possible. But with the aspects of it that can be introduced early. For example, coordination of the frequent flyer program, which we would hope to have done within the next -- starting within the next couple of months.

And, schedule coordination. We got clearance too late to do anything for this winter. We're looking up what is possible for the summer season, that's the season starting end of March, beginning of April, of next year. But as you know, trying to coordinate schedule within constrained airports such as Heathrow, and New York, are difficult. So that will happen over a period of time.

Codeshare we would expect to have in place by next summer. Some of us, we will have in place for this winter schedule, but we'd be looking to develop on that. But certainly some codeshare will be able to put in place for the winter season, and then we'd be building on that as we move forward. At pricing coordination, we'll be looking to do that as quickly as we can. Some of that requires schedule coordination. But the main early focus will be in relation to things like frequent flyer program.

And, on top of concessions, the number of cabin crew who have lost the travel concessions is the same as the number of cabin crew who participated in the industrial action. The one thing I would say is, though, do not be fooled by statements from the trade union that, that is the only issue between us. That is untrue. In fact, if you listen to what the trade union have said, they've indicated on a couple of occasions that if we were to return their travel concessions, they'd be prepared to sit down with us and start negotiating. So, that's nonsense. We've gone way beyond that period, way beyond that position, and what we continue to do is to move forward with changes -- where changes can be introduced on a non-contractual basis following consultation. And, the discussions that we will have with the trade union, relate solely to, changes that require their agreement.

So, in other words, changes to their terms and conditions. But, this is not about travel concessions, despite what the trade union will say. Travel concessions is not the issue at the heart of this. What's at the heart of this remains the refusal of the branch of Unite BASSA to engage properly in structural change with the business going forward. So we're going to continue to pursue structural change that does not require agreement . And as we demonstrated, there is significant change, in saving available to us, that can be achieved by that

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Geoff Van Klaveren - *Deutsche Bank - Analyst*

Okay it's clear. Thank you very much.

Operator

Thank you, the next question comes from Andrew Lobbenberg. Please go ahead.

Andrew Lobbenberg - *Royal Bank of Scotland - Analyst*

Hi, Willie, hi Keith. I wanted to know what your understanding was about the development of a passenger duty at the moment. I mean an (inaudible) reference that is a threat to yield in the second half.

But what is your understanding on what the government is doing? Is it just standing by the pre-existing labor commitments? Or, are they going to change them, and what's the process of the move to plane tax?

And then just a second question. What is your thinking around your stake in NATS because I believe the government is looking to monetize its stake.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Thanks Andrew. Our understanding at the moment is that the government intends to continue with the previous government's plans on APD and have signaled that they may look to change the structure in -- and pursue this per-plane tax in which case, it would be subject to public consultation. So, we are operating on the basis, that the APD increases, the schedule for November to come into effect and that is included in our pricing. And as you know, we are selling tickets in that period. So, from that point of view, that's the assumption we have.

We were however, very interested in statements made by the Prime Minister on his trip to India, where he talked about the importance of developing closer links, both in terms of business and others, indeed. But India was a critical market. I think that is going to be interesting to understand, given the effects that APD would have on travel to India. Because India's going to get quite hard-hit by these increases. So, if the government is serious about trying to develop further business links to India, and beyond, I think they are going to have to look again at the APD proposals. Because, it's in those areas that the customers are going to feel it most.

And a move to a per-plane tax. We're seriously tracking the number, the routes, that we operate to India. Hyderabad being a good example of that, where we've indicated that over 60% of the customers traveling to Hyderabad are transfer customers, and that a per-plane tax would make transfer over Heathrow uncompetitive versus other European hubs who could avoid the very significant APD charges, by transporting over Schipol, Frankfurt or Paris.

So, we're going to be pushing hard again on the levels of APD, and pushing hard against the introduction of a per-plane tax, which we think is not in the interest of Heathrow, as a hub airport. And on that Keith?

Keith Williams - *British Airways - CFO*

On that Andrew, as I think you know, is that we were one of the original investors of the airline group -- from about 42% of which -- we're the single largest holder, not by much, but we are the largest holder. And, we put in some amount of loan notes in that. Most of which is now being repaid. So, we have the original investment. As you said, the government, is potentially looking at an onward sale and we would probably look to participate in that.

Andrew Lobbenberg - *Royal Bank of Scotland - Analyst*

Okay, thanks.

Keith Williams - *British Airways - CFO*

Thanks, Andrew.

Operator

Thank you, the next question comes from Paul Butler, please go ahead.

Paul Butler - *- Analyst*

Hi. Good afternoon, gentlemen. Two questions.

First, I just wondered if you could talk a little bit about the capacity increase that you think is coming, and what the nature of that is going to be? Is it new aircraft? Or, new capacity coming in? Or is it aircraft being brought out of the desert, that's increasing that? And, if you just talk about what you think the timing on that could be.

And, second question is on the new fleet crew. When are you expecting that they'll be able to start work? And do you have a -- can you give any guidance on what sort of numbers of crew you will have, over what period of time?

Willie Walsh - *British Airways - Executive Director, Chief Executive*

In relation to capacity, most of the capacity that will come back in this winter will be the re-instatement of tactical cancellations, so not new aircraft and indeed, not aircraft coming out of the desert. These were -- it's increasing aircraft utilization. So what you would have seen on an industry basis through last winter, was a reduction in aircraft utilization, as people cancelled some flights.

We believe that, that capacity will, in the main, come back. Bolstered by some return of aircraft that will ground its own. For example, we've taken one aircraft out of the desert, that 747 that Keith mentioned and some new aircraft. But I think most of the capacity is actually reinstating capacity that was tactically cancelled during the worst of the downturn, in winter of last year. And, so that's really just going on back to increasing existing aircraft use.

In terms of new fleet. We gave some detail on the buildup of new fleet, or mixed fleet, at the investor presentation, and there is a chart which is available on the website, which shows it out over the next ten year period. So the intention is to start reasonably small.

The fleet will come into effect from the beginning of November and we'll build it up over time. But, we're looking in the first phase, starting the first year, it would be in or around, 500 people. So it builds up gradually over time, but there is a chart that we showed at investor day, and it's still available on the website. If you want to refer to that.

Paul Butler - - *Analyst*

Okay. Thanks very much.

Operator

Thank you, the next question comes from Douglas McNeill. Please go ahead.

Douglas McNeill - *Charles Stanley Securities - Analyst*

Good afternoon. Can I ask about your fortunes in the short-haul non-premium segment? I'm just wondering whether you think that the restructuring that you have undertaken, has made your product offering, and pricing mix more competitive relative to your rivals in that space of late? Or whether you think it's just mainly been a question of maintaining the status quo, relative to the competition?

Willie Walsh - *British Airways - Executive Director, Chief Executive*

All I can say is, if you look at Gatwick, where clearly we're facing direct competition from EasyJet, we know that operationally, we are significantly ahead of Gatwick -- sorry, EasyJet. Their recent publicity is clearly a positive for us.

Their operational performance at Gatwick is poor, and has been poor for some considerable time. The excuses they have used about Air Traffic Control strikes impacting on their punctuality, is clearly a red herring because the data we have shows that their performance has been poor for a considerable period, going way outside the period of ATC disruption. We had record punctuality and performance in the first quarter at Gatwick, 89% of our flights on time, during a period of obvious disruption.

So we're pleased with the progress we're making. We believe that our project is good and competitive. Our pricing is competitive. I think the issue we've got to deal with, is the perception of our pricing in that market. And, we are debating some marketing campaigns around that.

So, all of the structural cost improvement that we're pursuing benefits both short-haul and long-haul, and I think we're certainly more competitive than we used to be in that market but we've got a challenge. But I think it's a challenge that we can certainly face up to in the period ahead.

Douglas McNeill - *Charles Stanley Securities - Analyst*

Thank you, that is very helpful.

Operator

Thank you, the next question comes from Neil Glynn. Please go ahead.

Neil Glynn - *Credit Suisse Securities (Europe) Ltd. - Analyst*

Good afternoon, Willy and Keith. Just two questions from me, if I may. Just reverting back to your charts in relation to the forward booking profile, and also the forward revenue profile. And what is, what is your plans on pricing for the second quarter, as distinct from volume? And thinking about the scope for further pushing on in pricing, perhaps with a bit of load factor weakness attached, and what does that tell us about the demand environment as you see it?

Then second of all, just a touch on the Oneworld announcement during the week, with regards to Air Berlin. And maybe, you might share your, a little further, your ambitions with regard to Air Berlin presence within Oneworld? And, can that be a meaningful contributor to you with regards to transfer traffic across the Atlantic?

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Okay, thanks Neil. And -- on pricing, as Keith mentioned in the presentation, we expect the yield increases that we witnessed in the first quarter, you know, to come under a bit of pressure as we go into Q3 and Q4. And that will be a combination of capacity, but also cycling against the base. Because we did, as you know, see a yield increase in Q4 up -- up last year.

Neil Glynn - *Credit Suisse Securities (Europe) Ltd. - Analyst*

Yes.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

And there'll also be an impact, as Keith had highlighted, from APD from November of this year which will impact largely in Q4 as well.

Keith Williams - *British Airways - CFO*

Quarter two, now you mentioned quarter two. And quarter two should be strong, in part because of the comparatives from the previous year, and the real downturn suffered in quarter two last year. So we will be cycling against weak comparatives.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

The other thing we did last year, if you remember, we did pursue transfer traffic, particularly in Europe, and the US, over Heathrow taking advantage of the weak Pound, against the Euro and the Dollar. Clearly there's no additional incentive for us to do that this year. So, we did chase a bit of volume, in terms of transfer traffic last year, that made sense. You wouldn't, and shouldn't, expect us to do that this year. It is an option that is always available to us, but we particularly were attracted to that because of the currency benefit that we got from picking up that traffic.

And, in terms of Oneworld, one of the things that's important of Oneworld is -- when we look at Oneworld, is the overall strength of Oneworld. We don't always look at it, specifically in the context of, what does this mean for BA. I think it's fair to say that there are a number of our Oneworld partners who will benefit more from Air Berlin's joining of Oneworld. American being one of those. And, we take the view that anything that is positive for Oneworld, and positive for our key partner's within Oneworld, such as American -- to a lesser degree, Iberia will get some benefit out of it as well -- is a positive to us.

But we're looking at what added benefit we at British Airways can get from Air Berlin's participation. And, there is some clearly in the German market. But, we see Air Berlin joining Oneworld as a very significant boost to the overall Oneworld Alliance. And, makes us more attractive than, in terms of, looking at the key markets. So, for example, I think, if we had had Air Berlin in Oneworld when we were trying to attract a Chinese carrier, it would have made Oneworld a stronger proposition, because it opens up other avenues into Europe for some of these carriers.

So having a strong position in central Europe was seen as a particular goal that we wanted to achieve within the Oneworld Alliance, and we at BA took the lead on that, despite the fact that there is not any significant direct benefit to BA from that relationship. But there is significant benefit in terms of the strengthening of the Oneworld Alliance.

Neil Glynn - *Credit Suisse Securities (Europe) Ltd. - Analyst*

Right, just to follow up with one question with regards to Air Berlin. Can that be the carrot to entice a major Middle Eastern carrier into Oneworld?

Willie Walsh - *British Airways - Executive Director, Chief Executive*

That's exactly what we're saying. I think it makes Oneworld more attractive, not just Middle East, but it makes Oneworld more attractive to carriers in areas of the world where Oneworld is weak. And we are looking to pursue a strong global offering. There is no question.

Competition between the alliances has become more of a feature -- it's not a huge feature. But, it's becoming more of a feature in terms of corporate dealing than it has been in the past. Driven largely off the back of corporate activity in the US. So, strengthening Oneworld in key markets has been, as I said, a key goal. And I think, makes Oneworld a much more attractive alliance to perspective new members in areas where Oneworld would be seen as behind the other two major alliances.

Neil Glynn - *Credit Suisse Securities (Europe) Ltd. - Analyst*

Understood. Thanks very much for your help.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Not at all, thanks.

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Operator

Thank you, there are no further questions showing.

Willie Walsh - *British Airways - Executive Director, Chief Executive*

Okay. Can I thank you for joining us, and we look forward to talking to you at the half-year results. Thank you very much, everyone.

Operator

Thank you for participating in today's conference call.

(Operator Instructions)

Thank you.
