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CORPORATE PARTICIPANTS

Martin Broughton
British Airways - Chairman

Keith Williams
British Airways - CFO

Willie Walsh
British Airways - CEO

CONFERENCE CALL PARTICIPANTS

Jarrod Castle
UBS - Analyst

Samantha Gleave
BofA Merrill Lynch - Analyst

Neil Glynn
Credit Suisse - Analyst

PeterHyde
Liberum Capital - Analyst

David E. Fintzen
Barclays Capital - Analyst

Tim Marshall
Redburn Partners - Analyst

Douglas McNeill
Charles Stanley - Analyst

Andrew Lobbenberg
RBS - Analyst

Geoff Van Klaveren
Deutsche Bank Securities - Analyst

Jonathan Wober
Societe Generale - Analyst

Suzanne Todd
Morgan Stanley - Analyst

PRESENTATION

Martin Broughton - *British Airways - Chairman*

Good morning. Good morning, and welcome, everyone. Recently, I seem to have spent a great deal of time talking about the reds so it makes a change to be black in the back, and back in the black to the tune of GBP298 million operating profit; GBP158 million (sic - See Press Release). profit after tax. And these results serve to emphasize our strategy of introducing permanent structural change across the airline, and shows that it's reaping rewards with non-fuel costs down 3.1%.

Revenue's up 8.4% across the half-year, driven mainly by yield improvements. And while fuel costs are up 2.4%, that's in line with our expectations.

The outlook for the economy remains uncertain. And it's, frankly, typical that no sooner does the industry show signs of recovery than the Government makes a grab for the money with another pernicious increase in APD.

The Board has determined not to declare a dividend.

While we've made significant headway with permanent structural change, we're not resting on our laurels and will continue on further changes. During the summer, we agreed a new productivity deal with the Heathrow-based terminal staff.

We also announced recruitment of new cabin crew on more competitive terms and conditions, and I'm delighted to say that some of those crew have now finished their training and start flying on Monday. We also hope that the long-lasting cabin crew dispute can be resolved shortly.

We've seen some significant strategic developments during the half-year. In June, following consultation with the unions, we reached agreement with the trustees on a recovery plan to address the pension deficit, and the following month that plan was approved by the Pensions Regulator. I think to get a plan agreed by the unions, the trustees, the Regulator and Iberia was an achievement, indeed.

They say that everything comes to those who wait, and this summer, after 14 years of waiting, we finally received regulatory approval from both the US and the EU authorities to launch the transatlantic joint business with American Airlines and Iberia. The revenue share agreement was launched in early October, making greater access to cheaper fares, bigger choice of flight times and easier connecting journeys a reality for our transatlantic customers.

And earlier this week, we issued the shareholder documents, which most of you will have received now, for our merger with Iberia. The meetings to seek approval from the shareholders will be held in London and Madrid respectively on Monday, November 29. If approved, the merger should be completed in mid-January. And it's expected, at the moment, that the last day that BA and Iberia shares will be traded is Friday, January 21, and International Airlines Group shares will start trading on Monday, January 24.

That means that these should be the last British Airways results announcements in this current format. I'm conscious you'll be keen to know how we'll be reporting them in the future, and I'm afraid I'm unable to tell you because we don't actually know yet how we're going to do that. But we will provide more clarity fairly soon. Meanwhile, make the most of this opportunity.

Keith?

Keith Williams - *British Airways - CFO*

Thank you, Chairman. Good morning, everybody. Two years ago, when we went into the economic recession, we spoke about a year of two halves. I'm sure the Chairman won't mind me referring to this particular half with a little bit of American football terminology; it is a half of two quarters.

In the first quarter we made an operating loss of GBP72 million. Now, that was actually better than the previous year; it was some GBP22 million better than the previous year. But the loss of GBP72 million was attributable to two main factors; one was the volcanic ash, and the other was disruption.

What we'd seen in that quarter was traffic volumes were down some 15% year-on-year. Now, most of that had been offset by yield improvement, and yields were up 13%, as I'll show you in a later slide, and that lessened the impact on the revenue line. It was really the first quarter cost performance that drove the improvement year-on-year, as I'll show you in a moment.

If I move on to the second quarter, the second quarter saw even more yield improvement and the passenger yields were up more than 20%. And volumes were roughly flat; in terms of RPKs, they were down 1.6%. And that, together with holding the costs around flat, meant that we made an operating profit of some GBP370 million for that second quarter.

When we went into the year, we said the first half would see some significant yield improvement as we bounced back from the previous year, and that's exactly what we've seen. So, for the six months as a whole, we saw RPKs down 7.9% on ASKs down 6.2%. But these were more than offset by the yield improvement of over 17%; 17.2%.

So, the result for the half was that we saw an operating profit of GBP298 million on total revenues of just over GBP4.4 billion and a pre-tax profit of GBP158 million, as you've seen.

Now, what this chart is doing is really showing you what happened in the two quarters, emphasizing the movement that I was alluding to on the previous chart. What you can see here is that the costs in the first quarter were down some GBP68 million. But most of that was offset by a revenue decline of GBP46 million, with the result, as I said, is the operating profit improved by some GBP22 million.

Move on to the second quarter, and as I said, you see that the costs are roughly flat. But with a revenue improvement of over GBP390 million, GBP391 million, what you see is an improvement in the operating result of GBP387 million. And it's with that that we reached the operating profit of GBP370 million.

So the net result of the two quarters is we've seen an operating loss of GBP111 million in the previous year improve by more than GBP400 million to deliver the operating profit of GBP298 million.

Now I mentioned yields, and this chart is just showing you the yield performance in the Passenger business for that second quarter. I'll show you the Cargo business in a moment. As you can see, in terms of RPKs, RPKs were down 1.6% against a slight downturn in ASKs of 1.4%, with the result that the seat factor was only very slightly down at 0.2%. But the overall seat factor was at over 83%, 83.3%. So the aircraft has been still pretty full.

And this follows a strategy that we outlined at Investor Day where we said we would see significant yield improvement in the first half of the year. And what we saw in the second quarter, as you can see here, is that reported yields, Passenger yields, were up more than 20%, 20.4%.

Now there is some exchange benefit in there, and the next slide will show you what's been happening with exchange. But even on a constant exchange basis, the yield performance was up 16%.

So just looking at that yield in a little bit more detail, this chart might be useful in illustrating what has happened on a constant exchange basis, or an underlying yield basis, over the last 12, 18 months. So what you can see is that, over the period, currency has been favorable to the revenue line. But it's been favorable in various amounts.

Now if I look, first of all, to the first quarter data from this slide, you can see that, on a reported yield basis in the first quarter of '09/'10, the yields were down (Company corrected after the conference call) just under 10%, 9.7%, as you can see from the slide there. If you look further to the right, you can see that, on a reported basis in that first quarter this year, the yields were up more than 13%, 13.5%.

If we strip out the currency effects, you get a slightly different picture. Last year the yields were down 13.1%, and this year we recovered most of that yield, up 12.7%. So in quarter one, on an underlying basis, we largely recovered what we'd lost the previous year.

Now moving on to quarter two, significant yield performance in the second quarter, as you've seen, and that's driven the revenue. But again, if you look at it on a reported basis and an underlying basis, you get a slightly different viewpoint. So last year quarter two, on a reported basis, the yields down just under 15%. This year up more than 20%. Stripping out currency effects, last year down 23% and this year up 16%. So we've not quite got back to the levels that we saw a couple of years ago.

And if I move on to what I think is part of the factor behind that, this chart is just showing you the mix between flexible fares and leisure fares in longhaul premium. And, clearly, the flexible fares tend to have a higher yield than the leisure and redemption fares.

So if you look to the right there, quarter two, the red bar showing the flexible fares, has recovered from where it was 12 months ago. But if you look against the peak '07/'08, it's still lower than that level, which seems to me to offer some opportunity still, going forward.

And if I look at the same position in shorthaul, again what we've seen is a bounce back in the flexible fare yields in shorthaul in quarter two over the previous year. And again, I think that offers some opportunity, when we look forward.

Now part of that has been attributable to the performance of London City. As you know, we've introduced the new Embraer jets at London City, and the London City business is performing particularly well.

If I now look to Cargo; I mentioned Cargo. The yield recovery in the Cargo business is even more emphatic. Last year, we'd seen yields fall by some 30% and volumes were only slightly down in terms of Cargo tonne kilometers, or CTKs, down 4.6%. Now we have generally been able to retain volume throughout the recession. In the second quarter of this year we saw CTKS improve slightly, as you can see from the chart here, up 2.7%; on capacity, broadly flat, up just 0.6%.

However, if you look to the yield performance, you can see there, there's a massive 38.5% improvement in yield in the quarter. Now on an underlying basis again, that's slightly lower at just over 30%, but nevertheless, a significant improvement in Cargo yields, which we're seeing at British Airways, and you'll see across the industry.

Now looking out to the second half of the year, we're still cycling in the third quarter against yields that have been down in the previous year. And yields were down some 16% in the previous year. And there was only a modest improvement in yields in the fourth quarter; they were up about 3%.

So our expectation, going forward, is that, despite some slowdown, is that, over the second half of the year the yields should be positive to where they were in the previous year.

So with those by introduction, let's look at the headline numbers themselves. As I said earlier, the revenue for the second quarter improved by some GBP391 million, or 18.5% to just over GBP2.5 billion. As we saw, this was primarily because of the strong yields, though exchange was slightly beneficial in the quarter, GBP92 million positive on the revenue line.

The total costs were just over GBP2 billion, GBP2.14 billion, in line with what we'd been saying to the market earlier on. Within that, fuel costs were just up over 5%, and that's primarily exchange driven. Non-fuel costs continue to show some improvement, being down just under 2%.

That left us with an operating profit for the quarter, as we said earlier, of GBP370 million, and an operating margin of almost 15%, 14.7%. Again, EBITDAR showed some improvement and was GBP588 million over the quarter.

Non-operating costs were GBP48 million for the quarter. Now that improved slightly from a couple of movements. One was some positive movement on fuel derivative hedging, and the other was from reduced pension charges, and some benefit from exchange differences. All together, that left a pre-tax profit for the quarter of GBP322 million.

Now moving on to the half, what you see there, as you can see is the revenue was up just over 8%, 8.4% and the revenue stood at GBP4.44 billion. And the costs improved by some 3.1% in non-fuel costs, 2.4% increase in fuel costs and we're down 1.5% overall.

All of this left the operating profit for the quarter (sic) at GBP298 million, as we saw earlier, and an operating margin of 6.7%. EBITDAR again was much improved, GBP727 million, up 129%, as you can see there, from the previous year. And this left the pre-tax profit of GBP158 million.

And if we look at the splits of the revenue in terms of Passenger revenue, as you can see there, is that for the six months up almost 8%, and in the last quarter up almost 18%. Cargo, because of the yield performance, up almost 40% in the six months, and up more than 40% in the last quarter.

The Other, maybe, is worth a little bit of mention because, as you saw when we presented the results for the first quarter, Other revenue had been down in the first quarter. There is some recovery in the second quarter. And the reason for that is the Other revenue is really more reflective of the Passenger volumes. And as you saw earlier on, the RPKs were down almost 15% in that first quarter. So it's that that's held back the Other revenue in most part.

Turning to the costs; this chart shows the costs for the three months. Not a lot to say there; it's pretty much in line, as I said earlier, with what we'd been saying to the markets. Reported costs for the three months were up just GBP4 million. Fuel a major item in there, up 5.2%. And the non-fuel costs continuing to be down year on year, just under 2%.

A couple of points to mention there. Last year we benefited from a restructuring charge which hasn't been repeated this year. And the other line I'd maybe mention is the engineering costs which are up 21%. And the drivers of that is we've been doing a lot of work in terms of introducing new product, the first class product, and some of the costs have gone through there. There's exchange movements and there are increases in supplier costs.

The first half is pretty much a similar picture. I've not got a lot to add there. The total costs were down GBP64 million, despite adverse currency movements over the half of GBP64 million. So the underlying trend has still been coming downwards.

Looking now to fuel, I'll cover where we are on the fuel costs, going forward. But looking at the hedging; we're pretty well hedged out now for the rest of this year, and have some positions going through to next year. That's 30% covered for the year ended March 2012. And the red bar is showing you the sensitivity of what BA will pay, based on the hedge book that we have in place. And the bigger movement is likely to come from currency rather than the oil price, as you can see.

So what do we expect the fuel to be? Again, this is in line with what we said at quarter one results. In the first half of the year, we saw our fuel costs up just under GBP30 million. Move to the second half of the year, the fuel costs we're estimating will be up about GBP170 million. So GBP200 million for the year as a whole, as we said at the end of quarter one.

A big impact of that is the volume increases. And I'll cover the capacity in a second. But about half of that increase in the second year (sic) is down to volume, and then there is some price and exchange.

So just looking at capacity; we haven't changed the capacity that we outlined earlier. On an underlying basis the capacity will be up about 3% over the winter. And then, because of disruption of the base and the tactical cancelations of the previous year, we expect, overall, the ASKs over the winter period to be up some 8% to 10%.

And then looking out to next summer, we've got pretty modest increases for next summer, up 4% to 5%. And because of the disruption in the base, that will reflect something like an 8% to 9% recovery overall. Within that, in terms of aircraft deliveries, we've got deliveries of the 777-300s; the first one of those is in service. We've got the rest of the 777-300s delivering. We've brought back two 777-400s (sic - see presentation). And that is to support, really, the mergers with Iberia and the deals with American.

So what you can see in terms of route selection there, it's pretty complementary to the merger, and to the ATI with American. We're adding a service to San Diego and we're flying Buenos Aires direct. We've got the seventh JFK service, and we're launching a route to Tokyo, which I'm sure will please some of you, not having to go in from Narita. It's a much shorter journey in from Haneda. And with that, I'll stop the marketing program.

Looking at the balance sheet very quickly; in terms of the cash generation, the cash generated from the operations up more than GBP0.5 billion, GBP544 million, (sic - see presentation) a significant increase from last year. And the cash balance is over GBP1.8 billion, GBP1.857 billion. And the net debt reducing by some GBP241 million to just over GBP2 billion. So steady progress on the balance sheet.

Looking at the yields over the winter; if we look at the prior year, what we saw in quarter three is that yields were still down in quarter three last year. And finally turned and were up about 3%, if I recall, in the fourth quarter. So yields overall, last year, were down. We're expecting some increase over that this year.

And that's despite the impact of passenger duty, which has obviously been quite topical as it comes in on November 1. Significant increase for there. For British Airways it will increase our UK air passenger duty contribution to the UK economy, to the UK tax authorities, by some GBP100 million to around GBP450 million. And that has an impact on yield for the year of about 1.5%.

There are opportunities out there, and Willie will cover some of these in a moment. And clearly, we've got the joint business starting with American and Iberia. We've got new routes, some of which I've shown you; Willie will show you some more data in a moment. And if the UK economy continues steady growth, clearly that is an opportunity.

On the downside, APD, as you've seen, clearly will have some impact. Competitor capacity it looks, from what I'm seeing amongst the European carriers at the moment, is they're putting pretty similar amounts of capacity as BA, but clearly that will have an impact on next year.

And then it's what happens to UK consumer confidence, which has oscillated over the last few months. And clearly, that might have a negative impact on future performance. So there are opportunities, a balance of opportunities and risks.

And, with that, I will pass you over to Willie.

Willie Walsh - *British Airways - CEO*

Thank you, Keith, and good morning, everyone. Now over the last few years we've spent quite a bit of time with you, focusing on the issues that you've told us were important. And I'm pleased to say that we've delivered on most, if not all, of these issues. And I'm just briefly going to take you through some of these items.

Now next year represents a new and exciting chapter for the airline, as we move forward with our merger with Iberia. I don't intend to go through the detail of the EUR400 million of synergies that we've identified, other than to say to you that, at this stage, we have a very high level of confidence around our ability to deliver on those synergies in full.

Nor am I going to spend much time on the structure again, other than to say that, when looking at the structure, we wanted to ensure that we didn't do anything or put anything in place that would prevent us or preclude us from pursuing further consolidation. And while we have no plans, at this point, we clearly wanted to have a structure in place that would facilitate consolidation as we do believe that further consolidation will take place within the industry.

The chairman has indicated the timetable for you. We published all of the relevant documents on Tuesday evening, on October 26. Shareholder meetings in London and Madrid will take place on November 29, and it's expected that, subject to shareholder approval, the new business will be up and running sometime around the middle of January of next year.

Now our joint business, it's often hard to believe that we've spent 14 years trying to get approval for the joint business. We probably didn't celebrate enough when we did get the approval, having waited so long. But I'm pleased to say that we have already started implementing the joint business, and it is important to us.

I think, strategically, we've recognized that our major competitors and competitor alliances had increased and strengthened both their relevance and presence through their participation in consolidation, and their immunized alliance.

What was also very clear to us, over the past few years, is that there was a growing demand from customers, and particularly corporate customers, who were looking to the alliances for deals that would meet their global travel requirements. And clearly, the absence of ATI within oneworld had put us at a competitive disadvantage. And not only was ATI important from a BA point of view individually, we also saw it as important, from a oneworld point of view, to strengthen and consolidate oneworld, which we believe will have increasing importance as we go through the next few years.

And the joint business, as you know, is structured in a way that we believe will enhance the relationship between the partner airlines, growing our global reach and presence and relevance and particularly as we move to coordinate our schedules and pricing. So making our networks overall much more attractive.

And lastly, it is important to remember that we believe there are very significant customer benefits as a result of this joint business. Now we've highlighted these on several occasions but I think it is worth reminding you again that the combination of our network will be significant.

We'll operate almost 100 joint transatlantic flights on a daily basis, serving almost 500 destinations and 105 countries with 5,200 daily coach air flights. So this gives us a very significant network reach.

We will deliver a customer experience that is significantly enhanced on what's available today and we've already seen the benefit of that at the major hubs at Chicago and Heathrow where we've put specific transfer facilities in place to ease the transfer of our customers. And we believe we can grow and build on the experience that we've seen recently.

Greater convenience through coordinated schedules and I've shown you an example previously of our New York schedules, I'll show you a Chicago one in a moment. And our corporate customers benefit from having a single account manager and coordinated agreements. And we're already getting great feedback from frequent flyers on the enhanced frequent flyer program and also the fact that it's now a consistent program across the joint business.

This shows you our schedules between Chicago and Heathrow today and you can see there in the evening, both the AA and BA flights leave broadly at the same time, there's a three hour gap between our first and second evening departures. But we're departing at the same time and clearly arriving in Heathrow roughly around the same time.

And going forward, our intention is coordinate these schedules to give a much better option spread of flights through the day, which gives our customers a wider range of departure times, which we believe will enhance our relevance with corporate customers in particular.

And as a result of the development of the joint business, all three airlines have been able to announce new routes, which we've all assessed as being only viable because of the joint business. These are destinations that would not have been financially viable if it were not for the fact that we were able to create this joint business.

So American are launching flights to Budapest and from New York and Chicago to Helsinki; our new flight to San Diego, which we've tried twice before to make a success but we believe with the very strong American Airlines customer base in that area, tapping into their frequent flyer program and their customer base, that we can now make that a success. And with Iberia launching flights from Madrid to Los Angeles and Barcelona to Miami.

Now the pension, the Chairman has already mentioned this. This time last year, I think, we were still at the stages where we were trying to assess the deficit and many of you were asking us just how big the deficit was likely to be, and testing our belief and confidence in our ability to reach a recovery plan that would be affordable.

And I'm pleased to say we were able to reach agreement with the Trade Union representatives, with the pension trustees and get the recovery program approved by the Regulator, which in effect sees our total contributions remain flat in real terms.

The benefit changes that we negotiated will be introduced or were introduced, sorry, at the beginning of October for future service. So I think this has been a significant achievement, demonstrating our ability to work with the Trade Unions and our employees to get to a sensible solution for what is, clearly, a continuing challenge for us but one that we believe has been addressed through a recovery program that has been agreed now.

Now restoring profitability has been a very clear focus on us and I think this is an interesting chart showing the second quarter profitability going back to 2000. Coming off that peak in 2007/2008, we recognized that we were entering into a much more uncertain economic environment.

And Keith and I, as early as May/June of 2008, were highlighting the need to change our traditional approach to cost cutting to a much deeper and structural approach to changing our cost base. And I think we have made excellent progress in relation to that. And I think it's fair to say had we not done so, we wouldn't be in a position to announce profits today.

We thought this was interesting because it looks at the revenue and costs for the business going back to the peak period 2007/2008 and the half-year that we've just announced. And you can see there that the revenue is broadly flat and I think this year -- at this half-year, down GBP9 million on where it was in 2007/'08.

Fuel costs, structural change to our fuel costs that we had highlighted, up 28%, GBP274 million higher and our non-fuel costs, as a result of the cost control and structural change to the cost base, we've been able to hold flat in the face of significant pressure from monopoly suppliers, clearly, and other areas of the business. So our cost control we believe has been a critical feature of our recovery to profitability and, more importantly, will benefit the business as we start to grow with improving economic conditions.

Now this structural change was launched back in mid-2008 when we announced management restructuring in August 2008, which was completed in December of 2008. We then launched general restructuring amongst the other parts of the business in February of 2009, reached agreement and implemented changes with their engineering colleagues in June of 2009, with pilots in October 2009. We implemented changes for cabin crew at this time last year and those changes have now, as you know, been in effect for a year and are, I'm pleased to say from a customer point of view, working very, very well.

And we've introduced changes in all of the parts of the business and reached formal agreement on some of these changes; that has already been implemented and indeed more changes to be implemented. And an example of that is with the passenger services colleagues in the terminals, which we signed off in August of 2010.

Now a key part in the transformation of both our operation and customer service has been the improvement that we've witnessed in Terminal 5 and this has enabled us to develop a step change in both punctuality and baggage performance.

T5 has opened 947 days, I'm going to stop at 1,000 but it's 947 days today. And it's interesting to remember in September of 2007, so just before we went into T5, we had 7,268 people employed, that's a figure we showed you at the half-year results back in 2007, 7,268. That number is down to 5,500 now.

So not only have we significantly reduced the number of people working in there but we've improved the operational performance and customer experience, which is something we said at the time we believed was possible.

And you can see here our punctuality -- on time punctuality measured on the industry basis of within 15 minutes. We were in a steady decline prior to the opening of T5, not as a result of anything we were doing internally but as a result of the pressure around Heathrow because of inadequate facilities leading to overall poor punctuality. We've seen that significantly improve.

The dips in punctuality are almost exclusively external events. As you probably know, we've faced significant air traffic control industrial action across Europe this year and it is ongoing, which has had a major effect on our business. But despite that, we've been able to improve our punctuality to a point where we believe we're better than most of our major competitors. And that's certainly the case at Gatwick where our Gatwick people have done a truly fantastic job, even in the face of all of the ATC and other challenges that we've witnessed in recent months.

And on baggage I think this has been probably one of the most satisfying turnarounds that we've seen. You'll be familiar with this chart because we've shown it to you on a number of occasions. This time three years ago, our average missed connect bags performance was 65 per 1,000. That green line, which was our target, was 23 per 1,000 and you can see we've consistently achieved or beaten that on a network basis.

And what we've seen from AEA statistics is that our performance is now better than Air France at Paris, KLM at Schiphol, Lufthansa at Frankfurt. So we're ahead of all of the major European network hubs in terms of our baggage performance and punctuality. And I think that is really a transformation from where we were.

And we made it clear as we went through these changes that not only were we focused on reducing our costs and doing that in a structural way but we also recognized the need to continue to invest in the business so that we would be able to take advantage of the improving economic conditions as they recovered. And that has certainly been the case in the last three months in particular.

So I think it has justified our investment in the new first class cabin, which is now on 12 of our aircraft. The introduction of our new 777-300ERs with all new cabins, and customer feedback on that has been absolutely fantastic. We've seen a more than 20 point improvement in customer satisfaction and we've never witnessed customer satisfaction changes on a level like that before, following the introduction of the new 777-300.

Terminal T5C I'm pleased to say will open next summer and that will again significantly improve the customer experience at Heathrow because it will reduce the amount of bussing that we have to do, which has been a drag on the business but something that we all recognized would have to happen as we transitioned into T5. And we will continue to invest in new technology for the benefit of the business.

So I think we're starting into an exciting new time. I'm pleased with the progress we've made on the discussions with Iberia towards the merger. We're very confident in our ability to deliver on the synergies and we'll be absolutely focused on doing that. And the new joint business with American is proving to be a great success.

Now it's very early days but just to give you some flavor for it. Last year in the period between October 1 and October 25, the combined ticket sales, in other words American selling on BA, BA selling on American, came to just under 35,000 tickets. So that's where we would sell a flight on a -- sell a ticket on an AA flight or they would sell a ticket on a BA flight, so just under 35,000.

That's increased to 80,000 in the same period since we've launched the joint business and most of the ticket sales previously would have been behind and beyond on the coach air within -- on flights in Europe and flights within the domestic US market.

Most of the increase that we've witnessed in the first few weeks of sales have been on transatlantic. We've seen an increase in the flights that we're selling, tickets that we're selling behind and beyond, but also a very significant increase in transatlantic ticket sales between us.

So it is very early at this stage but we're very pleased with the early progress that we've seen in terms of the joint selling and I think it supports our view that this will be a very successful joint business.

Now I think ready to take your questions. Thank you. Go ahead.

QUESTIONS AND ANSWERS

Jarrod Castle - *UBS - Analyst*

Good morning, it's Jarrod Castle from UBS. Two questions please, maybe it's for Keith. Can you say anything in terms of the performance of the shorthaul yields versus the longhaul in terms of Q3 overall blended of 20%? And if you could say also something on the outlook for shorthaul?

And then just looking at the underlying yields in Q2, it seemed like you pretty much got to the same base as in Q1 that you were at last year, Q2 you're not there yet. Is that just really the base effect or was there anything else going on? Thanks.

Keith Williams - *British Airways - CFO*

Yes, in terms of shorthaul yield looking forward, I think the chart that I showed you really answered it all. If you look at the mix between leisure and redemption and full fare is that you can see there is that movement back to full fare. And looking to October, that is a continuing trend.

In terms of the yield performance in the second quarter, I'd just say that a 20% yield improvement or 16% underlying is, I think, above most people's expectation. So I don't think there's anything that's unremarkable in it at all.

Samantha Gleave - *BofA Merrill Lynch - Analyst*

Samantha Gleave, Bank of America. Two questions, maybe just a follow-up to Keith; can you give us the impact of foreign exchange on the Q2 costs?

Keith Williams - *British Airways - CFO*

Yes, in terms of the costs, as I said overall, if you look to the quarter as the half-year as a whole to give you the numbers, the revenue benefited to some GBP108 million, of which I think I put on the slide earlier on, is GBP92 million of that was in the second quarter. And if you look on the cost side, I said earlier it's GBP64 million overall, of which around GBP42 million was in that second quarter.

Samantha Gleave - *BofA Merrill Lynch - Analyst*

Just a thought on the slide on flexible fares on the longhaul side and the shorthaul side, you mentioned you see some opportunity going forward. Can you just give us a bit more color on the extent of that opportunity and why you're confident there? Thank you.

Keith Williams - *British Airways - CFO*

I think -- again I think the slide says it all actually. If you look at where we've been historically and where we are today, if you believe that the underlying economies are going to continue to improve and GDP at the moment is still trending upwards, that ought to give us some optimism for what will happen with that mix.

Willie Walsh - *British Airways - CEO*

The recovery is certainly faster than we had expected. I think we'd outlined in previous presentations that we had witnessed and expected to see a shift from fully flexible fares to the restricted fares both in shorthaul and longhaul premium. I think the recovery towards the fully flexible fare has happened faster than we had anticipated and has been stronger than we had anticipated in shorthaul.

So it's been both faster in terms of recovery to both longhaul and shorthaul. I think there's still upside on the longhaul and on the shorthaul it's recovered faster, but it's also recovered much stronger than we had expected. And that trend continues with the forward bookings that we have. We've limited visibility clearly around forward bookings but we've not seen anything to suggest that that cannot be sustained.

Neil Glynn - *Credit Suisse - Analyst*

Neil Glynn from Credit Suisse. Two questions from me, first of all and I realize you are restricted in terms of what you can say on the outlook, but I wanted to get your thoughts on margin development. It seems perhaps if you were to add back disruption, ash and strikes, maybe 8% might not seem unrealistic this year. It doesn't seem then thereafter but a 10% return seems off the wall. Can you give me any kind of indication as to how you're feeling regarding that for the medium-term?

Then maybe to ask the second question, Keith, I think you talked about a procurement with regards to engineering specifically. Clearly a lot of your partners certainly gave up some cost savings through the downturn. Can you give a bit of a feel as to are some of those indeed unwinding now?

Keith Williams - *British Airways - CFO*

On the second one, as Willie said in his part of the speech, is that we are subject to some monopoly suppliers where we're locked into price increases that happen over time and that's really what is driving the cost upwards.

When we went into the procurement program we did it on the basis, consistent with what we've said overall, that what we needed to make was structural change to the business, not just temporary change because temporary change tends to bounce back. So it was really about structural change, so it was about structural negotiations rather than temporary.

Willie Walsh - *British Airways - CEO*

We are, clearly, restricted in what we can say so let me talk in very general terms. We've always felt within British Airways that the industry, never mind BA, but the industry was capable of generating higher margins on a consistent basis. And I still hold that view. In fact, I'm more confident, from an industry point of view, that that's likely to be the case going forward because of all of the lessons that have been learnt in recent years.

We are, typically, an industry that is ill-disciplined, and I'm witnessing a lot more discipline right across the board today than I think we've ever seen before. So we're very clear that the industry must start returning its cost of capital, and I think, more and more, I'm hearing CEOs talking that way.

A lot of people were, I wouldn't say critical, but certainly challenged us, when we talked about the 10% operating margin target as being a relevant target for the business. But we believe that this industry is capable of returning its cost of capital and we are determined to do so, whether that's in BA in isolation, but, more importantly, going forward for the future, in combination with Iberia. And that's clearly what we will be focused on, and to do that on a consistent basis.

PeterHyde - *Liberum Capital - Analyst*

Yes, it's PeterHyde from Liberum. Can I just ask a couple of questions? Firstly, on the scheduling for summer 2011, can you just give us a bit of a feel for how far you can alter your schedule with American, in terms of the totality of where you think you might end up? I.e., you're going to do 60% of the changes or 80% or 20%. Is it gradual or do you think you can implement quite a lot?

And then secondly, in terms of corporate customers and oneworld, I was wondering if you could give us a bit of a scale of that. I don't know whether you can give us the number of corporate customers that are different at American to yourselves, or vice versa. But I'm just trying to get a bit of a handle on the opportunity there, going forward. Thanks.

Willie Walsh - *British Airways - CEO*

Yes, we recognize that schedule coordination is an important feature of the joint business and will generate benefits so, therefore, we are focused on delivering on that as early as possible. But we'll clearly look at the major hubs, so coordinating schedules between Heathrow and JFK, Heathrow and Chicago; they will be the focus. And we believe we can achieve that for next summer. So, starting in the summer season, so that's April of 2011.

It isn't always easy and there may have to be some compromise, but we are working to do that as soon as possible because we believe that's where we get significant consumer benefit.

As you've seen from the chart, there's no point in having BA and American departing to the same destination at the same time. Now we don't have total freedom in how we reschedule, but given the scale of our operation at Heathrow and the scale of our operation at JFK and Chicago, we believe it will be possible to coordinate those schedules for next summer. And then we'll look at the rest of the network.

So this will develop over time, particularly as we look to maximize the number of connecting flights that we do there. But we'll certainly focus on the prime trunk routes initially.

We have done quite a bit of analysis in terms of the corporate customers. I wouldn't disclose detail of it at this stage, but just say that the analysis that we've done tells us that the opportunity there is greater than we had first believed. So, there's -- there is more upside, looking at their corporate customer base and our corporate customer base, and the overlap; there's more opportunity in that than we had first believed. But I can't give you the specific detail in relation to it.

David E. Fintzen - *Barclays Capital - Analyst*

Hi, Dave Fintzen, Barclays Capital. Question on -- you showed the Chicago-London schedule. Is there a point in some of these large JV markets where there's almost a diminishing marginal return to the schedule where, maybe over time, you could start to actually take some frequencies out, and maybe take advantage of broadening out the network within the JV. Just some thoughts there.

Willie Walsh - *British Airways - CEO*

The network will develop over time, without any question, and I think it gives us greater flexibility working together to adjust the network. But the intention, initially, based on what we've seen, is to maintain and, in fact possibly increase, the number of flights we do in the joint business. We don't see anything to support us reducing capacity in these markets.

So we believe with the schedule coordination, we'll enhance our positioning in these markets. They are very competitive, but the transatlantic has always been an important part of our business. I think the fact that we're announcing expansion of the transatlantic network demonstrates that we believe there's still growth opportunity in that market.

And it's important also to remind you that we have scaled back quite a bit our services over the past two years, as we went through the recession in 2009. So at this point, I wouldn't see us taking any capacity out. But clearly, we will look at the longer-term development of the network as we work more closely with American and Iberia.

Tim Marshall - *Redburn Partners - Analyst*

Thank you. It's Tim Marshall from Redburn Partners. Just a question about the additional services that you're putting on, the Tokyo flight, the San Diego. How easy is it now to get slots at Heathrow to fly those, and where do you anticipate that going, as Heathrow fills up? And I say that on the back of having to wait in the sky yesterday, flying in from Frankfurt. It seems that we're getting back to those times when Heathrow's going to be pretty full again.

Willie Walsh - *British Airways - CEO*

Well, Heathrow has been full for some considerable time. In fact, if you look at the number of movements at Heathrow, there hasn't been a noticeable decline; it is capped at 480,000 movements on an annual basis. We have scope to add frequencies because we have acquired some additional slots over the past couple of years. We have flight slots that are used on shorthaul that were acquired for longhaul development.

So, we do still have scope to increase our longhaul network from Heathrow. It does come at the expense of the shorthaul, and that's why we see London City as being an important feature of our business in London, because we have been growing our presence in London City, with the investment in the Embraer fleet at City. We've got an improved product there, and the performance of the London City business has been very strong. One of the things that has supported the growth in shorthaul premium has been the flying that we're doing out of London City.

So, while we will see some reduction in the shorthaul program at Heathrow to fund longhaul, that will be offset by some plans to grow the shorthaul network at London City. And we find that they do complement one another very well.

Tim Marshall - *Redburn Partners - Analyst*

Is it fair then to say that the quality of the business, given that the shorthaul's always been less profitable, the quality of the business should improve then, as that transitions more towards the longhaul?

Willie Walsh - *British Airways - CEO*

We'd like to think so, yes.

Tim Marshall - *Redburn Partners - Analyst*

That's what I thought.

Douglas McNeill - *Charles Stanley - Analyst*

Hi, Douglas McNeill from Charles Stanley. Just to dwell on the City [final] point, how do you see the future of that business in the longer-term? You've got the two new deliveries coming through. Do you think that leaves it at more or less the right size and shape, or do you think its cost structure leaves it scope for quite a bit of market share capture?

Willie Walsh - *British Airways - CEO*

We've been very pleased with the performance of London City; it has exceeded our expectation at this point. So, both in terms of volume and yield, it's ahead of where we thought it would be.

Customer feedback on the Embraer has been fantastic; it is definitely a better product than the RJ aircraft and the capability of the aircraft and the operating costs of the aircraft are significantly better.

So, at this point, we believe that there is further scope for growth at London City. There are slots available, and we have options on additional Embraer aircraft. But based on our performance to date, it would support further investment in London City, which helps us then at Heathrow, as I said. Because we can continue to provide a strong business network out of London, combining Heathrow with London City, and allow us to use shorthaul slots at Heathrow for longhaul expansion.

Andrew Lobbenberg - *RBS - Analyst*

Hi, it's Andrew Lobbenberg from RBS. Two questions, please. In terms of the use of terminals at Heathrow, are you tempted in any way to use some of the new stand capacity available at Terminal 5C to bring partners into T5? Because, obviously, if you're trying to offer some form of shuttle with American, you don't want to be split across terminals.

And my second question is just about labor costs. I take what you guys have said about structural change, but with strengthening revenue and strengthening profitability, how much pressure are you going to see from labor cost increases? I think Cathay is seeing quite a lot of pressure from their pilots just recently, so how do you see that playing out?

Willie Walsh - *British Airways - CEO*

Very good question in relation to T5 and it's one that we're spending a lot of time working on. We have given a commitment to JAL, as part of the oneworld commitment to retain JAL within oneworld, that we will look to move them into T5; so that'll be the first non-BA carrier in T5. I don't need to tell you, we don't own T5, so while we have exclusive use of it at the moment, we don't control who has access to T5.

We are looking at how we can better use T3 and T5 to coordinate our schedules. And clearly a part of that is both the work that we do with Iberia to Madrid and the work that we do with American. So -- we've not finalized on this, but it is possible that we will transfer some of the existing T5 flights into T3, and some of the T3 flights into T5. And we'll base that on what we think the overall contribution of the network will be.

In terms of pressure, we've always been under pressure. I don't think it's changed. I don't think it's eased on the labor front. I don't think it will ease. But we've demonstrated how determined we are to implement structural change to the cost base.

And I'm delighted to see that the new cabin crew that have been recruited will start flying on Monday, operating flights to Prague, Pisa and St. Petersburg initially, and then extending into longhaul flying from December. That's a critical step in addressing the cost base that we have.

So we will continue to resist pressure where we think it's unjustified and we'll continue to ensure that we maintain control over our cost base. Not just labor cost, but everywhere we can exercise control. And more importantly, look for new opportunities to structurally adjust the cost base. And I think there are still opportunities available to us.

Geoff Van Klaveren - *Deutsche Bank Securities - Analyst*

Thank you. It's Geoff Van Klaveren from Deutsche Bank. I think my question's partly been answered, but just to confirm then, you wouldn't be looking with Terminal 5C to move any longhaul from Gatwick? You're still committed to the longhaul at Gatwick, I guess, with the capacity.

Willie Walsh - *British Airways - CEO*

Yes, absolutely. Gatwick longhaul works very, very well for us and the network we operate out of Gatwick works extremely well out of Gatwick. Gatwick is a cheaper airport, both from an airport cost point of view, and also from the BA cost point of view. And we see opportunity going forward to grow the longhaul network at Gatwick, so we're not solely focused on Heathrow. We do look at opportunities at Gatwick and we're clearly looking at opportunities at London City.

And we're looking at whether we can grow the longhaul network at Gatwick to the East as well, and that's something that we haven't traditionally done. It has typically been focused on the Caribbean, which works extremely well for us, but we think there are other opportunities out of Gatwick. And working with the new owner at Gatwick as well, we think that those opportunities can be exploited better than in the past.

Geoff Van Klaveren - *Deutsche Bank Securities - Analyst*

Sorry, can I just ask a follow-up question? With respect to IT integration with a merger, do you see any risks there or are you comfortable with --?

Willie Walsh - *British Airways - CEO*

I see it all as being opportunity, to be honest with you. IT is clearly an area where we believe there are significant cost synergies available to us. I think we can justify investment together that would have been a struggle to justify in isolation. We had suspended some investment in IT because we felt that we would be better pursuing investment as a joint business, rather than as BA in isolation.

So we believe that IT represents a real opportunity for us, and we've made good progress so far. And that's why I said with the work that we've done, particularly focused on year one synergies, we're very confident in our ability to deliver on the synergies in full.

Martin Broughton - *British Airways - Chairman*

Okay, last question.

Jonathan Wober - *Societe Generale - Analyst*

Jonathan Wober from Societe Generale. You talked about your capacity growth plans for next summer and also referred to competitor capacity increasing. Do you share IATA's concern that higher capacity growth next year will lead to yield declines?

Willie Walsh - *British Airways - CEO*

I think there's always a concern that if air capacity increases, you will see some pressure on yield. I think the capacity that we've seen is in line with what we had expected to see. And provided the industry continues to demonstrate discipline, and possibly have discipline imposed upon it by things like higher fuel costs, we shouldn't see any major change to our yield outlook.

So, the forecast growth that we've seen, both in terms of demand and capacity, is in line with what we had expected to see when we were doing our longer-term business plans. So, I haven't seen anything that changes that at the moment.

And that's globally. Clearly, there would be areas where we'll see much more significant growth, but equally we've seen very strong demand in some parts of the world. But it's very much in line, both on a regional basis and on a global basis, with what we had expected to see.

Suzanne Todd - *Morgan Stanley - Analyst*

[Suzanne Todd] at Morgan Stanley. I just have two questions, first of all, have you seen any change in the pattern for bookings, as a result of the APD increase?

And secondly, if you could just clarify your expectations for the level of PBT for the full-year.

Willie Walsh - *British Airways - CEO*

On APD, the increase has been priced-in for some time. So -- in fact, it's been priced-in for the last year. Because when the Government announced the increase, we reflected that increase as we started selling for flights departing after November 1, when the increase was scheduled to come into effect.

It's difficult to identify the changes, other than we believe it does have a dampening effect on demand. I think there's greater awareness now of the increase in the APD, and it is clearly a factor that has already been built into our plans for next year. So we've had it in our plans for some time.

We've seen in some markets -- we talked about the Caribbean, in general terms recently, where there's been a 12% fall in travel from the UK to the Caribbean. We think a factor behind that has been the high level of APD that applies, because the Caribbean falls within Band C. So we think we've already seen the impact of it because it's been priced-in for some time now. And I don't think we can say anything beyond what we've already said.

Martin Broughton - *British Airways - Chairman*

Okay. Well, thank you very much for your attention today and in the past and we will be back to you soon as to how we plan to do IAG presentations in the future. Thank you very much.
