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Martin Broughton: Good morning everyone and welcome. We won the OAG Airline of the Year Award last month. There is nothing unusual about that you might think, and normally we accept such accolades graciously and tuck them away in the trophy cabinet. However, this one we have not won since 1988 and, on this occasion, we were a little surprised, because the year had got off to a very promising start but it was subsequently marked by a relentless series of events that tested the patience and loyalty of our customers.

What does the award say not so much about us but, more accurately, about the frequent flyers who voted for us over Lufthansa, Emirates, Singapore and so on? I believe it says that they believe our customer service across the board is the best as are our products. It also recognises the ability of the management team to manage through the difficult periods.

These full year results reflect the impact of the disruptions. I believe they are pretty strong results which will pave the way for the delivery of the 10% operating margin goal which we aim to achieve this year. We reported an operating profit of £602 million, down £92 million on last year despite fuel costs being up £350 million, giving us an operating margin of 7.1%, pre-tax profit of £611 million, down £5 million on last year. Revenue and yield performance improved as did our position on debt. Cost performance was good, which shows that the focus on cost is still a priority. Total costs were up 5.5%, principally driven by fuel – still a major challenge – up 22%. Cargo performance was disappointing as a result of capacity cuts, disruption and a soft market environment.

Security remains a big issue for us and for our passengers. To be effective, security has to be credible. Current UK security requirements are no longer credible. The one piece of hand baggage rule has no credibility when it is not required in the US nor anywhere else in Europe. It is irritating to passengers and makes London an unattractive place, particularly for transatlantic passengers; it has to change.

The results also include a number of one-off items. Arcane accounting rules somehow created a pensions credit of £396 million from the changes we made to the New Airways Pension Scheme. I believe this makes a mockery of the traditional concept of true and fair accounting, because in practice we merely reduced the unfunded pensions deficit.

We also made a provision of £350 million against settlement of the competition investigations into anti-competitive activity on long-haul passenger and cargo fuel surcharges. The investigations by the DoJ, European Commission, OFT and others are continuing. We have a long-standing, clear and comprehensive competition compliance policy, which requires all staff to comply with the law at all times. It has become apparent that there have been breaches of this policy in relation to discussions about these surcharges with competitors. The behaviour is both regrettable and totally unacceptable. Under IAS37 we are required to make a provision representing our best estimate of the amount needed to settle all competition authority and civil claims, but we re cognise that the final amount is subject to some uncertainty.

I am particularly pleased that we tackled our £2.1 billion pension deficit. We disposed of the loss-making BA Connect, and Gatwick's improved performance has given us the confidence to order new Airbus aircraft to boost the short-haul fleet.

A day does not seem to pass without another dire warning about climate change and the impact of aviation on the environment. We continue to be an easy target for politicians and campaigners, despite revelations from leading rain forest scientists that one day's deforestation will release as much CO_2 as eight million people flying between London and New York. Our argument that carbon emissions trading is the most environmentally effective way of combating aviation's impact on climate change has now been accepted by the European Commission, and airlines will be included in the EU's carbon trading scheme from 2011. We wish it was sooner and it is difficult to understand sometimes why it takes so long.

We were incensed by the Government's decision to double air passenger duty and pass it off as a green tax. By the way, we picked up the £11 million costs to our customers on tickets already booked. We suggested to the Chancellor that APD could be reformed so that the proceeds were spent on offsetting flight emissions.

One of the most significant developments in the year was the formal agreement of a new Air Treaty between the EU and the US, which comes into effect from March next year. In terms of Britain's interests, the prized access to Heathrow was given away too lightly, and there was no progress on lifting foreign ownership rules or gaining access to the US domestic market. However, there was one consolation: both sides committed to resume second stage talks towards achieving a proper open aviation area, and Europe's transport ministers demanded an automatic termination clause giving Britain the ability to withdraw the right to fly into Heathrow in 2010 if the US drags its feet on progress towards liberalisation by then.

There was a lot of hype around the deal that would trigger a flood of new entrants into Heathrow and slash fares, which are already extremely competitive. There will be more competition in time but we are well prepared. One of our most powerful weapons will be Terminal 5, which will be open by then with all the fantastic benefits that it will bring for customers and for UK plc. We shall continue to offer an unrivalled breadth and frequency of network and, at the same time, our new industry-leading Club World cabin will be in place across the bulk of the long-haul fleet.

We are planning on moving some of our services from Gatwick to Heathrow, and we will also be able to fly from the US into Europe. We have this week applied to the US Department of Transport for permission to operate from any point in the US to any point in Europe.

There is no dividend recommended for the past year but, recognising that we are now approaching our 10% margin target we have addressed, and had addressed the pensions deficit. The Board has decided on a dividend policy for the current year. We intended to start at a level that would allow it to grow over time and be consistent with other cyclical companies and our major airline competitors.

Keith – over to you for the numbers.

Keith Williams: Good morning, everyone. As you can see from the results, there is a great deal of information to cover this morning. Looking at the underlying position for the last year, and the outlook for this year, I would summarise both as being within the guidance we gave you a couple of months ago at Investor Day.

There is, of course, the new accounting provision in respect of the investigations by the competition authorities into cargo and long-haul passenger fuel surcharges. I shall come back to that in a moment.

Operationally, we would describe it as a tough year and this has taken the gloss off the financial performance, but we continue to make steady progress towards our financial goals.

We have resolved a number of fundamental issues. We have tackled our pension problems, reduced our debt, disposed of the regional operation, BA Connect and, as a consequence, last week reached agreement on the outsourcing of our regional ground handling arrangements.

We have also made good progress on our headcount and productivity and, in particular, in the area of management reductions. These changes put us in good shape to move towards our 10% operating margin this year.

First, looking to the headline numbers for 2006/7, and starting with Q4, we said in early February that these would be impacted by the threat of a cabin crew strike. At the time, we estimated lost revenues at some £80 million, mainly because of the loss of bookings in the important January booking period for flights over the following few months. There has also been the ongoing impact from Government requirements on hand baggage. Taking both of these factors, traffic for the quarter has been soft.

As the Chairman mentioned in his introduction, we also absorbed the impact of air passenger duty on tickets which were sold prior to the introduction of increased rates on 1 February. This further reduced revenues for the quarter by some £11 million. Those impacts, together with the effect of a weaker dollar, left Q4 revenues down almost 6% year-on-year, at some £1.93 billion.

Turning to costs, our cost control has been good throughout the year and, in the quarter, total costs before exceptionals fell by 0.5%. Excluding fuel costs, they were down just over 2%.

The resulting operating profit for the quarter was £31 million but, within that, there were two exceptionals. There was £396 million credit, attributable to the changes in the pension fund, which we flagged at Investor Day, and the new £350 million provision for the competition investigations. Excluding those, there was an operating loss for the quarter of £15 million – the first time we have made a Q4 operating loss since 2002/3.

Looking now at the full year, revenues were up 3.4% and in line with our earlier forecasts. This was despite cargo revenues being much softer in the second half. On costs, before exceptionals, non-fuel costs increased overall by 1.1%. Although the rate at which fuel costs have been increasing has slowed, our fuel costs were still up a massive 22% over the year and this left costs overall up by 5.5%.

The operating margin before exceptionals was in line with our earlier guidance at 6.5%; after exceptionals, it was 7.1%.

The operating profit for the year was £602 million, down £92 million from last year. Pre-tax profits were almost flat at £611 million.

The various disruptions during the year have been highlighted previously. In August, we lost £100 million from the security scare; in December, we lost £40 million from fog and baggage disruptions, and, as already mentioned, in Q4, we lost £80 million from the threat of industrial action by cabin crew. We lost a further £11 million from absorbing the increase in air passenger duty.

This slide graphically shows you the reduction in bookings that we experienced during the quarter, once the strike threat was confirmed on 15 January. There was a massive drop off in bookings which was not recovered from the quartered.

The various challenges throughout the year had the effect of reducing passenger revenue by some £231 million but, even so, passenger revenues were still up a creditable 4.9% and passenger numbers rose some 2% to over 33 million.

Other revenues were down £16 million for the quarter and £40 million for the year, mainly because the prior year comparison included revenues from our interest in the London Eye, which was sold at the end of last year.

The cargo performance merits further comment. At Investor Day, we highlighted the poor performance of our cargo business. In part, this reflected anticipated weaker international freight markets where growth rates internationally had slowed to just over 2%. In response, we have cut capacity by just under 3%, through planned reductions in our freight programme. In Q4, however, capacity reduction was down over 5%, as we turned more capacity over to handle baggage for passengers. Even so, capacity reduction was outstripped by volume reductions of 12% in Q4. Additionally, we suffered yield decline of just over 5%.

At Investor Day, we indicated that we expected cargo revenues to be down about 3% for the year. In the end, performance was down 3.1%, with Q4 revenues down some 17%. The poor performance was down to a number of factors. There were the additional security measures which impacted cargo as well as passengers post-August; the impact of the various disruptions at Heathrow, and the introduction of new working practices.

There has been some improvement in the BAA's capability on security and some operational improvements. In April, there were signs of business improvement and volumes were down 7% - still below target but heading in the right direction.

The outlook is that the cargo market is likely to remain sluggish. Capacity is forecast flat, year-on-year, but we expect some volume recovery. Performance should be boosted by a full year's benefit of our premium handling centre, which is performing well.

Turning now to the underlying statistics for the quarter, seat factor – the passenger load factor – was down 2% to 71.4%, and capacity some 1.4% higher. Yield was down 3.4%, due entirely to exchange. Sterling was some 12% stronger against both the dollar and the yen, and some 2% stronger against the euro. For the full year, seat factor was flat at 76.1%, with ASKs and RPKs both up 2.9%. Yield was up 2.1%.

On the cost side, there have been significant improvements in productivity per employee, with ATKs per MPE up 1.4% in the quarter and 3.4% overall during the year. Total unit costs, excluding one-offs and fuel, were up just 0.4%.

Looking now at the yield, yield in the full year was up 2.1%, driven primarily by price, up 3.4%, driven mainly by fuel surcharges. RICS was up 0.3%, as we continued to see greater demand for our premium cabin and exchange was down 0.6%, reflecting the weaker dollar. The impact of the weaker dollar was very marked in Q4: RICS was down, but was impacted as premium passengers booked away during the period of the threatened strike in January and February.

Excluding the non-recurring items, total costs in Q4 were down just 0.5%, mainly from the non-payment of the employee reward bonus this year. Unit costs rose 1.1%, on capacity down 1.5% in terms of ATKs. Excluding fuel, total costs were down 2.2%.

Looking at the cost detail for Q4, employee costs were down 8.3% as a result of the non-payment of employee reward programmes, as I mentioned earlier. Engineering and other costs were down 6.3%, mainly down to the reduced freighter operations. Running costs were up 9.2%, mainly due to additional promotional programmes to stimulate demand following the threatened strike. Other costs were up 4.7%, driven by increased IM spend, higher legal fees, and higher consultancy costs for Terminal 5, as well as the cost of compliance with the Sarbanes-Oxley programme.

In the full year, total costs – excluding non-recurring items – were up 5.5%, mainly driven by fuel, which rose 22.1%. Unit costs were up 4.8% on capacity up 0.7%. If we exclude fuel, total costs were up 1.1% - higher than originally forecast, but this was the result of the delay in delivering the pension solution, and increased severance costs supporting the management reduction programme.

Looking at the full year costs in detail, the breakdown shows a similar picture to the quarter. The employee costs were up 0.8% for the redundancy costs for the management restructuring programme; pension and wage awards were only partially offset by the non-payment of employee bonuses. Engineering costs were down 6.1% as a result of the reduced freighter operations, savings in fleet insurance costs, and maintenance subcontract savings.

Running costs were down, despite increased promotional spend in Q4, mainly due to increased online sales and reductions in commission payments. Fuel will continue to be a challenge. The total bill for the year was up 22.1%, driven by higher price and only partially offset by our profitable hedging programme and some favourable exchange with the weaker US dollar.

There are three exceptional items in the period. The first exception item is a £350 million provision being made in the year-end accounts in relation to the investigations by the competition authorities. Although these investigations are ongoing and cannot be disclosed in detail as they are subject to both civil and criminal proceedings, I believe that it is now appropriate to make a provision in the Company's accounts. The provision is based on the current best estimate of the amount that may be required to settle the investigations and claim. This is a current best estimate, as required by current International Accounting Standards, to give you further explanation of the nature and status of the investigations.

As you are already aware, the investigations cover two areas: first, alleged anti-competitive behaviour by a number of airlines and air cargo operators relating to cargo fuel surcharges and, secondly, into alleged price coordination by airlines for long-haul passenger fuel surcharges to and from the UK. The investigations are being conducted by a number of authorities. In the case of the cargo inquiry, it is principally the US Department of Justice and the European Commission, but also by authorities in Australia, New Zealand, Canada and South Africa; in the case of the passenger inquiries, by the US Department of Justice and the UK Office of Fair Trading.

As for the status of the investigations, as I said earlier they are ongoing and are unlikely to be fully resolved for some time. However, the Company has now responded to the subpoenas and statutory requests for information required by the authorities. Based on that information, our assessment is that there have been breaches of the Company's policies relating to discussions with competitors. These policies are in place to safeguard the Company and its employees. In view of the fact that the investigations are ongoing, it is not possible finally to determine the amount of any penalties and claims that might arise. However, the Company has taken detailed advice on its position. The £350 million, as I said earlier, represents the best estimate of the current amount required to settle all known claims.

The second issue relates to the pension fund, and has already been discussed at some length at Investor Day. This gives rise to a one-off credit of £396 million, arising from the changes to pension benefits arrived at with the trustees in February. The company has now made its initial contribution of £240 million to the pension fund before year end, and a further £560 million in early April. That fulfils its obligation to make its £800 million contribution.

At 31 March, the NATS deficit measured on an IF19 basis amounts to some £1.56 billion. The additional contribution in April will bring it back to under £1 billion. Under the funding plan agreed with the trustees, the company will pay off this deficit over the next 10 years.

The third adjustment is in relation to the BA Connect disposal, and is disclosed as a separate line item under 'Discontinued Operations'. Again, this has been outlined at Investor Day. There has been some small increase in the estimated cash amount on the disposals, arising from the balance sheet, and final cash settlement was £146 million.

There is a further accounting charge of £53 million in Q4. This falls broadly into two areas. The first arises from the difference in the valuation of the 15% interest which we acquired in Flybe as a result of the transaction, which is worth £49 million, and the £77 million net assets being disposed of.

The second difference relates to the cost of closure in our regional operations as we move to outsourcing of the ground handling. Approximately 1000 of our regional staff will either transfer to the new service provider, Aviance UK, move elsewhere in BA, or take redundancy.

Turning now to the cashflow, cash generated by the business was some £535 million down on last year. There were three main drivers. The first is some £140 million reduction in operating profit before exceptionals. The second was the payment of the £240 million into the pension scheme which I outlined earlier, and third was some £160 million year on year movement in working capital. EBITDAR was also down £170 million at £1.5 billion.

Despite the challenges of this year, the financials of the business are sound, and we have laid the foundations for delivery of the 10% operating margin by March 2008. Our gearing at 31 March is now 29.1%, and if we include operating leases, is 39.6%. Although we have made significant payments into the pension scheme and have made provision for the settlement of the competition investigations, our full year forecast cash balance remains on target at £1.8 billion, and the current net debt level at £991 million is at its lowest since 1990.

We have been placed on positive outlook for investment grade with both Standard & Poor's and Moody's. Given that our ratios are now better than many investment grade outlines, we remain hopeful on this front.

We continue to actively manage our hedging portfolio on fuel, making longer cover predominantly in collars, and shorter cover in swaps, reflecting the steep premium that still exists in the forward curve. In the year to 30 March 2007, we obtained some £150 million of pension profits.

That covers the past year; now to the current year. I am confident, as I said earlier, that we have laid the foundations for moving forward from the 7.1% margin achieved for last year, and 10% for the current. Both pensions and severance will provide year on year savings worth almost two points of margin.

The non-repetition of disruption experienced in 2007 will add a further 2.8% of margin. On the negative side, our fuel bill is expected to rise again, and this will offset the margin by some 1.2 percentage points.

As the Chairman mentioned, there is no dividend recommended for the past year, but recognising that we are approaching our 10% margin target and that we have addressed the NATS pensions deficient, the Board has decided on a dividend policy for the current year.

Turning to the outlook for 2007-8 itself, in terms of current performance we have seen some weakness in non-premium segments, notably on the North Atlantic, and a slow down in the growth of premium traffic in April. To some degree, visibility is hampered by the ongoing baggage restrictions which impact all cabins, but particularly premium. We continue, however, to see high Premium seat factors, but given that at the corresponding period last year we were achieving double digit Premium traffic growth, buying a premium at these rates will be hard to beat.

Equally, last year, we saw record Q1 profits and very strong performance overall in the period to 10 August. We expect year on year improvements, but these are likely to deliver predominantly in the second half. Our revenue guidance of a 5-6% increase is unchanged, but we now expect to be at the lower end of that range.

Cost control remains a key focus of the business, and full year costs, excluding fuel are still expected to be some £50 million higher than last year. Our fuel bill is still expected to be some £100 million higher at just over £2 billion. On capital expenditure, the £850 million guidance includes the payments against short haul aircraft orders which we announced earlier this morning.

In summary, we have made good financial progress in a year which saw unprecedented disruption, significantly impacting the second half of the year. Despite three exceptional, one-off items within the results, the financials of the business are sound and we have laid the foundations for delivering 10% operating margin by 2008. Cost focus remains a priority and the overall outlook for 2007/8 is unchanged from Investor Day.

Now over to Willie.

Willie Walsh: Thank you, Keith and good morning, everyone. I would briefly like to cover three topics with you this morning: Open Skies, an update on our short haul development, and finally talk about Iberia.

I talked at length at Investor Day about Open Skies, and I don't want to repeat everything I said then as the situation has clearly moved on, as the Chairman noted in his remarks. The one concession we were pleased to see was the inclusion of the automatic withdrawal of the traffic right if no significant progress was made towards the true open aviation area by 2010. I am not going to dwell on might have been, but focus more on the opportunities that are presented to us, and talk about some of the steps that we have taken in relation to 2008.

The new agreement will allow any EU or US carrier to buy unrestricted between the EU and the US gateways. That includes, as the Chairman said, access to London Heathrow. The agreement will be effective from March 2008 and replaces all existing bilateral agreements, including Bermuda too, and I shall come back in a moment to talk about what the agreement does not change. It is fair to say there has been a lot of hype around the implications of this deal, and the Media said it would trigger a flood of new entrants into Heathrow and result in even lower fares. I know that some of you here have some real concerns about what this will do to our business, so let me assure you that we have known for a long time that an Open Skies agreement was inevitable, and we have been preparing for that time. It has been one of the key drivers behind our continuing programme on improved efficiency and cost control that has materially strengthened our business in the last five years.

We have developed a network to North America that is unrivalled, second to none, with 23 destinations in North America, 19 in the US and four gateways in Canada. Our onboard product remains leading edge and, quite frankly, is in a different league when compared to the US carriers that are competing with us. Our new pricing model offers highly competitive fares, which, in many cases, are cheaper than those available from other European hubs such as Frankfurt, Amsterdam or Paris.

However, while it is true to say there are only four major carriers operating from Heathrow on the transatlantic today, I do not believe you should be fooled that this has created anything but a highly competitive market. There are more flights a day from Heathrow to US major cities than there are from any other European airport. If you look at our market share to the US from London, it is about 40%, which compares to around 75% for Lufthansa, Air France and KLM from their hubs.

There are some immediate actions that we signalled on Investor Day so that we could respond quickly. We have announced that we shall move our double-daily Houston flight and daily Dallas to Heathrow, which will leave us with seven 777s at Gatwick. The Gatwick long-haul operation is profitable and viable, and we shall look for medium-term opportunities to grow that. We continue to retain a mix of four-class and three-class 777s at Gatwick, because we believe that best matches the consumer demand on the Caribbean route. We shall also review how we best re-use the valuable Gatwick slots that are freed up as a result of the transfer of the Houston and Dallas flights to Heathrow.

Short-haul is an important part of our overall strategy at Gatwick, and we have today announced an order for 29 Airbus short-haul aircraft to boost our short-haul operation. We have made significant progress at Gatwick, which means we are sufficiently confident in its future to upgrade 14 of the older 737s with A319 aircraft from Heathrow, and I shall come back to the detail on that in a moment or two.

If we just focus on the opportunities, we have already talked about our ability to move US long-haul flights from Gatwick to Heathrow, and we shall do that from the beginning of the summer season. We are also looking at the feeder traffic at Heathrow, and we shall make some changes to the network. We shall get a better network benefit at Heathrow than we can at Gatwick from the Houston and Dallas flights, and a much better proposition for the oil sector. Atlanta, for the time being, will remain at Gatwick, but we shall look at new routes from our London airport, and we are also looking at the existing frequencies on some of our Heathrow US routes and their key short-haul feed routes. We expect to announce some changes in relation to this in the near future. We shall no doubt continue to operate an unrivalled breadth and frequency of network to key US gateways, and that proposition will remain unchanged for our customers.

Under the agreement, we shall be able to operate new routes from the US into Europe, and earlier this week we made a blanket filing with the US Department of Transport for permission to do so. This is a really exciting opportunity for us to grow the most profitable part of our business. We already have a very significant presence and reputation within the US and a very strong brand, and we have appointed a senior team to work on this project with a view to launching services in 2008 with our 757 and/or 767 aircraft. That team is headed by Dale Moss, who will be known to you as a former Director of Worldwide Sales for British Airways. He also has extensive experience as EVP of Sales in the US.

There are risks and I want to touch on some of the perceived risks for our business. There is a number of different scenarios that prevail. Most envisage a mass input of capacity into Heathrow from either existing US carriers moving their flights up from Gatwick, or from new entrants. In the former scenario, this is not new competition, we are already competing with these carriers today and I have to say that we compete very effectively with these carriers, and we shall continue to do so out of Heathrow. When new competition comes into the market, our proposition will continue to be our key strength: network, frequency, the on-board service and by then the ground facilities that we shall have in Terminal 5. Our focus on business traffic and the density of premium seats will support yield.

There has been a lot of speculation around BMI and, as the holder of about 12% of the slots at Heathrow, the future of that carrier is very interesting to us. We have made no secret of the fact that we are in the market for Heathrow slots, and we shall continue to seek any profitable opportunity as it arises.

The rise in business-only carriers is relatively new and it is one that we follow with great interest. Today, when you look at the likes of Eos, MAXjet and Silverjet, they offer a different proposition, operating from Standsted and Luton. Let us look at other business-only carriers that choose to operate from Heathrow, their offering will clearly change, as will their cost of operation. It is clear that the depth and breadth of network remains a critical issue to business travellers, and with 40% of the slots at Heathrow, we shall continue to be unrivalled on this.

Finally, any new competition coming to Heathrow will have to obtain slots and will have to obtain terminal space and capacity and, unfortunately, those issues remain constrained. Even after the opening of T5 in 313 days - we shall have the demolition of Terminal 2 and the development of the eastern campus - the constraints at Heathrow on the infrastructure will continue for some time.

I have talked about what Open Skies is and it is important to remember and to remind people what it is not. It will have no impact on previously unrestricted UK/US routes. I was very interested to read a lot of the media coverage around Zoom's announcement that they are to start a new service from Gatwick to New York, which starts this summer. The Press heralded this announcement as a triumph of the new agreement when, clearly, to the informed it has nothing whatsoever to do with the new agreement. Zoom was not restricted under Bermuda Two and the new service will come into effect, as I said earlier, ahead of the new agreement start.

The agreement is not a true Open Skies agreement: it does not allow access to the highly protected US domestic market. In the main, it gives no real access to the EU carriers to the Fly America programme, and it does not give free cabotage rights to all onward destinations from the US or within the US. The agreement is not a change to foreign ownership rules, the *status quo* remains unchanged: European carriers will continue to restrict their ownership to 49% to preserve bilateral route rights, a restriction which would automatically fall away in a true global Open Skies environment, or open aviation area. The US carriers will be restricted to just 25% due to the protection of legislation in the US.

Finally, this agreement, or indeed any other version of an Open Skies agreement, does not allow for the reallocation of slots between the existing users. In other words, our 40% of slots at Heathrow will remain unchanged as a result of this agreement. There is nothing in this agreement that requires us to give up slots and, as I said earlier, we are a buyer of slots, not a seller of slots.

If I turn now to short-haul, I am sure that most of you will have seen the order which Keith has also mentioned earlier in his presentation. We have ordered 29 new Airbus A320 family aircraft, which consists of eight firm orders for delivery in 2008/09, and 21 options for delivery fro 2012, and this was included in the capex forecast that we showed you back in March at our Investor Day. Therefore, we have further time to decide on which aircraft type to take, and that decision will be based on the forecast demand and market conditions at the time. It is likely that we shall be moving A319 aircraft from Heathrow to Gatwick, which will allow us the flexibility to replace the aircraft on a like-for-like basis, or to increase capacity at Heathrow by taking A320 or A321 aircraft instead. The order facilitates the return of 14 leased 737s at Gatwick when their leases expire over the next 18 months, and this is the first step for us towards a single fleet across our principal short-haul network, which will give us cost and operational efficiencies. Importantly, it will also give us increased flexibility between Heathrow and Gatwick, allowing us fully to exploit any growth opportunities as they arise and wherever they arise. The new aircraft will not only bring cost benefits but they will also bring environmental benefits to our short-haul operation.

London City is integral to our London strategy. The disposal of the regional business of BA Connect now allows us to focus on the development at London City, and this summer we plan to operate 10 RJ aircraft, which will increase our flying from the airport by about 50% against last year. As you know, we have launched new routes to Glasgow and Zurich, in addition to Edinburgh, Frankfurt, Madrid and Milan, and we see opportunities to grow this in the future as well.

We are considering some fleet optimisations between the RJ100 and the RJ85 aircraft to achieve the best payload/range trade-off at London City. We see London City as an excellent part of the future of the business, and we shall continue to grow that.

At Gatwick, we have made progress in relation to costs and we have made progress in relation to revenues. Some of the costs have been through negotiation with Gatwick Airport Ltd – the changes include the vacation of Jubilee House; ownership transfer of the transfer baggage facility that I spoke about before, and a significant reduction in surplus hangar space. The cost of sales savings has also been key, with the introduction of credit card surcharges, reductions in commissions and travel agents' incentive payments. The GDS agreement that we are entering into will also benefit Gatwick significantly.

Just moving forward, the working practice changes that we have introduced at Gatwick are very significant and that change continues apace. It covers both the ramp and the passenger service operations. Our agreement to operate a single fleet with our cabin crew is testament to the progress that we have made on these work practice changes at the airport. In line with the trend that you have seen across the business, we have also delivered significant staff reductions through more efficient ways of working and eliminating activity that was unnecessary.

More progress is needed in relation to costs. I am very confident that we have put in place a very firm foundation that will make Gatwick both profitable and a long-term success for the business.

This slide shows you some of the progress that we have made. An important part of our strategy there will be on driving increased volumes across all of the cabins. Over the last year, we have capacity-managed the business, taking capacity out of domestics to fund capacity increases on our European network. We continue to add through the breadth of the network, announcing new routes, and we will continue to look for opportunities there. This, combined with our competitive pricing, is successfully driving increased volumes and seat factors. The annual seat factor, across the short-haul network at Gatwick, was 72.6%, which is a 7.4 point increase on last year.

It is important for me to remind you that this is revenue seat factor because, in our figures, we do not include frequent flyer redemptions – which would probably add about 4 points to seat factor – nor do we include no-shows in our figures. That is the *revenue* seat factor, at 72.6%. The graph shows very clearly the increase, year-on-year, on seat factor, which is particularly impressive, given the challenges that the operation has faced during the last few months.

Increased seat factor is at the heart of driving revenues but it also gives us a much wider customer base through which we can up-sell. Club Europe upgrades are offered on BA.com at the point of sale, from the point of sale to the point of travel through the 'Manage my Booking' process, and also at the airport when the customer arrives. The take-up of this has been extremely good, because there is a very strong premium leisure market at Gatwick, which we are now successfully capturing.

Secondly, greater volumes clearly allow increased potential to cross-sell, offering additional products to our customers such as hotels and car parks. It is through cross-selling that we are seeking to boost ancillary revenues, rather than through charging our customers for the core product benefits, which are a key and valued part of the BA customer proposition. All of these initiatives are driving revenues and we will continue to do so. Overall, they result in higher revenue per seat than our no-frills competitors.

In summary, I would say that our overall short-haul network is profitable. These are exciting developments for the short-haul operation. This is an important part of our business and it is key to our company strategy. I am pleased that we have been able to develop London City. We have seen considerable progress since the disposal of the loss-making regional business, and we have made considerable progress at Gatwick and I am very confident that we can achieve more.

Gatwick is an important part of the strategy because it offers a breadth of feeder traffic to our network, which we could no do at Heathrow alone. The differentiated service, and the great value fares that we offer our customers, are definitely valued. We have now ordered new short-haul aircraft and that will facilitate the retirement of some of the older 737s at Gatwick, bringing costs down and environmental benefits to the operation. By ordering Airbus short-haul aircraft, we see this as the first step towards a movement to a single fleet across our short-haul business, that will deliver us both efficiencies and flexibilities.

Finally, I would like to comment briefly on Iberia. This slide reminds you of the investment that we made in Iberia and the stages of that investment. It is currently in our books as some €179 million but, at today's prices, it is worth in the region of €350 million. We have not made a final decision in relation to the future of our shareholding there and we continue to examine all options, which include disposal of our shares in Iberia.

We have ruled out two things. We have ruled out making an independent bid for Iberia and we have also ruled out any further capital investment as part of any consortium that we might agree to. I would expect to be in a position to update you on developments at Iberia within the next week or so.

Thank you.

Martin Broughton: Thank you, Willie, and thank you Keith, for that comprehensive set of numbers, facts and information. Let us open this up for questions. Please indicate for the record who you are.

Questions & Answers

Chris Avery (JP Morgan): One clarification, please, and two questions. Willie, you mentioned several times a move to a single fleet, and there was talk of London City being particularly important. Do you mean that two short-haul aeroplanes will be the final outcome?

Willie Walsh: No, I actually said a single fleet on a *principal* short-haul network. We have traditionally talked about mainline BA, which is Gatwick and Heathrow. Clearly, the operation at London City is restricted to certain aircraft that are certificated to operate there. I can rule out any prospect of us acquiring Airbus A318 aircraft. I am talking about the *principal* short-haul fleet, dealing with Gatwick and Heathrow.

Chris Avery: Thank you for that. And the two questions are at that, on Investor Day, you talked about working practice changes for the ramp, or the planes, or in terms of negotiations – you said that at Investor Day. What kind of fresh progress has been made at Heathrow in terms of working practice changes and the wage agreement?

Secondly, talking about flying US to EU, 737 and/or 767, you also said that you must grow the most profitable part of the business. Are we actually talking about 48 seats, all Club World, 757s, to something like Paris? Can you take us just a step further?

Willie Walsh: Let me deal with work practice changes at Heathrow. We are actually making excellent progress there. We have agreement with all groups, with the exception of what we call the A scales – these are the people who work in the terminal building – and it is now down to the A scales in Terminal 1. They are balloting as we speak and that ballot will conclude on Saturday and I expect to have a positive result from that at the weekend. By then, we should have all of our staff groups impacted by the move to Terminal 5 signed up to the changes that are required. We are actually making very good progress there and I am pleased with that.

We are going through the process of implementing the change. It is fair to say that if negotiating change is difficult, then implementing it is doubly difficult. We are getting through that and I am pleased with the progress we are making. I am very confident that we will achieve an operation at T5 that is as efficient as we can possibly do. Everything is on track and we have 313 days to go to T5. The building is progressing on schedule and it is on budget. Our plans are very much on target as well.

The negotiations on the pay round continue and I am confident that that will be resolved. It is at the stage where we are still discussing or negotiating with one another and so there is nothing new to report on that.

In relation to the Open Skies opportunity, it is clear that a number of carriers have talked about doing things. We quietly started working on some options for us. The fact that we have appointed somebody like Dale Moss, who left BA in 2004, should give you some indication of the seriousness with which we are looking at this. Our expectation is that we will launch services in 2008. We are highlighting it to you today because we have made a filing to the US DOT: that filing is clearly public and so people will become aware of it.

Rather than you picking up the rumours, we felt that we should tell you directly. We are not at the stage where we have developed the specific routes or the product offering but that is work in progress. It is fair to say that it will be a premium product – whether it is a single class premium product, or whether we have a two-class product on board the aircraft we are looking at. We have the aircraft - as you know, we have 13 757s – and these aircraft have previously flown Transatlantic and so these aircraft are technically capable. We also have 21 767s, 14 of which are currently flying in a long-haul configuration, and seven are flying on short-haul. We have the ability to move quickly. We have always said that we would seek any opportunity provided to us by Open Skies and I believe that there are real and exciting opportunities for us there.

Andrew Light (Citigroup): I have a couple of questions. First, you say that you have high seat factors in premium class, but do you think that you are actually spilling traffic as a result of that?

Secondly, are you seeing market softness on European routes currently, as alluded to by Ryanair and EasyJet?

Willie Walsh: In relation to seat factors, we are seeing very high seat factors in our premium cabin. There is possibly some evidence of spill and this is one of the reasons why we are re-configuring the 31 747s – and I have spoken about this before – in a low-J configuration, with 38 Club World seats into what we call a mid-J configuration, with 52 seats, giving us an 8% increase in premium seats. That work is ongoing and we are doing that re-configuration as the aircraft go in to their normal checks. Some of that capacity will be available for this summer but, in the main, it will become available through the year. The load factors are very good and the underlying demand remains strong for the premium product. It justifies both the investment that we are making in upgrading the Club World cabin and increasing the number of premium seats.

We will also be investing in a First cabin. We have enhanced the existing service but we also have very exciting and extremely innovative proposals in relation to a new First cabin. We will be detailing that later on during the year.

On the short-haul, it is fair to say that domestic short-haul is soft – very soft. It is not a big part of our business, I am pleased to say. It has been hit, as Keith mentioned, by the airport situation but it has also been hit by APD. Some of the comments that our competitors have made reflect the exposure that they perhaps have to those markets. Otherwise, across the European short-haul business we are not seeing anything that is in any way unusual. Some of the things from very early on in the year – we have two bank holidays in May which disrupt some of the year-on-year comparison.

A big issue for short-haul remains the hand baggage restrictions and that is why we are calling on the Government to remove the restriction of the number of pieces of hand baggage that you can carry. I am pleased to say that I believe that there is now agreement on easing the restriction as it applies to flight connections. There will be a test commencing in July, hopefully, where BAA are transferring some new technology X-ray machines that they are testing in Glasgow to Heathrow. As a result of that change, we are expecting to see some easing of the restrictions.

I think the restriction on the number of pieces of hand baggage is crazy. I don't think it is justified under security rules, and I would like to see it removed. That would certainly benefit the short-haul business.

Chris Reid (Deutsche Bank): I have a couple of questions. The ground handling, Aviance, and the savings from that, is that in your guidance for this year already and how much is it? Again, a detailed cost question, about how much were the provisions for the management redundancies in the year just gone? Finally, can you say a few words on how things are profit-wise on the east-bound operations and south-bound, to Oz or to Africa?

Willie Walsh: On the east-bound and south-bound, again we are seeing that the premium demand remains strong. The market on non-premium is not as impacted by the softness we have seen on the transatlantic. I do believe that the weak dollar is one of the key features on the soft transatlantic non-premium traffic that we are seeing, so the conditions outside the North American operations remain pretty much as we have seen over the past 12-18 months; we have not seen any real change there.

Keith Williams: To your question on the ground handling, we see savings of around £20 million over the next five years. To your question on redundancy, this year the total cost of redundancy was some £98 million.

Jonathan Wober (HSBC): My first question is on cargo. You talked a little about that in the presentation and the sluggishness in the cargo market. I wonder whether you could say what you see to be the underlying reasons for that sluggishness: does it relate to the broader economy, is that different by region, is there a transmodal shift going on at all, can you give any more colour on that please? Secondly, I have a two-part question relating to bilaterals. With Open Skies on the US now, what is the next thing that the industry will be doing in that direction? In particular, given that the EU declared some time ago now that all bilaterals are illegal, where is the next area of focus? Then a question relating to the US situation: the get-out clause if there is no further liberalisation by 2010, how effective will that be in practice do you think? Can you realistically see rights being withdrawn in 2010 if there is no progress?

Willie Walsh: Let me start and then I shall ask Keith to comment. On cargo, some of the figures that we have shown are specific to British Airways, particularly in relation to the issues that Keith highlighted in the fourth quarter. I believe it is fair to say that, in times of disruption, cargo tends to suffer to a greater degree than our passenger operations, and many of the changes in security have had a much bigger impact on cargo because of the difficulties in getting cargo through the security arrangements to the aircraft. We have had greater operational disruption to our cargo business than any other carrier, which has impacted on the results.

Keith mentioned that, because of the restrictions on hand baggage, we are seeing passengers checking in more bags, which has reduced the volume of space available to carry cargo. We estimate that that has taken around an additional 2% of capacity, so on top of the 3% of planned capacity that we took out, we lost an additional 2% of capacity. Therefore, a number of factors have impacted on the cargo business but we are now seeing those factors being removed. We are seeing better operational performance and, in due course, I hope we shall see sensible hand baggage policies at the airport which will free up some capacity for cargo as well. I shall ask Keith to comment on the underlying cargo trends that we are seeing in the market.

Keith Williams: I spoke about the market being up around 2% on recent performance, and we are seeing that as being the likely position for the next six months and perhaps picking up thereafter.

Willie Walsh: To come back on one comment, you said that the EU have declared that all bilaterals are illegal – not all bilaterals are illegal. The test at the European Court of Justice was specific, it tested specific bilateral agreements. There is the issue of the community clause and what tends to happen now with any bilateral negotiations is that the issue of community clause tends to be addressed. Therefore, the intention will be that the EU would like to see further negotiations to remove restrictions in other markets which I would welcome. Generally, the UK has a very liberal bilateral agreement regime with other jurisdictions, and I do not think that the same applies to some of the other European countries. Therefore, there is some positive to be seen as a result of a move to a more liberal and, hopefully, genuine open aviation environment.

The issue of open aviation area by 2010 is a great question. Many of the commentators took the view that it was unrealistic to expect that traffic rights granted would be withdrawn. I do not buy into that, I believe the agreement is too important to treat like that. I also believe that the fact that we are talking about using the agreement to benefit British Airways will probably focus people on that issue as well. I would expect people seriously to address the second stage negotiations and to move towards an open aviation area by 2010. I believe that we shall see serious progress made in relation to that, though it may be slow in the initial years, and that is something that we would very much welcome.

Andrew Lobbenberg (ABN Amro): I have three questions if I may. First, you spoke about how strategic London City is and that is clear, but how is trading at the moment given that Air France have chosen to introduce a whole glob of capacity at the same time? Secondly, following the increase in APD, is that having any impact on your up-selling strategy, particularly at Gatwick where premium letter has seen an increased APD hit in the front? Finally, we are about to get a new Prime Minister here and apparently we do not do elections for it here unlike in your country. What impact is that likely to have: do you see him being more pro-aviation or anti-aviation, as he is the bloke who has just doubled the taxes?

Willie Walsh: Let me deal with them in reverse order. I was at the House of Parliament for the Taoiseach address of Bertie Ahern, and he made the point – I do not know whether it was a dig – that as an "elected Prime Minister" he was pleased to address Parliament. I see the appointment of Gordon Brown as a positive for a very important reason: he is a supporter of airport expansion at Heathrow, he is a supporter of mixed mode and he is a supporter of a third runway at Heathrow. That is a critical issue so I see this as a positive. There is speculation as to who the new Chancellor will be: if it is Alistair Darling, as some have suggested, I see that as positive because he is a supporter of a third runway and mixed mode development at Heathrow. Therefore, that to me would be a real positive. He did not reply to my letter on APD but I shall forgive him for that if he moves forward with a third runway.

I would say that APD is not impacting at all on our upselling, and I might be as surprised as you to see that. What we have seen, particularly at the airport, is that people tend to be a little more free with their spending than perhaps they are when they are considering making the decision in the first place. However, I have to be honest with you in that the level of up-sell we have seen here has surprised me, and it is working very well. It is clear that people are prepared to pay for a premium product, which is one of the reasons why we are confident about our future at Gatwick.

London City is important. We had an opportunity to exit London City and we chose not to do so, because we see London City as a key part of our strategy around London. I do not apologise for this, BA is a London-based carrier and we see London Heathrow, London Gatwick and London City being an important part of our strategy. We have significantly increased our capacity, Air France has significantly increased capacity, but we are really pleased with what we are seeing. We are really pleased with the way we have been able to get CityFlyer established with its own AOC as quickly as we did. We are looking at getting the right mix of aircraft. The RJ100 is not the best aircraft for some of the routes that we are operating, we see the RJ85 as being better in terms of the payload/range trade-off for London City operation, which is why we are looking at that. London City is important for us and we shall continue to look at opportunities to grow there.

Martin Broughton: Could I just add on Gordon Brown that he is also a big supporter of the open aviation agreement and generally the EU/US economic partnership agreement which was signed a couple of weeks ago, breaking down all the regulatory barriers. So he is a big supporter of the reduction in all regulatory barriers between the EU and the US.

Nick Van Den Brul (Exane BNP Paribas): I just want to ask a question about the £350 million provision which was unexpected in terms of its timing. When did you make this decision? Can you give a little more flavour on how you came to that number, given that the investigation is still under way, and what is your expectation about the timetable for settlement going into this year?

Keith Williams: I believe I answered most of those points in what I said earlier. As far as timing, it is unlikely to be fully resolved for some time. Regarding provision itself, it may be helpful if I were to give you an outline of the reasons in the accounting. Under IAS 37, a company is required to make a provision where there has been an event and it is probable that there will be a settlement in relation to that event – with probability being described as greater than 50%. Given the information that we have, based on all the information that we have provided to the authorities, and we have now fully complied with the information to the authorities, we now believe it is appropriate to make that provision.

Willie Walsh: I would like to add, I think the fact that there has been a breach of our compliance policy is deeply regrettable and completely unacceptable. We have very clear policies, which are comprehensive and have been in place for a long time. Those policies are required and there is no choice – all of our employees are required to comply with those. It is deeply regrettable that the policy has been breached and completely unacceptable: it will not be tolerated at British Airways.

Martin Broughton: It is also important to add that the formulae used by competition authorities do not take much regard to damage caused. The fact that events have occurred and the competition law has been breached is what drives the amounts, not damage caused.

On that note, thank you very much. We will close there.

- *Ends* -