BRITISH AIRWAYS PLC

INTERIM RESULTS

2 November 2007

Martin Broughton (Chairman): Welcome everyone. It is always a pleasure to report on a record set of results for the half year. This is actually the first time I have been able to do that as Chairman of British Airways, so that is particularly welcome.

There is a record operating profit of £556 million, an operating margin 12.5%, which has only once been surpassed, and that's more than a decade ago, and a record pre-tax profit of £593 million. The cost performance has been pretty impressive, too, at nearly 4% down. Keith will take you through the numbers in detail shortly. It seems to me that we have had what you might say is a 'long taxi' out to the position on the runway, strengthening our business, strengthening our balance sheet, but we feel that we are now ready to hit the throttle.

The loss-making business has been eliminated, the pensions issue resolved, the debt mountain cleared. Some new flyers clearly on the horizon, the Club Class upgrades midway through to completion, and we have announced our long awaited order for the replacement and with longhaul aircraft. Both the Airbus A380 and the Boeing 787 have huge potential for us and of course for our customers. The Whispering Giant as the 380 has been called, and the 787 Dreamliner will set new benchmarks in the sky for comfort, for technology and for their green credentials in terms of emissions, NOx and noise. Of course by the year end we anticipate rewarding the loyalty and patience of our shareholders with a dividend, so long as we maintain momentum in the second half. We have made a lot of progress in the first half.

I would like to say that the debate on climate change and aviation's contribution has progressed. It certainly continues to generate a lot of column inches. We remain steadfast in promoting carbon trading as the most effective way of controlling emissions, despite attempts by politicians to seek the green high ground at the expense of aviation.

I was pleased that when the UK Government recently endorsed the introduction of the EU Emissions Trading Scheme from 2011, which we have long advocated, of course at the same time they announced the intention to replace Air

Passenger Duty with a per-aircraft rather than a per-passenger tax in 2009. We intend, of course, to be fully involved in the consultation on that.

Earlier this week, Heathrow was voted the world's least favourite airport in a travel survey, and against that backdrop, we continue to work hard to maintain customer service by staffing up to record levels in the terminals, and we continue to lobby the government to lift the restrictions on hand baggage and introduce more realism into the security regime. I make no apologies for repeating that these security restrictions lack credibility and disadvantage against our European rivals. I am pleased to say that we are optimistic that they will be used very soon.

Another area where Heathrow is distinctly disadvantaged is in the runway capacity. As you know, it has been operating with the same two runways since it opened in 1946. Public consultation is imminent and the government's plans to allow full utilisation of the two existing runways and the construction of the third short runway, subject to meeting stringent environmental safeguards. Obviously we back the proposals 100%. Full utilisation of the existing runways through mixed load would immediately create some extra capacity to slash delays and build robustness into Heathrow's flight schedules and would lead to a significant reduction in carbon emissions as a result.

Turning to the broad horizon, our plan to exploit the opportunities of the recent EU/US Open Skies Agreement are well advanced. Next summer will see the launch of our direct services between the US and some European business centres using 757s.

At the same time, some of our competitors have made much of their plans in the media to launch services out of Heathrow under the terms of the same Open Skies Agreement. The truth is, those plans are very modest. We have by far the best network between London and the US and are used to competition. Next summer we will have 41 daily flights to 18 US destinations. Also moving our Dallas and Houston flights from Gatwick to Heathrow and increasing frequencies on flights to JFK, Washington, Seattle and Orlando.

Behind the scenes, we continue to monitor progress between the EU and US towards accepting a genuine open aviation area, with equal traffic lights and removal of ownership restrictions, and we won't hesitate to remind the government of their right to terminate the agreement if sufficient progress is not made on that by 2010.

Back here, we have recently announced the end of our UK franchise model. It has outlived its purpose and when GB Airways made it clear they wanted to sell, this gave us the opportunity to end the franchise agreement two years early. At the same time we announced the ending of franchise agreements with Loganair, and early in the year we ended the relationship with BMED. Our overseas franchises, however, are not affected as they provide useful feeder traffic and extend our brand to areas we are not allowed to serve. Progress of consortium bid for Iberia has been followed with minute interest, and not least because of the current difficulties in the financial markets, but this is a deal we believe that is of a size that is still very much achievable.

Finally, during the period we launched our first brand advertising campaign for over two years. Its core proposition is good customer service, which will be fundamental to our success at T5. The world's eyes will be focused on us as we complete our final preparations for the move to Terminal 5 in 145 days' time, which is going to be a showcase to welcome the 2012 Olympics and the millions who visit Britain for work or pleasure.

Let me pass now to Keith, who is going to take you through the first-half numbers.

Keith Williams (CFO): Thank you, Chairman, and good morning everyone. As you will be aware, our results are now prepared under the European rules on interim management reporting, and they focus on the six months to date. There is much to report over that six-month period, but if I may I would like to start with a personal anecdote. I was particularly pleased to see that we were restored to investment grade in the quarter. However, I know this was not only pleasing to myself; it was pleasing to a number of people at British Airways and outside British Airways. In particular, after the events of September 11th I was with the Archbishop of Canterbury, and it was at the time we were downgraded to junk bomber status. He mentioned to me that he had been praying for British Airways after 9/11 and, of course, I was very flattered by this. Then he added, 'Yes, particularly since I have lots of air miles!'

A Year of Two Halves

There is an old football cliché that it's a game of two halves. This morning I would like to cover off the results of the first half, look at the outlook for the second half, and then finally give you some indications of how extra time might play, ie to review the capital expenditure plans beyond the next year. Willie will give you some more detail on that later.

H1 Exchange Impact

To set the scene, however, I would remind you of what we said in May at the annual results, and repeated again with the first quarter results in August. This is that we saw the first half improvement flowing largely from the costs because of all the actions we had taken on the cost base last year, and it was only in the second half that we would start to see some improvement and benefit on the revenue side.

The first half is in line with that prediction. Revenue before exchange was up 2% but was dragged down by exchange, by the weak dollar, and finished 0.8% down. Overall costs, including fuel, were down some 3.7% year-on-year, almost all of that benefit coming from exchange. However, if you look beneath the cost base, non-fuel related costs were down 2.1% on a constant exchange basis, and this demonstrates the payback for all the efforts we made last year to tackle the cost base and improve efficiency. That cost reduction was despite the additional costs stemming from the problems of the infrastructure at Heathrow, and that is something I would like to come back to in a moment.

The resulting operating profit for the first half, as the Chairman mentioned, is a record at £556 million, and the operating margin at 12.5% for the half has only been surpassed once, back in 1995/96.

Looking now to the headline numbers for the first half in a little more detail. As I said, we did not expect any significant increase in the revenue in the first half, and in the end reported revenue was down some £36 million.

Turning to costs, our cost control has been good throughout the first six months of the year. As I said, non-fuel costs were down 3.8% and fuel costs were down 3.5%. That left our total fuel bill at £983 million for the half. In particular, fuel was helped by the weak dollar, which benefited the fuel spend by some £80 million, which is something I will come back to in a moment. That left the operating results of £556 million, up more than 25% over the previous year. Equally, pre-tax profits were also up by more than 25% at £593 million.

The tax rate was around 18%, and that benefited from the change in tax rate recently announced by the Government, the change from the 30% to 28% corporation tax rate, and that left post-tax profits up more than 20% at £487 million. No interim dividend is being proposed.

Moving on to exchange, I would like to cover that in a little more detail. Exchange for the first half was neutral, with the adverse impact on revenue of £128 million more or less directly offset by £132 million benefit to costs. We were particularly impacted by the dollar, which was some 8% weaker over the half this year than last year. As you can see, the dollar weakness had a major impact on our fuel costs which, despite price increases after hedging, was still down some 3.5% overall.

Looking now to the headline numbers for the second quarter, revenue was up just under 1% at £2263 million. At constant exchange rates revenues were up 3.3%, helped in part by the non-recurrence of the direct security threats which hit Heathrow last August. However, as you know, we did not have a trouble-free quarter either. There were two incidents: a gas leak and evacuation of the airport during that period, and we had a difficult operation throughout the summer.

On the cost side, both fuel and non-fuel costs were down some 2%, leaving the total costs at £1970 million. This left an operating profit for the quarter of £293 million and an operating margin of 12.9%. Pre-tax profits for the quarter were £304 million, and EBITDAR for the quarter was up £34 million to £514 million.

Statistics

If I turn now to the key statistics and performance measures for the first half, we added only a small amount of capacity in the period. We actually took delivery of three A321 aircraft and retired an old A320. Two of these deliveries were in the last month of the half and so had no real impact on the half-year. However, we did manage to increase both longhaul and shorthaul utilisation. Accordingly, capacity measured in ASK was up 0.5%. Overall capacity measured in ATKs was down 1.1%.

Passenger numbers were down and the passenger load factor was down 0.9% to 78.4%, with RPK down 0.7%, as we seek to maximise the trade-off between volume and price.

Despite the weakness of currencies in most of our major markets, and in particular in the US, passenger yields were up 0.5% over last year. As I noted earlier, cost control was good, with productivity measured in ATKs per employee, up 1.7%, despite an increased frontline workforce. Overall, MPE was down some 2.8% while unit costs improved some 2.7%.

Yield up despite exchange

Looking at the yield in a little more detail, I said that yield for the first half was up 0.5%, driven by a strong second quarter performance, primarily based on price, up 2.6%, driven in part by fuel surcharging. Mix was up 1.3% as we continued to see greater demand for our premium cabins and exchange was down 3.4%, reflecting – as I said earlier – a weak dollar.

Turnover Split

Turning now to the turnover split, the bit on the revenues, passenger revenues were roughly flat. As I mentioned earlier, we had seen a reduction in passenger numbers year-on-year, driven by a weakness, in particular, on domestic routes and on premium traffic, shorthaul. In part, this reflects a general weakness in shorthaul markets but this has been exacerbated by the continuing baggage restrictions at Heathrow, which have now been in place for some 12 months.

Longhaul premium volumes have remained strong and have shown growth, despite the fact that we have been cycling against a very strong set of comparables in the first half of last year. This trend has continued into October.

Our traffic stats are out on Monday but, as we have already indicated, based on the visibility that we have on bookings over October and November, premium traffic remains strong. That is the theme that Willie will come back to in a moment.

Cargo Performance

Cargo performance has been disappointing, with revenues down almost 9%. The rate of decline over the last six months, however, has slowed, but nevertheless is disappointing, particularly as the operation environment at Heathrow has improved from the low point of last year end.

Cargo Volume Recovery in H1

If I take you through cargo in a little more detail, both cargo volumes and yield have suffered in the light of fierce competition, with yields down 3.9% excluding exchange, and volumes down almost 2%. It is only in the last quarter that we have seen yields finally bottom out and there is some room for optimism in both volumes and yields as we come into a key trading part of the year.

Looking at the volume side, volumes have started to increase year-on-year which, as I have said, gives us some optimism that we will see some year-on-year improvement in Q3 and some significant improvement in Q4 against a weak base last year.

Strong Cost Performance

Turning now to costs, unit cost performance was helped by exchange and finished up 2.6% down, despite the reduction in ATK. Productivity increased and total MPE fell 2.8%, despite the much increased resource at Heathrow. As I said earlier, overall productivity per employee increased by some 1.7%.

H1 costs down

Looking at the cost line, cost performance has been excellent. Almost all of our cost lines have shown some improvement over the previous year. The exceptions are engineering, which was up 6.7%, due to the timing and volume of overhauls, and handling charges, which were up some 3.4%, driven by the additional costs at Heathrow over the summer period.

Q2 Costs Down

Looking at the costs for the second quarter now, these were dominated by the steps which we took to stabilise the operation at Heathrow over the summer. I shall take you through the headcount implications in a moment, but the ongoing restrictions at Heathrow increased our baggage volumes by around 15% over the summer. In turn, this led to increased handling costs and the volume of short-shipped bags increased repatriation costs.

We also spent some £5 million on improved on-board catering, which is reflected in the handling and catering lines. Together, these increased handling and catering costs overall by almost 6% in the second quarter.

Heathrow manpower increased

Looking at manpower, in August at Q1 we gave you some indication of the additional resources we were incurring to keep the operation at Heathrow stable. This persisted over the summer and the headcount actually reached a peak in August and came down slightly but, by the end of September, it was still some 7,268 people. This level of staff is now in place to keep the operation in a steady state, while we start the comprehensive testing of Terminal 5 and the extensive training of our staff before they move into their new home. We will keep the numbers roughly at this level throughout the summer next year, to provide cover for the various moves that take us into Terminal 5.

In addition, I should mentioned that we have recruited some 100 more customer service staff at our call centres in the UK.

As the numbers and spend demonstrate, we have done our part in keeping the Heathrow infrastructure up to speed over the first half.

Cashflow

Looking now at the cashflow, the operating cashflow was strong, up £92 million to £907 million. Most of this, however, was utilised by the special payment to the pension fund of £560 million and from a £149 million settlement to the US Department of Justice in respect of the competition investigations.

EBITDAR was up by some £99 million to just over £1 billion and the EBITDAR margin was 22.8%.

Capital expenditure for the period was up, at £297 million. That was increased over last year by the addition of the three shorthaul aircraft I mentioned earlier, and the spending that we are incurring on Terminal 5.

Looking now at some other issues, firstly to the competition investigations. As you are aware, we have now settled with the US Department of Justice in relation the competition law infringements in the US, and made a settlement of $300 million (£149 million). We have also reached agreement to settle investigations into passenger fuel surcharges for the Office of Fair Trading in the UK and we will pay over a further £121,500 million in respect of that later this year.

Other issues

With regard to outstanding investigations and claims, it is anticipated for the most part that these will not be resolved for some time. In particular, we expect the legal process which involves the investigations into cargo surcharges by the European Commission involving British Airways and a number of other carriers, to last for some considerable time. There is currently no EU procedure to resolve these claims on a bi-lateral basis, so that we are locked into a process involving all carriers. At the same time we continue to use mediation to settle the civil claims in the US. We continue to hold a provision against these further investigations and claims.

Payment to the Department of Justice and the special contribution of £560 million to the pension fund reduced the company's cash reserves and we finished close to our target level of £1.8 billion. That left a slight increase in the Company's net debt position, which increased to £1.4 billion, although this increase was more than compensated for by the reduction in pension deficit which now stands at £478 million, down from around £1.8 billion this time last year.

Equally positive is the news that we have now been returned to investment grade with both Moody's and Standard & Poor's. This reflects the improvements in the Company's financial ratios from 2003 and its solid financial position going forward.

Last week we announced that we had raised a new £1.7 billion multi option facility for the purchase of aircraft. This facility was increased from our previous indication of £1.5 million, based on additional demand. This is sufficient to cover all of our aircraft deliveries through to 2011. Consistent with our facilities that we have had, there are no financial covenants. It has a repayment period of up to 15 years from draw down. I would like to thank the banks that participated in that facility, some of whom are here today.

Net debt including pension deficit

I mentioned net debt, including pensions. The net indebtedness of the Company, both excluding and including the Company's pension scheme has improved dramatically over the last few years. As you recall, we used to refer to these two as the two elephants in the rowing boat.

Taxation

Now, a word or two about tax. The Company's tax position has been two years, firstly by the deductions available for the special payments into the pension fund, and secondly by the utilisation of advanced corporation tax which we built up in the late nineties, and now it has been impacted by the change announced by the government to reduce the UK corporation tax rate from 30% to 28%.

Looking firstly at the published rate, the tax rate for the first half is 18%, because of the one-off benefit from corporation tax change I mentioned above. We are estimating that the tax rate for the full year will be around 22%.

In terms of cash and taxes paid, we are still benefiting from the utilisation of ACT and the deduction for pension contributions. In the first half we paid cash taxes of £51 million, in respect of prior year profits, and we expect to make further cash payments this year in the second half of around £14 million, giving a total cash payment of around £65 million for the year.

Finally, I should mention that there is a further proposed change to taxes which will need to be accounted for at some point, either later this year or more probably next year. That is in relation to an announcement from the government to change the rates of industrial buildings allowance which impacts a number of our buildings around the airport. We estimate that this change will add some £75 million to the deferred tax charge when it is adopted.

Brent crude oil prices

Now, turning to fuel. As you know, the fuel price has been volatile over the last six months and has now risen to $85-$90. We have continued to actively manage our hedging portfolio, and we added some additional significant cover in August, not only for the remainder of this year, but also for 2009.

Overall this leaves us with a very strong hedging position for the remainder of this year, with around 90% of our fuel requirements now hedged. We also have longer term cover in dollars to protect us in the event of a major price correction.

Fuel hedging cover

Given the current position on fuel hedging, the amount of fuel spent for the year is, if anything, more dependent on exchange than price at this point. At the dollar levels that we see today, we expect our fuel bills to be up in the second half by some £130 million, leaving an overall fuel bill for the year up around £100 million year on year.

Fuel cost forecast FY07.08 – up £100m

I should like finally to revisit the capital expenditure. As I said earlier, to update you on this year's expenditure, in the first half spend was £297 million. Our total spend on Terminal 5, which is £330 million, is on target. We now expect capital expenditure this year to be around £700 million, and that is down some £150 million from the guidance that we gave you at Investor Day.

Capital Expenditure

More importantly, however, I said a few weeks ago that we would update you on the capital expenditure picture going forward based on the aircraft order that we announced on 27 September. This chart gives you that picture to 2014, based on the firm orders that we have in place at the moment and the likely exercise of options going forward. For illustrative purposes we have used a dollar exchange rate of $1.85 to the pound, which is consistent with the early replacement model we gave at Investor Day.

In all this assumes the longhaul, the 12 new Airbus A380 aircraft and the 24 Boeing 787 orders, and it also includes the four 777 deliveries that we have in 2009/10.

Although we have a number of additional options on the longhaul, these are available from 2014 onwards, so the plan here is pretty much complete.

On shorthaul, it assumes the replacement programme for the 737 aircraft at Gatwick, and the 10 old CFN powered A320 replacement aircraft at Heathrow. It also assumes that we would replace the seven shorthaul 767 aircraft that are left and add some aircraft for Project Lauren. Altogether this programme would give us some 3% growth from 2009 onwards.

The programme here delivers approximately a £750 million reduction in spend to the model that we gave you at Investor Day. As you can see from the capital expenditure, including aircraft and other spend it should remain between £700 million and £800 million for the next two years, and stay below £1 billion for the following two years. At the margins we seek, cashflow should remain comfortably above that level over the same period. For example, to take this year, the operating cashflow should be around £1.5 billion before adjustments for working capital and net interest and tax of £250 million. This supports the Board's view that it is appropriate to reconsider the restoration of the dividend at year-end, based on the attainment of our financial goals.

H2 Outlook

That brings me to the outlook. As I said at the beginning, we saw the year falling into two parts. In the second half, we can see some 7% to 8% increase in revenues. This may seem challenging, but there are a number of winds which help us. In the first half, as we have seen, the exchange impact on revenue was some 2.8%. In the second half, assuming that exchange rates hold where they are today, the exchange impact will be less than 1%. We were also driving off a weaker base last year, from the disruption of fog in December and the threatened cabin crew strike in January.

Finally, we will also see some improvement coming from mix. In terms of capacity, we have now almost finished the reconfiguration of aircraft into the new stretched configuration and this adds some 9% premium capacity in the second half. We are still seeing strong premium demand to fill that capacity, and Willie will talk to that in a moment. Overall, we now expect the revenue for the year to be up some 3% to 3.5% over the previous year, which is slightly down from our previous guidance, based on the weaker exchange rate.

On fuel, almost our entire fuel bill in the second half is hedged and the greater influence, as I said earlier, will be from exchange. We anticipate our fuel spend to be up £130 million in the second half, which would lead our overall fuel spend up £100 million for the year.

On non-fuel expenditure, we expect costs to be held roughly flat in the second half. This would lead non-fuel costs for the year down some £100 million. Our guidance therefore is that we see every possibility of achieving a 10% margin for the year, although as usual we have the usual risks and challenges that are associated with an airline.

Willie will look at some of the ways that we are managing those challenges associated with risk in a second. Thank you, and over to Willie.

Willie Walsh (Chief Executive Officer): Good morning, everyone.

Agenda

I would like to take this opportunity to give you a brief update on a few current topics, following on with a few thoughts around our 10% operating margin target and our readiness to take the business forward. I will deal with these under the headings you can see here.

Current trading and outlook

An area of concern that has been expressed by a number of people, journalists included, is about the outlook for premium travel and our ability accurately to forecast it. We have talked openly about our good visibility at bookings over a two month time horizon and so I would like to review that with you and give you some information.

History of premium bookings

This chart shows the forecast, two months out, between June and September, and how each of those months actually performed. You can see that in June, in April, we were forecasting that our premium RPKs would increase by 1.6% but we actually delivered an increase 1.4% in premium RPKs. That is pretty much spot on. In July, you can see that the forecast was worse but, as Keith mentioned, we had quite a bit of disruption in July, including the gas leak at Heathrow, the security scare which shut down Terminal 4, and some effects of the attack on Glasgow Airport. We actually cancelled about 600 flights in July, which is just under 3% of the flying programme, which clearly had an impact in relation to the traffic stats.

In August, we had forecast an improvement of 10% and we outperformed that. It is fair to say that we slightly under-estimated the recovery against the disruptive Augusts of the previous two years. In September, our performance was slightly ahead of our forecasts. In June and September, there were no operational issues, as you can see there, and we are pretty comfortable that our ability to forecast two months out is quite strong.

Premium forward bookings

Looking at where we are today, this chart shows October, November and December. The top part of the chart shows the premium bookings as they currently stand and, at the bottom it shows what we had forecast. Keith mentioned that we hope to be able to give you some preliminary information in relation to the October out-turn at the two o'clock conference call this afternoon. Based on what you see here, with these booking levels, you can understand the confidence that we have for the third quarter of this year.

As we move through the current quarter, we will continue to update you in relation to the fourth quarter, through the traffic stats. You can see that for November, where our forecast is 8.8, we are slightly shy of that at 5.8, but we are above our forecast in December at this point. Looking at the quarter as a whole, however, you can see why we are confident about our performance in relation to premium traffic.

Weekly new bookings - premium

This is a chart that you will have seen previously. It shows the weekly new bookings over a three-year period. You can see the current year, the yellow line, is now moving ahead of where we were. We believe that there is considerable opportunity for us. Firstly, there is opportunity of the recovery over the threatened industrial action period and secondly, from the fact that we are now actively selling additional premium capacity following the reconfiguration of our 747 aircraft. We have about an 8% increase in premium capacity available for sale.

Weekly new bookings - total

This chart shows the total bookings – the first chart was the premium bookings. This chart shows *total* new bookings, again with the current year shown in yellow. As you can see from this, we are also beginning to track out from last year's levels, supporting our second half revenue forecasts.

T5 – our new home

In terms of T5, internally we talk about T5 being our fantastic new home. The Chairman, in his opening remarks, mentioned that we are 145 days away, but I am now starting to count it down in hours. When we stood up here at the beginning of this presentation, it was 3,499 hours to go, so we are making good progress. We have taken about 100 analysts, fund managers and bankers through Terminal 5 since we got the keys on 17 September – I know that some of you have had the opportunity to go through Terminal 5 and see it. Keith, George and I have met with most of those, following the tour, and it is fair to say that people are genuinely excited about what T5 represents in terms of opportunities for our customers and for our business. The tours have been conducted by Jonathan Counsell, who is the head of the T5 development. I asked him to list the top five questions that people have asked him as they have gone through the tour. I list them there for your benefit, and allow me briefly to address some of these.

In terms of customer benefit, the main benefit for the customer will come through from the overall environments in T5. It is a fantastic environment. There is more space, more lights, more comforts. Also in customer benefit we are targeting a significant improvement in our operation, with a significant improvement in punctuality and in baggage performance, and our customer experience at the check-in and, for our premium customers, in the lounges, will represent a big improvement on what you are currently experiencing in Heathrow today.

In terms of the overall performance, T5 is a state-of-the-art building. It is designed for 30 million passengers but, more importantly, it has a state-of-the-art baggage system. There are no cul-de-sacs around the stands for parking, we don't have any cross-runway operations, and that is a significant drag on our aircraft utilisation and integration. Aircraft parking facilities, where off-stand, are very close to the building, and we have re-engineered many of our working practices. I believe the lease rentals we have negotiated for the terminal reflect fairly the quality of the facilities that we will occupy in Terminal 5.

In looking at the key cost efficiencies that will deliver our zero NPV business case, these will come through economies of scale in people and equipment, much better deployment and integration of our aircraft, giving us improved aircraft utilisation, and the significant improvement we will get in headcount reduction as a result of the new work practices we have agreed and are implementing with our trade unions.

Finally, the occupancy of T5. We are the sole occupier of T5 but we have agreed a process with BAA that, should additional capacity become available, we will agree with them the best way that this capacity can be utilised. In simple terms, what we get is the first right to use any of the excess capacity that becomes available in T5. As you know, about 8-10% of our operation will be located in Terminal 3 as a result of the restrictions on stand capacity in T5. T5 is an exciting opportunity, not just for our business but for our customers as well.

Open Skies

In terms of Open Skies, we all know that phase one comes into play in March of next year. It removes all capacity restrictions between points in the EU and points in the US, and gives airlines freedom to fly from any point in the EU to the US and vice versa for US carriers, and that includes, for the first time, Heathrow. However, at the insistence of the US, it does not address the restrictions on ownership and control. EU airlines are prevented from competing within the US domestic market, although US carriers are free to operate within the EU domestic market, and the controversial anti-competitive and anti-consumer Fly America programme remains in place. I still hold that there is a real opportunity to progress to a true open aviation area when the negotiations start again in May 2008, with a view to concluding in 2010.

Summer 2008 schedule changes

If I look at what we have done for next summer – and we have spoken about this to many of you already. We have extended our summer schedules to the US and we will continue to offer the best schedule, frequency and network to major US gateways. The highlights of this includes 11 daily services between London and New York, including JFK and Newark, three daily services to Washington, Boston, LA and Chicago, and the majority of the other destinations we serve in the US will have double daily services. In addition, we have improved our offering to the oil industry by moving Dallas and Houston from Gatwick to Heathrow, providing better connections to our Middle East network. Also, to secure that we have moved Algiers from Gatwick to Heathrow, for the same reason.

Project Lauren

We have also discussed Project Lauren, our new subsidiary operation, which will begin operating in Summer 2008 using 757 aircraft out of US gateways flying direct to key business cities in Europe. This will leverage the strength we have in the US market with the strong reputation for service and product, combined with the airport infrastructure that we have, along with the contacts and deals with have with US corporates. I am delighted to say that early feedback from our customers in the United States is that they are very keen to see us deliver these products and routes.

Competitor LHR flying in 2008

Turning to what some of our competitors are doing, we have tried to give you an assessment of likely changes to Heathrow in Summer 2008. Delta is still selling daily Gatwick/JFK, so I think there is a net increase of one flight to New York as the result of their plan announcement. The slots they have cleared for Heathrow are with 200-seat Boeing 767 aircraft. Air France is planning to use a 263-seat 777 to serve Heathrow to Los Angeles, and I have suggested to them that they should sell Los Angeles with two 'ss' in the Loss! We expect Continental to retain one of their Gatwick/Houston flights and probably one or two of their Gatwick/Newark flights as well. Slot filings at this point to suggest that their Heathrow operations will be with 777s. We did note earlier in the week that they have indicated that they had acquired three of the GB slots that were sale for a price of $US130 million, but I have not seen that confirmed at this point. American slot filings suggest that they will drop one of their Heathrow/JFK routes, although they will operate two services from JFK to Stanstead.

Looking at Northwest, we have pulled out of Detroit, so I assume the second Detroit service they are highlighting here will be to replace the service we have dropped. We don't fly to Minneapolis.

The other big interest has been BMI, and you will have seen statements from BMI that they do not intend to launch transatlantic services from Heathrow until 2009 at the earliest. US Airways filed slots for Charlotte, Philadelphia and Phoenix from Heathrow, but they have not been granted any slots. I am not aware of any slot acquisitions that US airways have entered into.

Virgin has acquired one slot from Air Jamaica. It is not clear at this point what they are going to do with that slot. They have transferred Barbados from Gatwick for the winter, but I suspect that is a temporary arrangement.

Lufthansa at this point have given no indication of their intention to operate to the US out of Heathrow. As you know, Singapore and Cathay do have traffic rights, but again at this point, they have not given any indication to do anything for next summer.

Consolidation

On the issue of consolidation, we are a significant and successful shareholder in Iberia, and we have made it clear that we intend to maximise our shareholding to ensure that we get maximum value for our shareholders.

We are a committed member of the consortium that is seeking to make a formal bid to acquire Iberia, that consortium through TPG and our Spanish partners, Vista, Ibersuiza and Quercus. I think it is fair to say that the difficulties in the financial market has affected many transactions and this has slowed things down. I think it is also fair to say that due diligence these days is very bereft.

Turning to other consolidations, you may have seen recently that I was quoted as saying that we are always on the lookout for a transformational deal. I am sorry to disappoint you that I don't have any update in relation to that today. However, I would like to say that I think it is important that the work we have done in recent years in terms of strengthening our business puts us in a place to approach a potential transaction from a position of strength. Our core business based in London is the best travel market in the world, and that leaves us uniquely positioned to combine our balance sheet strength with our market position and take a lead role in any future consolidation as the airline industry continues to deregulate.

Sustainability

On sustainability, our corporate social responsibility is an area that we take seriously. We have taken it seriously for many years, but we have now raised the bar again with the appointment of the Head of Corporate Social Responsibility reporting directly to me. ?Cilla Maisey, who will be known to many of you, previously headed our procurement. We were the first airline to engage in emissions trading when we joined the UK Voluntary Emissions Trading Scheme in 2002. We are pleased that various authorities have now embraced trading over taxation, and we look forward to further developments in relation to this.

The Chairman mentioned the significance of the environmental performance of the new aircraft. It was a key criteria in terms of assessing which aircraft we would take. Since 1990 we have improved our fuel efficiency by 28%, and that is equivalent to reducing our CO_2 production by 60 million tonnes. Just to put it into context, the total CO_2 produced over the past four years in BA is just over 63 million tonnes.

Environment - Fleet

There is still a lot more that we can do, and we have now set a new target to improve fuel efficiency by a further 25% against a baseline of 2005 by 2025. The efficiency of the new aircraft that we have ordered will be a key part in achieving that goal.

Since 2000, we have had a noise footprint at Heathrow. Going forward, both the A380 and B787 are rated at QC0.5, and that is a quarter of the rating of the 747-400.

Examining how we operate is a big issue for us, because it has a major impact on our fuel consumption. Over the last few years, we have introduced a number of measures such as shutting down engines on taxing in, less use and controlled use of APU, a more fuel efficient speed regime for our flying, changed flap selection, and working with ATC and with IATA to straighten routes which have clearly helped to reduce flying time and fuel burn.

Collectively these actions are beginning to show significant improvement, but I don't think the job is done yet and there is a lot more we can do.

Emissions trading is an important time, as I said. We were the first airline – and I believe the only line indeed – to participate in an emissions trading scheme. Through this scheme which covered emissions from our UK property and domestic line, we have reduced our UK emissions by 23%. That demonstrates that trading is a workable solution. It has certainly given us confidence that trading is a workable solution to address aircraft emissions.

That campaigning has led directly to the European Commission legislating for aviation to be included in the EU Emissions Trading Scheme from 2011. Quite honestly, I would like to see the scheme come into effect earlier than that.

We were the first airline to introduce the carbon offset scheme for our customers. We have significantly improved the visibility of that through our website, and we intend to make further developments in relations to our carbon offset scheme very soon. Underground, we have made investments in new equipment in T5. For example, we have now taken delivery of 38 new Euro Five standard buses, well ahead of the 2009 compliance day for this sort of equipment.

Waste Management

Carbon is not the only issue we face. We also need to tackle our solid waste, and in the main we currently cycle about 28% of solid waste. Our target is to reach 50% worldwide, together with a target of no landfill waste by 2010. That is only three years away and is a challenging target, but one I believe that we can use. Clearly through electronic processes, we cut down significantly the amount of paper, but also from the beginning of this month, all the paper we use in our business is recycled.

Community Relations

We support a lot of communities around the world: 130 different communities. I think the most significant project that we are involved in is the UNICEF Change for Good which has raised over £24 million since 1994. At our Heathrow base, we support our communities with a learning centre that has helped over 40,000 in the local communities.

We have also done a lot of work around the world, but in particular we have participated in major programmes in Pakistan, Kenya, South Africa and India and in recognition of this earlier this year we were presented with the Orbis Award for corporate community investment. It is clear to us that corporate responsibility is a very important issue to the sustained long term profitability of our business.

10% Margin Target

On that thought, let me remind you of our corporate financial target. I know George, Keith and I have discussed with many of you what the best measure for profitability is. We support the view that a business must over time earn more than its cost of capital, consistent with the EVA theory. However corporate targets must be understandable by all of the stakeholders in the business, and particularly by those who work in the business. We believe that it is very important that there is only one measure to ensure transparency across all of the stakeholders. We have chosen, as you know, operating margin as that metric.

The 10% operating margin target is set to provide cash that is required for asset replacement and growth and the payment of dividends and tax, then to close the circle there on CPA, we centrally target a revenue to asset ratio of one. In addition, we believe that the 10% operating margin target does compensate for major one-off local events, and unfortunately, as you know, our industry has faced a number of those in recent times.

Operating margin history

You have seen this chart before. I just want to highlight a couple of things. Since privatisation, with the exception of the major ventures that are circled there, our earnings show a clear cyclical pattern around 6%. Going forward we have two objectives. The first is to raise the average rate of return through structural improvements in both revenue and cost. Secondly, to reduce the volatility around that average.

Volatility

So let me look at the progress that we have made to date. We are saying that we want to target an 8-12% margin outside major events. While we have made progress, there is still opportunity for the business to improve efficiencies and we are determined that we deliver those over the years ahead.

However, our business today is generating real value for our shareholders, and we believe it is important that we also look for profitable growth opportunities.

I would just like to review the actions that we have taken over the last few years under the headings that you can see there – Asset Discipline, Capital Expenditure, Capacity Flexibility, Risk Sharing and the other items that you can see. If I turn to Assets, our assets are largely fleet. However, we do have a large property portfolio and a number of subsidiaries. We have a strong focus on asset utilisation. As you know, since 2001 we have not taken delivery of any wide body aircraft, but over that period we have driven average aircraft utilisation up by about 30% to just under 10.5 hours per day. Going forward, our capacity growth plans that Keith highlighted to you are going to be linked to demand-driven growth. We have carefully reviewed, and adjusted, the network to maximise revenue and we have also reviewed the seating configuration of our aircraft to the same end.

If we look at property, over the last two years we have demolished 25 under-used buildings at Heathrow and Gatwick. That is over one million square feet, or 13% of our UK portfolio. I am pleased to say that we have been able to recycle 95% of the material from that.

Since 2000 we have consolidated our portfolio and we have reduced the number of leases by over 200 and the number of buildings that we occupy by over 150. Just last month we have agreed to the early surrender of the Compass Centre, that is our Operations Centre, so as staff move out of that into T5, and we are back-filling into our Head Office at Waterside, we will be able to exit that building. That will give us an annual saving of about £11 million.

We still see further opportunities, in particular at the eastern end of Heathrow where we have some 200 acres of property. As you know, with other investments we have disposed of quite a few in recent years. Heathrow catering, our shareholding in Galileo, Deutsch BA, our Liberté BA connections, and many more that you will know.

Asset turns

In terms of asset turn we are performing much better today than we did in the previous earning peak in 1996. Our asset turn last year was just under 1.1 and we are committed to asset discipline going forward in order to drive value and reduce volatility.

Capital Expenditure Discipline

We talked about capital expenditure, and Keith has highlighted the issues in terms of our longhaul growth. At Investor Day we talked about a capex model that would support 4% longhaul growth, and we were able to demonstrate to you that we could fund that programme without deteriorating gearing from its current levels. Even assuming an 8% operating margin. As Keith has shown, and as I mentioned earlier, we are now committed to 3% which is well inside the capex figures. In fact, we expect debt to fall between now and 2012, in order to prepare for the higher spend that you can see in 2013 and 2014.

Capacity flexibility

Capacity flexibility I think is key to managing volatility, both from a revenue and cost perspective. This chart shows capacity in seats rather than ASKs because clearly we haven't determined the final shape of the flying programme. But I think it does demonstrate to you the flexibility that we have, both with the aircraft order that we have announced and the possibility of adjusting the retirement schedule of our aircraft to manage capacity growth. So you can see there the bottom line shows the fleet order with early retirement. The yellow line is 4% growth, but the blue line I think shows you what we could do with deliveries of aircraft and the existing fleet. So a lot of flexibility to manage capacity over the years ahead.

Risk Sharing

When we are looking at acquiring aircraft, a very important issue for us is risk sharing, and all of our orders will include a significant degree of options and slides, or deferrable, delivery dates. The ability to change the size of the aircraft within a family, and therefore giving us greater flexibility, asset value guarantees, call by the hour engine maintenance contracts, and all of these help to transfer risk and reduce our earnings volatility. On the financing side, I think a good balance between operating leases and various forms of ownership is very effective to manage the asset value risk of the business.

Reduced financial risk

Looking at the financial risk, it is clearly very important that for a business that carries significant operational risk, we must reduce volatility. We talked about a number of these issues previously, so I won't dwell on them too long. What I am going to say is that in terms of cash, those of you who have followed this business over the years will know that capital is always available in good times, but unfortunately in bad times it is not, or if it is available it is very expensive. So we have currently a cash target for the business of £1.8 billion, and that is intended to see us through any major events. As the business grows, you should expect to see our cash balance grow broadly in line with revenues. As Keith has mentioned, our position at half-year is just a touch under that target. That is largely as a result of the significant payments that we have made into the pension scheme and the fines as outlined by Keith.

Cash buffer for event risks

Keith has already shown you this slide. The one thing I would like to say is that it is very important that we have been able to demonstrate that, while our cash has fallen this year – again, due largely to the pension contribution – our net debt, including pensions, our pension-adjusted net debt, continues to fall, in spite of the challenging year that we have seen in 2006/7. That is a good performance.

Committed facilities

Liquidity is the lifeblood of the airline industry. I would just like to highlight some of the facilities that we have available. In addition to our cash, we have a general facility of some $700 million. We also have the MOF that Keith spoke about, of $1.7 billion and some other backstop facilities. It is important to recognise that that $1.7 billion facility was put in place when there was considerable turmoil in the credit market. The terms of this facility are as good as the terms we had when we last did a jumbo transaction back in the late 1990s. The deal has a commitment period of up to five years and, when drawn, a debt term of up to 15 years. We can draw it fixed or floating, at an agreed spread, in euro, dollar or sterling. Under the terms, we have no financial covenants and drawings under this facility are not subject to any adverse change clauses. This transaction was a great testament to the banking community's belief in our business.

Pension risk reduced

We have talked a good deal about pensions. I am really pleased that we have been able to address this because the restructuring that we achieved last year has not only secured excellent pension arrangements for our staff but it has reduced our liability and pension costs into the future. Linking pensionable growth to RPI has established a better correlation between the pension assets and pension liability, so I am really pleased that we were able to address that.

Reduce fixed costs

Over the last few years, we have made a number of structural changes to the business in order to reduce both our costs and improve our flexibility. We have often spoken about the changes in work practices tied to the move to Terminal 5. The benefits of that are largely to come over the next 18 months but it is important to remember that these are structural changes and they are permanent – there is no 'snap-back' involved.

We have also pursued the selective use of outsourcing to specialist suppliers and we see that as an effective way of managing costs and volatility. For example, over the last two years, we have now outsourced our domestic ground handling in the UK outside of London and in much of our European ground handling operations.

Cost per ATK

Our selling costs, as a percentage of revenue, have now fallen from 17% in 2001 to about 5% today, and I believe that this is a figure which is in touch with the best in the world. I am demonstrating that on this graph, which shows our total cost per ATK and then split between fuel (in red) and non-fuel (in blue). There are two very good messages from this. First, controllable costs have fallen steadily since 2001, in spite of limited capacity increases. Secondly, after hedging, the cost-cutting and cost-control that we have managed in controllable costs has broadly offset the fuel increases.

Diversity revenue

In terms of revenue, we have worked hard at improving the quality of our revenue base. BA.com gives us a much wider market access than we had in the past, but it also drives down the cost of servicing bookings.

In terms of our premium traffic, we have extended our premium base beyond the traditional corporate strength into the small and medium sized enterprises. Since April of this year, over 800 new companies have signed up to our On Business scheme. Revenue from this segment has increased by 11%, year-on-year. As I have spoken before, premium leisure is also an important part of our premium mix. Indeed, one analyst called us recently and said that he could not believe how people talk about us being uncompetitive when he was able to buy two Club World tickets to New York for £1200 return, travelling over the Christmas period. There is great value out there on BA.com.

In terms of shorthaul, our low entry, one-way, changeable fare structure has been very successful and it has significantly driven seat factors – particularly in Gatwick. There are also our premium offerings, which include premium leisure and, as we spoke about before, the option to upgrade at the point of travel in Gatwick has also been very successful.

Revenue per ATK

You can see from this chart that our revenue for ATK shows an increase, exceeding that of 2000/01. Our revenue action has had an important and significant impact on our yields.

Unit rev change vs unit cost change

There is a great deal of information on this chart. It just shows the unit revenue change against the unit cost change. The interesting point here is that it shows that we have been very good at matching volatility. There is sometimes a short lag in this, and that lag is reduction – but you can see here that we are good at addressing our unit costs, in line with any negative impact on our unit revenue.

Profit per ATK

In terms of profit per ATK, this slide speaks for itself: we are achieving industry-leading margins in relation to this.

Summary

Just to summarise, looking at what we have done, I believe that our focus on profitability has taken us a long way towards our 10% operating margin target. There is clearly more opportunity for us and you will see us take advantage of those opportunities. We are generating value for our shareholders and so both investment in the business and dividends are very much on the agenda.

I am delighted to say that T5 is on track and it is key to developing our Heathrow market.

Looking to the future, we have returned our business to real profit and we are now committed to continuing to develop our core London business and take advantage of profitable growth opportunities. As the aviation world deregulates, there will be opportunities for transformation or consolidation. We are in a strong profitable business and I believe we can take a leading role in that activity. Thank you.

Martin Broughton: Thank you, Willie, and thank you, Keith, for that very comprehensive review of the first half and other things that are going on. We have time for questions.

Questions & Answers

Chris Avery (JP Morgan): I have a couple of Terminal 5 questions. You mentioned a possibility of excess capacity at Terminal 5. How does that get generated, it has been in the planning so long. And the T5 manning levels, you were talking about keeping those going for longer. Can you talk to us about when the savings of lower manpower begin to feed through? Secondly, switching to Gatwick, you are putting mainline on to GB-vacated routes. How are you going to make money doing that?

Willie Walsh: What I have spoken about is if excess capacity becomes available, so this is, if you like, an insurance policy if things change. We wanted to make sure that we protected our position in T5 and that we had first call on any additional capacity that was generated there. It could be generated by us, for example, through changes in our schedule. It is important to remember that T5 is not our terminal; it is a BAA terminal and they have a responsibility to treat all operators at Heathrow in a fair and transparent way, but we wanted to make sure that a procedure was put in place today to protect any changes that might take place in the future. Quite honestly, I don't see any excess capacity becoming available, but I thought it was right that we put in place a protection, or at least a process that would be followed to ensure that we were able to take advantage of any improvement, if that improvement came about. Keith will talk about the T5 manning levels.

Keith Williams: On the T5 manning levels, as you have seen from the slides, we are about 7250 at the moment. We are anticipating that level to stay throughout the summer period next year, so that would take us through to our quarter three next year, and we would expect it to fall in Q3 and then Q4 and into the following year.

Willie Walsh: In terms of Gatwick, we are looking to operate on six routes out of Gatwick previously flown by GB: Faro, Gibraltar, Ibiza, Malaga, Palma and Tunis. The reason we selected those is that those routes have a high premium content, and we believe they fit very well with our two product offering at Gatwick.

Quite honestly, this gives us a much better mix of flying in Gatwick. These are routes that, if we hadn't had a franchise agreement with GB, we would have been operating ourselves, so it is an improvement in the network that we will have in BA, and improve the financial performance of our Gatwick operation. [*Leisure premium*.] That is why we have selected those six routes, because we believe they are a perfect fit with the product offering we have at Gatwick.

Tim Marshall (UBS): Again on Gatwick, I notice Martin said at the beginning of his presentation that you have eliminated all the loss-making businesses, so can we take it that Gatwick shorthaul is now profitable? Basing it just on the premium, you have said that transfer is still weak versus last year. If we are looking at a 12% increase in November, does that mean point to point it is up even more than that, and if so, particularly given the issues the financial markets are going through at the moment, where is that coming from? Finally on the outsourcing. You said you have done a lot. Is there still some to go?

Willie Walsh: We don't break down the profitability of our business any more, so I am not going to respond other than to say we continue to target improvements in all parts of our business. You are right, premium transfer traffic has not returned to the level we had seen prior to the August 2006 security disruption. Premium point-to-point traffic has improved significantly, and we are seeing it pretty much across the network. Some areas are better than others and it changes from month to month, but overall it is a strong premium performance when you take into account that we have lost premium transfer, which is business I believe we can get back, particularly when we get the hand baggage sorted out, there are further opportunities for us on the overall premium business.

On outsourcing, I think there are further opportunities. We have addressed the ground handling at the UK stations, so Manchester, Aberdeen, Glasgow, Edinburgh, the main UK stations we fly to outside London, are now all outsourced. We have outsourced a number of stations around Europe, and we are looking at other opportunities in other parts of the world, so there are further opportunities for us to pursue outsourcing. I think that is important in reducing risk and addressing the volatility issue, so you should expect us to do it. We are going to do this in a low key, quiet fashion; we are not advertising the fact. The fact that we were able to successfully do it in the UK, which historically would have been seen as a no-go area, is an indication of how determined we are in this area.

Douglas Yield (Blue Oar Securities): We have heard quite a bit about the US market this morning. I wonder if you could say a little about the competitive conditions that you are seeing on the Asian routes, particularly India and China?

Willie Walsh: As you know, capacity on India significantly increased in recent years, not just driven by our increase in capacity, but a number of the existing operators and some new entrants into the market. We are really pleased with the performance of our Indian network. We see further opportunities for growth in India. It is one of the key target markets and you should expect us to address that as we take delivery of new aircraft. Although it is competitive, it is a very good market for us, and we see it as a key strategic market for us and one that will support further expansion.

That is probably the No. 1 growth market that we see today. It is slightly different to China, and we are looking at China as well for opportunities, but we see more opportunity in India than we do in China at the moment, but again, there are opportunities for us to grow in China and we should expect to add some capacity to China as well. But India, we are pleased with the way we are performing on India. We have seen the market settle down a little following the very significant increase in additional capacity following the deregulation. We are targeting further expansion there.

Jonathan Webber (Sociètie General): A couple of questions, first on cargo. Can you please give us what you think growth will be in volume in the second half, please? The second question, just coming back to Open Skies again, you have been pretty consistent since before the Open Skies deal was signed, that you were fairly relaxed about Open Skies and its impact on BA business. You have had a few months since it has been signed, you have seen some of the competitive action, you presumably have developed your own thinking although you have not yet publicised it in terms of what you are planning to do. But just simplifying it, would you say it is a net benefit to you or a net threat to you?

Willie Walsh: I will ask Keith to talk about the cargo.

Keith Williams: On cargo, as you saw on the slide, in the third and fourth quarters, we are against some pretty weak comparables for the last year. Those comparables are in part driven by the experience at Heathrow. There are issues around the manning at the gate posts which affect our cargo operation on its way into the airport.

What we see in the third quarter this year is some improvement in cargo in terms of revenue, so some 5-7%, and that will increase again in Q4 because of the weak comparable last year.

Willie Walsh: I think you are right. I was relaxed about Open Skies before this happened, and I am equally relaxed about it now that we have greater visibility in terms of what our existing competitors and potential new competitors will do. I think it is very much swings and roundabouts. Short term it is probably a net benefit to us, but overall I really don't see it being a major issue for the business.

Ed Standford (Cazenove): Just a quick one on Project Lauren, please. Are you encountering any union issues with the way you intend to staff the project, and if so, can you put more detail on it?

Willie Walsh: What we intend to do with Project Lauren is to establish a subsidiary company. It will operate with its own AOC, so it will be exactly the same structure as we have applied to other subsidiary companies. The people operating in the business will operate on terms and conditions that are appropriate for that operation. This is exactly what we do at London City where we have CityFlyer, previously where we had BA Connect, so we are following the same model as we followed in the past. It hasn't been an issue in the past. We approached Balpa and asked them if they wanted to represent the pilots that would operate for this airline. I think it is fair to say that they possibly see it slightly differently because may be it is a bit sexier flying longhaul aircraft, but we are following exactly the same model as we have followed with other subsidiary airlines that we have, with terms and conditions that are appropriate to the operation and that is exactly what we intend to do with Lauren.

I expect that we will be able to do this. I think it is publicly recognised by Balpa that the terms and conditions required for that operation should be different to the terms and conditions that apply to our mainline operation, so I am confident that we will able to do what we need to do to make Lauren a success.

Andrew Light (Citigroup): A couple of questions for you. Can you extend your analysis of Asian opportunities to the Middle East? I know there are a number of services with 777s and 747s there. Secondly, on project Lauren and JFK expansion, is there any risk to that because of the DoT or someone trying to limit capacity growth at JFK?

Willie Walsh: In terms of the Middle East, we are increasing our flying to Dubai this winter – I think we are adding five services a week to Dubai. We continue to offer a significant service into Middle East destinations. I do not see any radical change to the way we have operated there. I go back to what I said earlier – I think the growth opportunities for us are in Asia and in North America, because as you have seen we are expanding our flying into North America. South America and Latin America is a market where we see growth potential, more so than in the Middle East. Obviously, the amount of activity going on within the Middle East is quite significant but we have a successful and profitable operation in competition with these Middle East carriers and we will continue to build on that.

At JFK, I suppose a cynic might say that we finally get Open Skies and then they shut JFK. I am not a cynic. It is fair that people look to do something at JFK but the problem really has been caused by a significant increase in domestic US operations and, predictably, commuter-type aircraft. If you analyse where the growth in movements has come from at JFK, it has largely come from the domestic operators. JFK is a critical international gateway for the US. I am not necessarily worried at this stage and, in fact, there could be some benefit from this.

I would like to see an improved operation at JFK. The taxiing times that all operators are seeing there are unhealthy. Measures are appropriate but clearly we want to see what those measures will be, but I am not concerned about the impact that that will have on Lauren. There are many other gateways in the US that are available to us and so we are not solely looking at JFK. As I said, at this point I am not overly concerned about what is being looked at. We are involved in the consultation that is going on.

Chris ?Reid (Deutsche Bank): Could you say a few words on the industry, Willie, and how that compares with how it was say 10 years ago, given that you have compared BA to the previous cycles?

Then Keith, can you make any comments on cash in advance of carriage, and how that is going? I have tried having a look at it but I could not understand it, so I just thought I would laugh you. Are people looking further ahead, or less far ahead?

Willie Walsh: In the industry, what you have seen in terms of steps that have been taken by BA have been taken by most of the sensible operators in the industry – although not by all operators, because we continue to see a number of poor performing airlines, largely legacy airlines, that have not addressed fundamental change. I see that as an opportunity for us because many of these carriers will struggle badly with oil at $90-plus.

The steps that we have taken to strengthen our position and to improve our efficiency allow us to cope with the issues much better than a number of the poorer performing airlines. Most of the major carriers have taken similar steps to us, although we have probably gone a little deeper. It would be fair to say that we have gone further in terms of change and we are continuing to pursue costs, possibly a little more aggressively than some of our competitors. However, I would not say that we are radically out of line with any of the other major and better performing carriers in the business today.

Keith Williams: On sales in advance of carriage, you can be forgiven on that one! It is flat year-on-year; it is around £900 million in September 2006 and £900 million now, so it is flat year-on-year.

Andrew Lobbenberg (ABN Amro): Three questions but they are quick. Any fuel hedging beyond the first half of the next financial year? Secondly, does the capex guidance you have given us include a deposit for the big twin, because I guess the order would come within that time horizon? The third and final question: on the order conference call you said that most of the big new planes would be owned, but in Willie's discussion you talked about a mix of operating these versus owned. Can you straighten that out for me?

Keith Williams: Fuel hedging first of all. We have given you the position on hedging essentially for the first half of next year. We do have hedging for the second half, which is about 30% hedged for the second half. The capex model does include something for the twin, although clearly the level of PDP there is going to be determined when the order is placed.

Willie Walsh: On the third question, what I said is that balancing operating leasing with very strong ownership is an effective tool, so clearly we will look at opportunities there. What is important is that we are not just locked in to doing one or the other, that we retain flexibility.

Keith Williams: The only thing I would add there is, if you look at the fleet today it is roughly divided into thirds. A third is owned outright, a third is on long-term financings and about a third is operating leasing.

Martin Broughton: We are going to have to call it to a halt there, but there will be a conference call at two o'clock. Thank you very much.

[*Ends*]