



BRITISH AIRWAYS

Interim management report

First half results

2008-2009

Analysts' presentation

November 7, 2008

Disclaimer

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of the Company's Business Plan programs, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy.



Martin Broughton

Chairman



BRITISH AIRWAYS



Keith Williams

Chief Financial Officer



Good results against a tough backdrop

- Revenue up 6.4% to £4,754 million
- Operating profit £140 million, after £40 million severance provision
- Operating margin 2.9%
- Cash generation £333 million from operations
- Strong 2nd quarter (revenue up 9.8%, op profit £105 million)
- Strong balance sheet position going into tough times

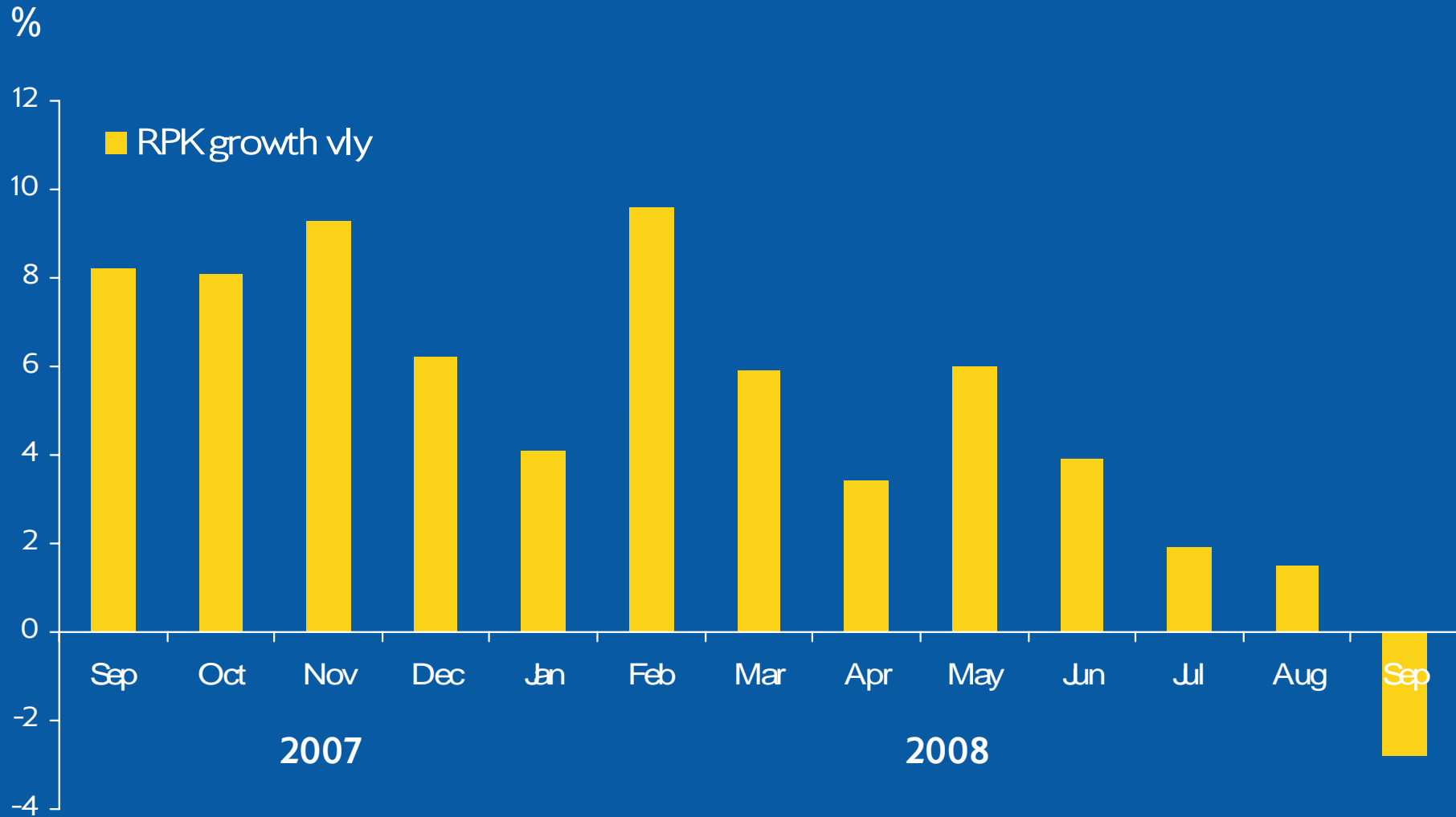


Managing well through tough and volatile market

- Economic slowdown leading to softening demand for air travel
- Volatile oil price
- Volatile currency markets



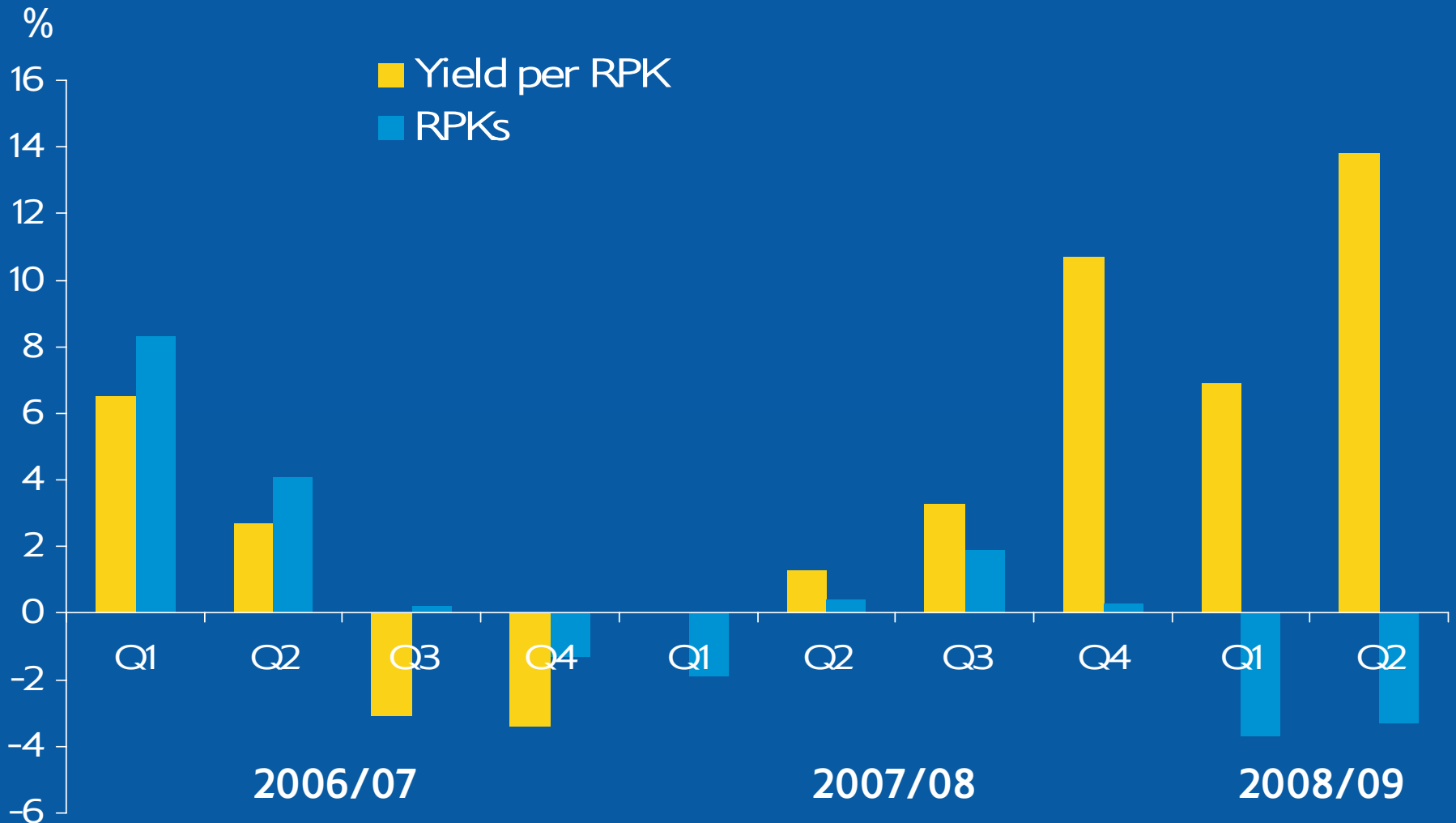
International passenger market slowing...



Source: IATA



but our yield strategy is paying off



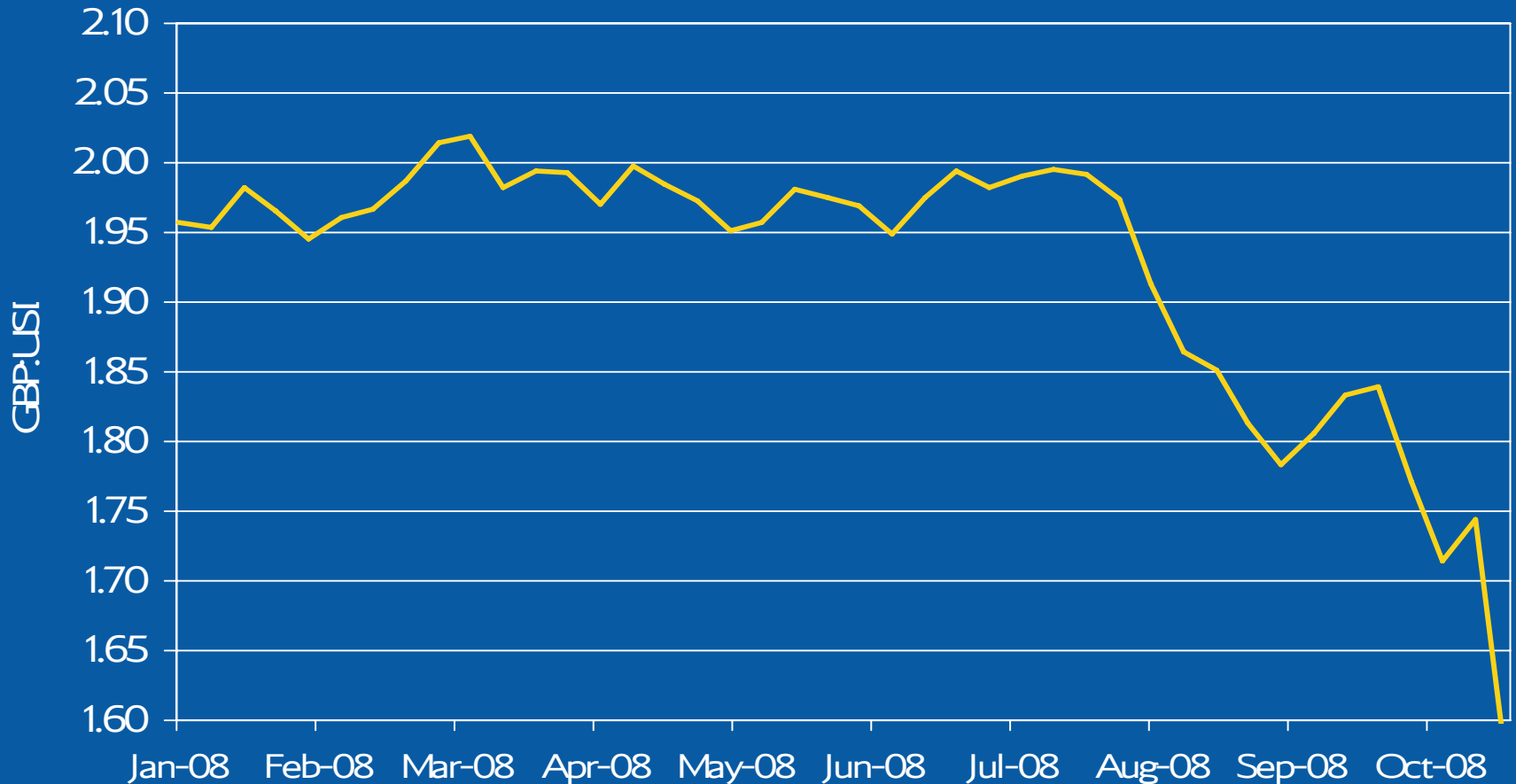
Jet fuel prices are volatile...



Jet fuel prices



Sterling has fallen against the dollar...



...but we achieved exchange neutrality in H1

Revenue + £128m 2.9% margin benefit

Fuel - £30m

Other - £91m 3.1% cost increase

Total + £7m

Period ended September 30, 2008



First half 2008/09



Headline numbers above expectations

	6 Months £m	Better/ (worse)
Turnover	4,754	6.4%
Fuel costs	(1,494)	(52.0)%
Total costs	(4,614)	(18.2)%
Operating profit	140	(75.3)%
Operating margin	2.9%	(9.8)pts
EBITDAR	574	(44)%
Pre-tax profit	52	(91.6)%

Period ended September 30, 2008



Statistics

6 months vly
Better/(worse)

Key statistics

ASK	1.3%
RPK	(3.5)%
Seat factor	(3.8)pts
ATK	(0.8)%

Key performance indicators

Yield per RPK	up 10.5%
Unit costs per ATK	up 19.2%
Unit costs per ATK excl fuel	up 7.5%

Period ended September 30, 2008



Yield improvement continues

% vly	Q3 07/08	Q4 07/08	Q1 08/09	Q2 08/09
Price	2.5	7.8	2.2	7.1
Mix	2.5	1.4	2.5	3.2
Exchange	(1.1)	1.5	2.2	3.5
Reported	<u>3.9</u>	<u>10.7</u>	<u>6.9</u>	<u>13.8</u>



Turnover split first half

	£m	VLY
Passenger	4,159	6.5%
Cargo	363	25.2%
Other	232	(15.6)%
	<u>4,754</u>	<u>6.4%</u>

Period ended 30 September, 2008



Cargo – strong first half performance

- Turnover £363 million, up 25.2% vly
- Record H1 tonnage, up 3.1% vly
- Surcharges & premium drive yield up 22.7% vly
- Premium volumes up 5.6% vly



Cargo – outlook is challenging

- Global airfreight fell 7.7% in Sept (IATA)
- Yields declining due to reduced surcharges
- Consumer spending down in UK/US markets

- We remain focused on:
 - Maintaining share gains in key markets
 - Growing premium product mix
 - Building customer support through strong operational performance & customer specific initiatives



Costs challenging as expected...

6 months

Capacity in ATKs	down	0.8%
Total costs	up	18.2%

Excluding fuel:

Total costs	up	6.8%
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Excluding fuel and exchange:

Total costs	up	3.7%
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Period ended September 30, 2008



Pressure on all cost items

6 months	£m	% VLY	
Employee costs	1,161	8.6	up
Engineering & other aircraft	244	9.9	up
Landing & en route charges	305	13.4	up
Handling, catering etc	510	3.7	up
Selling costs	188	1.1	up
Other costs	712	4.4	up
TOTAL COSTS (excl. fuel)	3,120	6.8	up
Fuel & oil	1,494	52.0	up
REPORTED TOTAL COSTS	4,614	18.2%	up

Period ended September 30, 2008



Pressure on all cost items

3 months	£m	% VLY	
Employee costs	606	15.0	up
Engineering & other aircraft	126	12.5	up
Landing & en route charges	162	20.0	up
Handling, catering etc	255	0.8	down
Selling costs	97	1.0	up
Other costs	356	6.3	up
TOTAL COSTS (excl. fuel)	1,602	9.6	up
Fuel & oil	788	54.5	up
REPORTED TOTAL COSTS	2,390	21.2%	up

Period ended September 30, 2008



The balance sheet

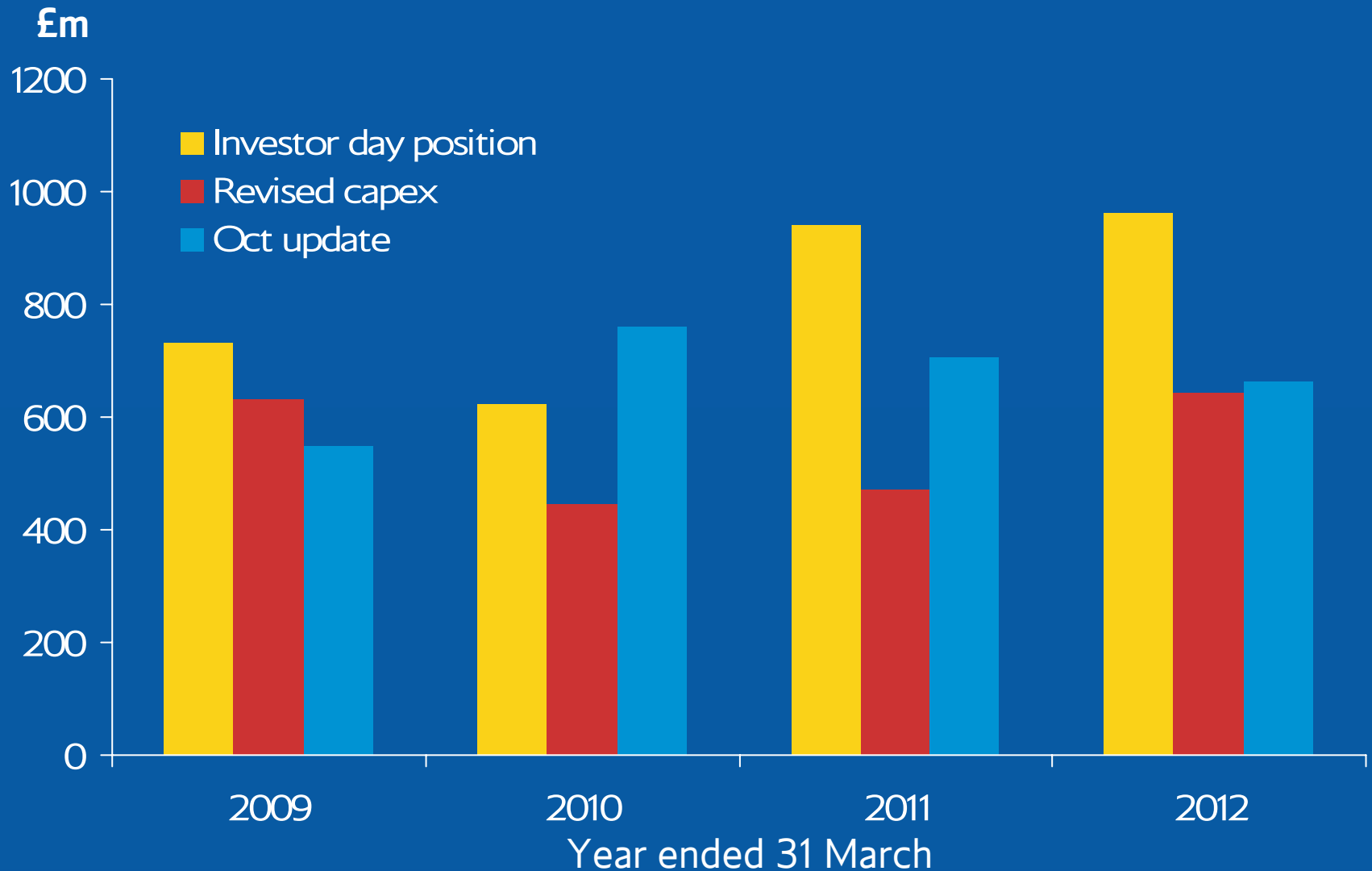


Cashflow and cash position

- Cashflow from operations £333 million
- Cash balance of £1,833 million
- Capital expenditure of £265 million



New capital expenditure profile

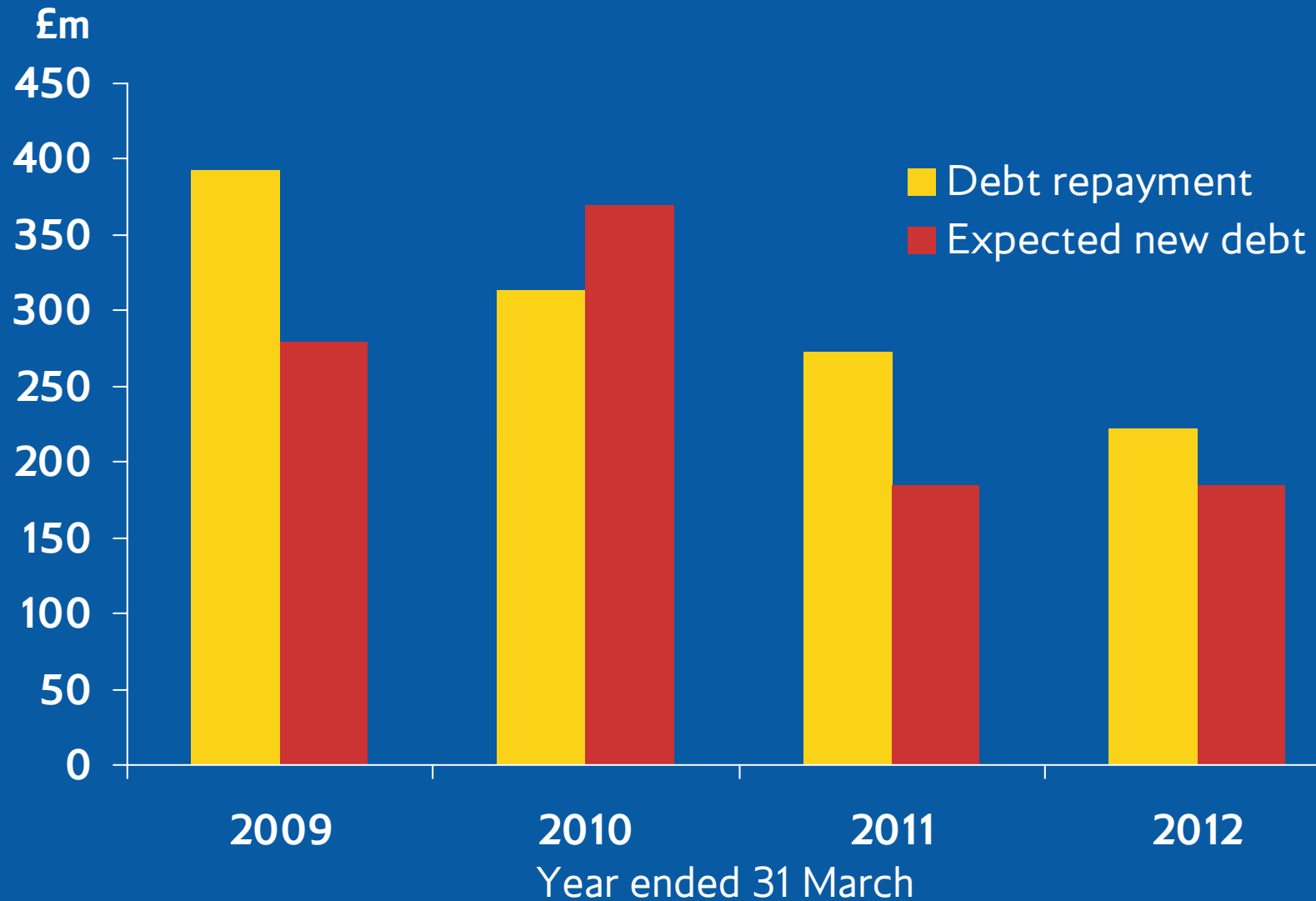


Committed facilities of £2.6 billion

Facility	Amount	Available To
Multi Option Facility	\$1,530m	June 2013
Airbus A380 Backstop	\$940m	December 2015
Boeing 787 Backstop	\$508m	December 2015
Airbus A320 Backstop	\$266m	June 2010
General Purpose	\$220m	June 2012
Yen Facility	\$750m	January 2011



Committed financing covers debt repayments

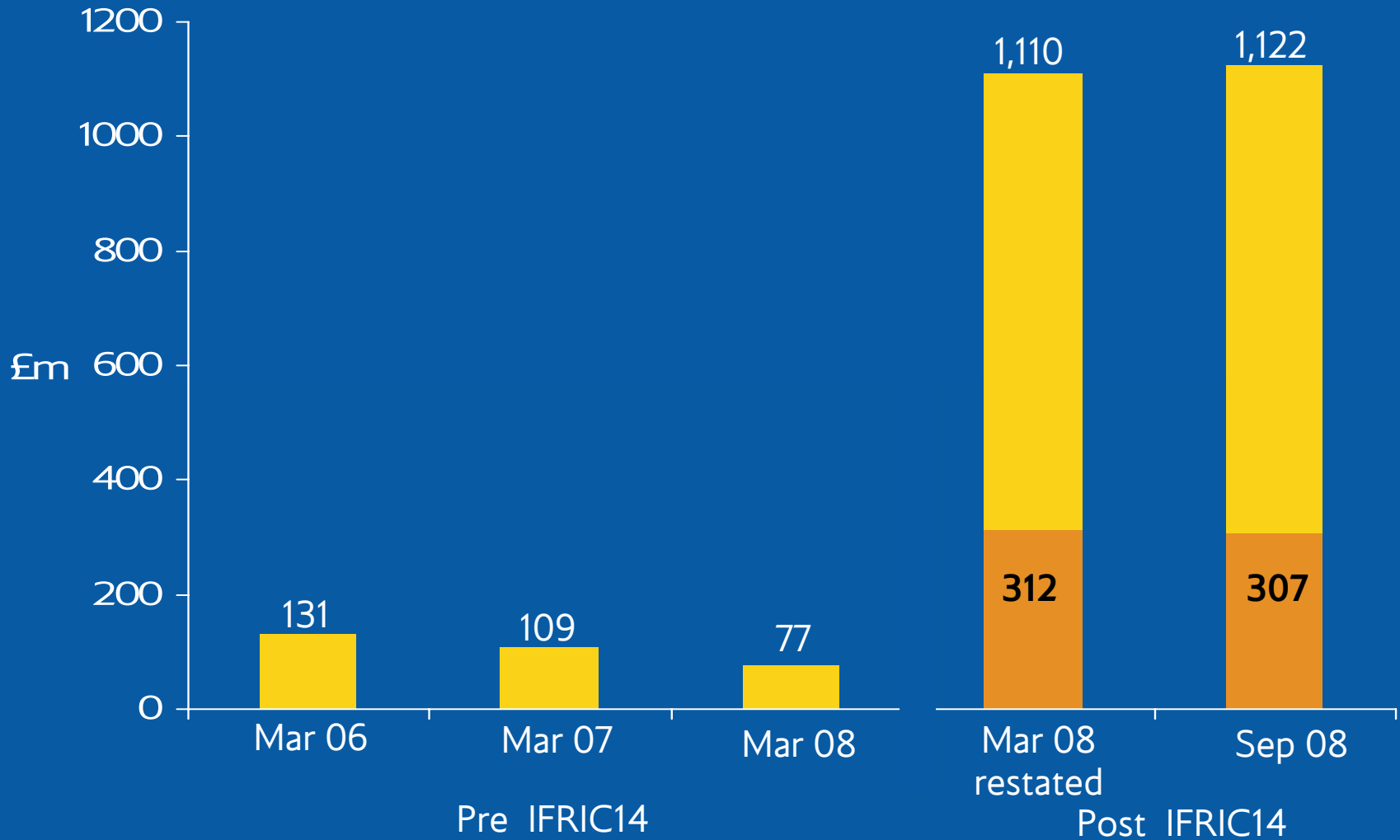


Pension valuations updated

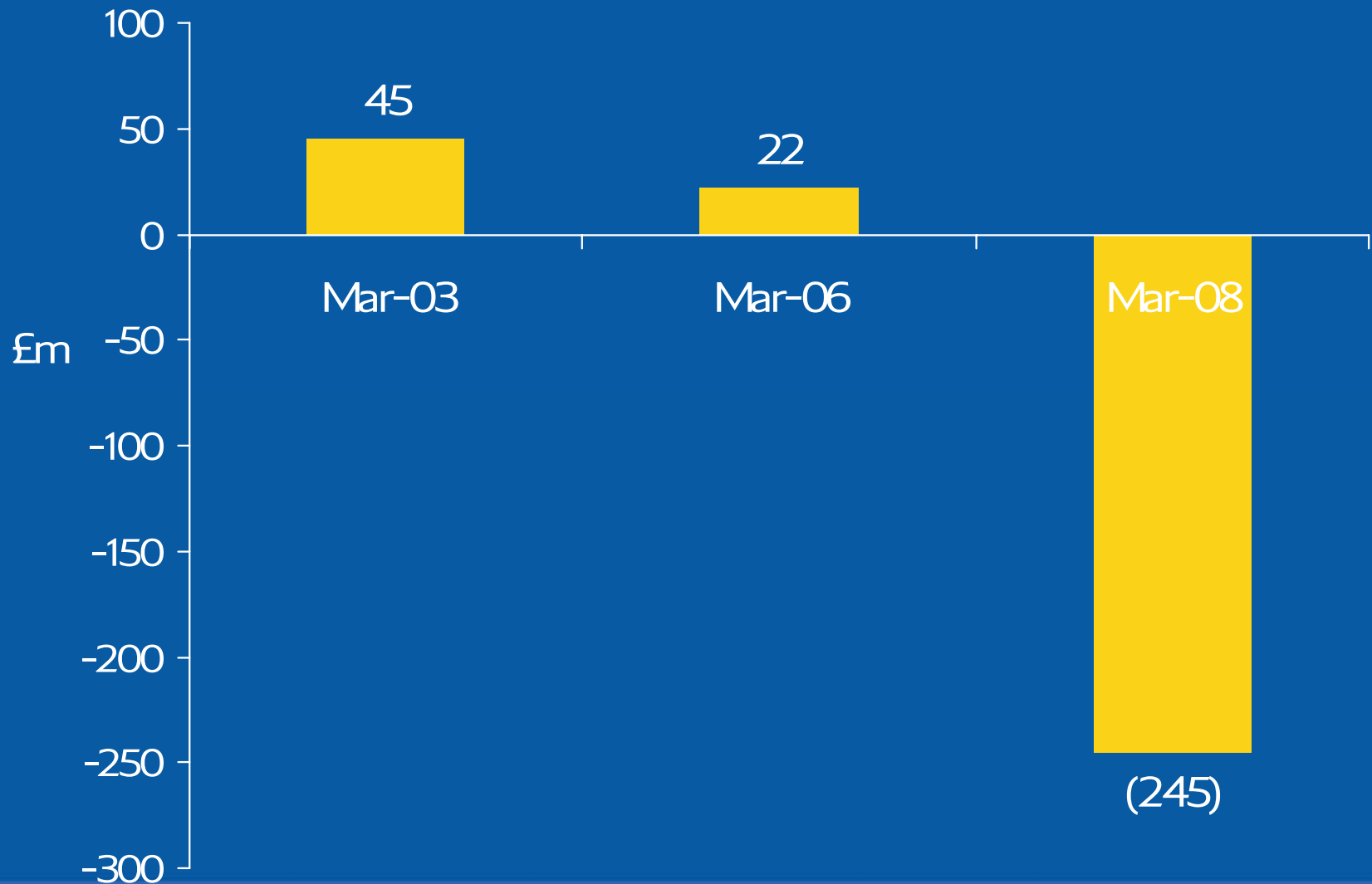
- Accounting to September 30, 2008 on updated liability assumptions and asset valuations
- IFRIC14 adopted - higher APS surplus on balance sheet
- Actuarial valuation updated to March 31, 2008 on updated assumptions on liabilities, real returns and assets (scheme specific)



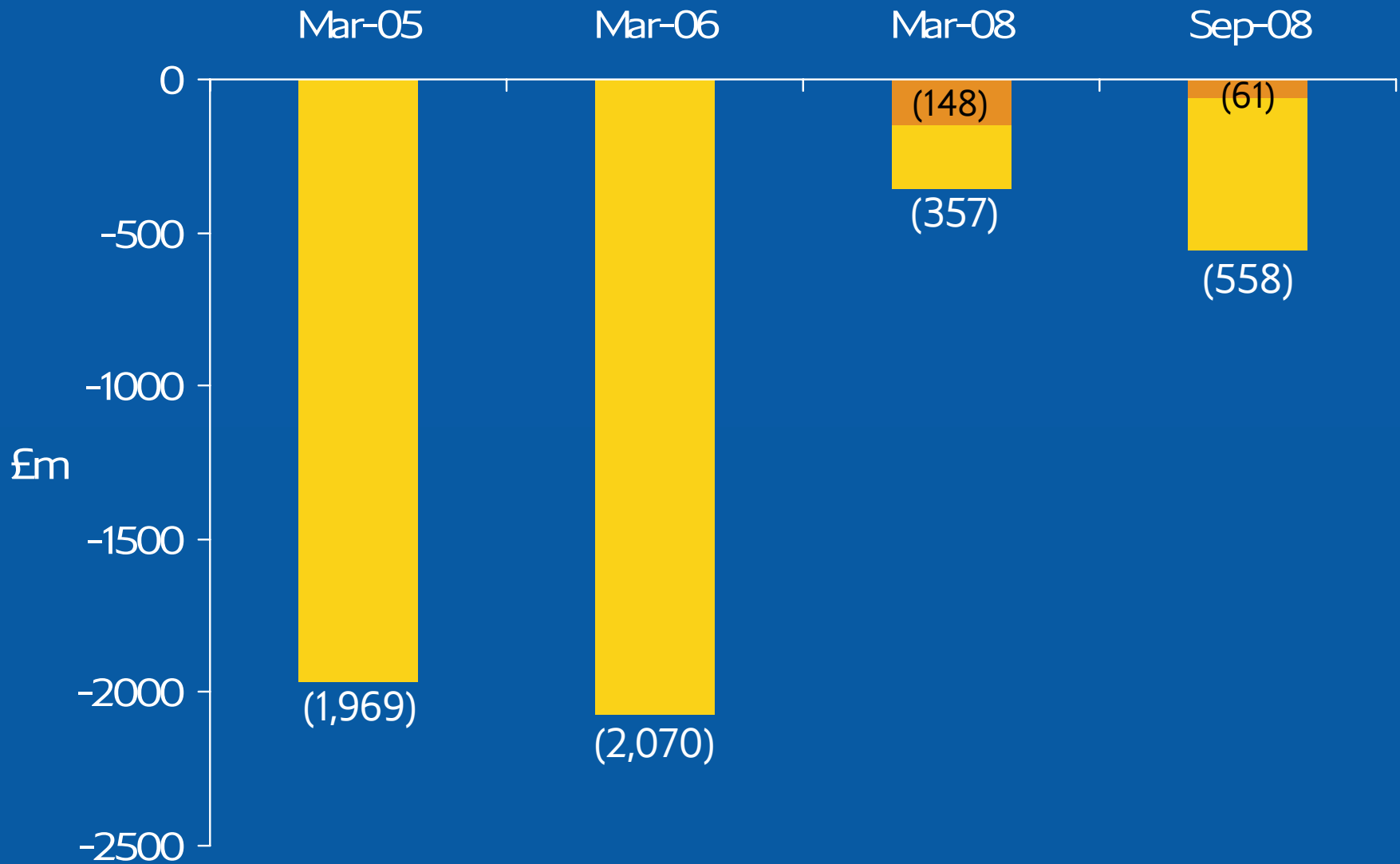
IAS19 position - APS



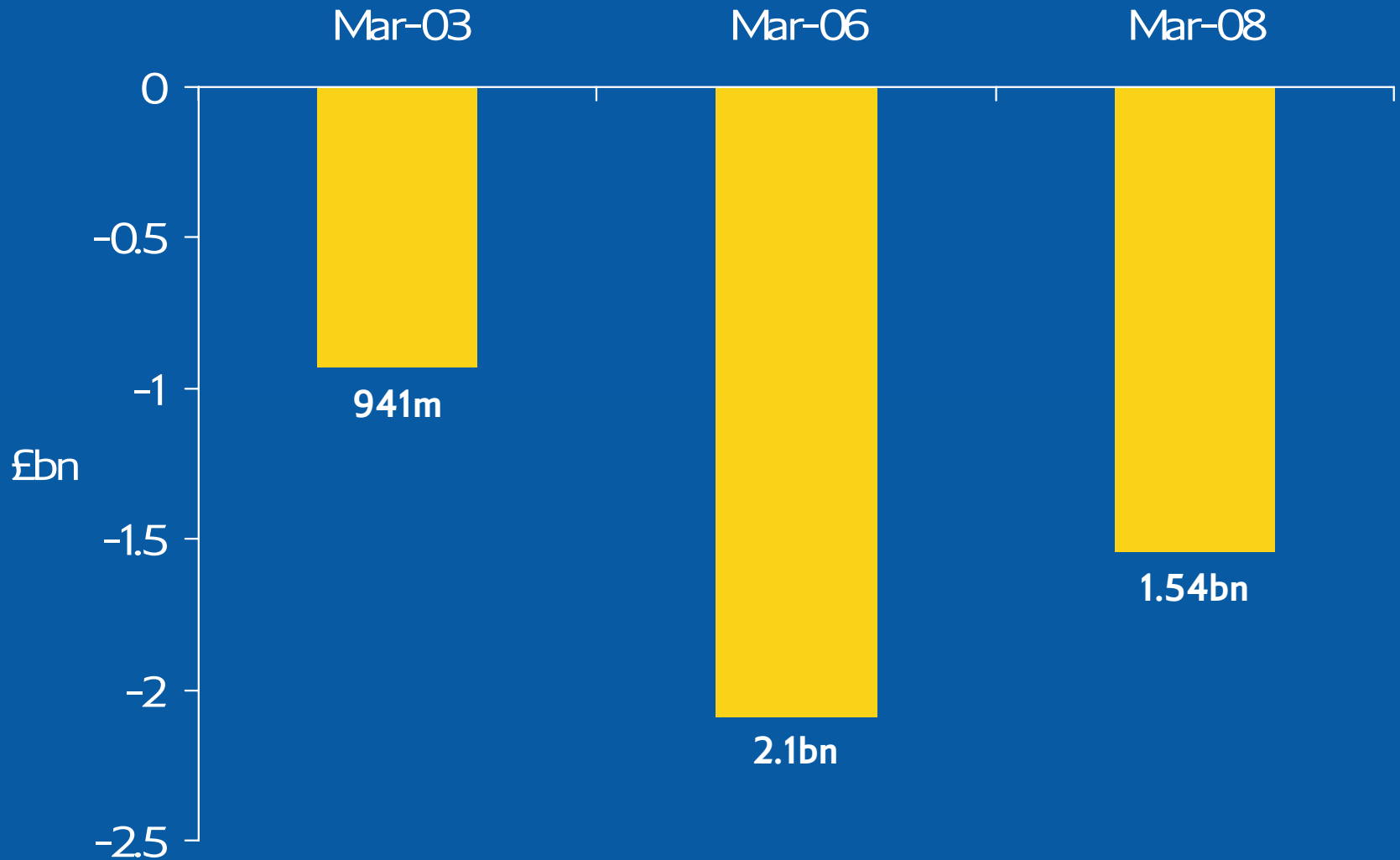
Actuarial valuation position - APS



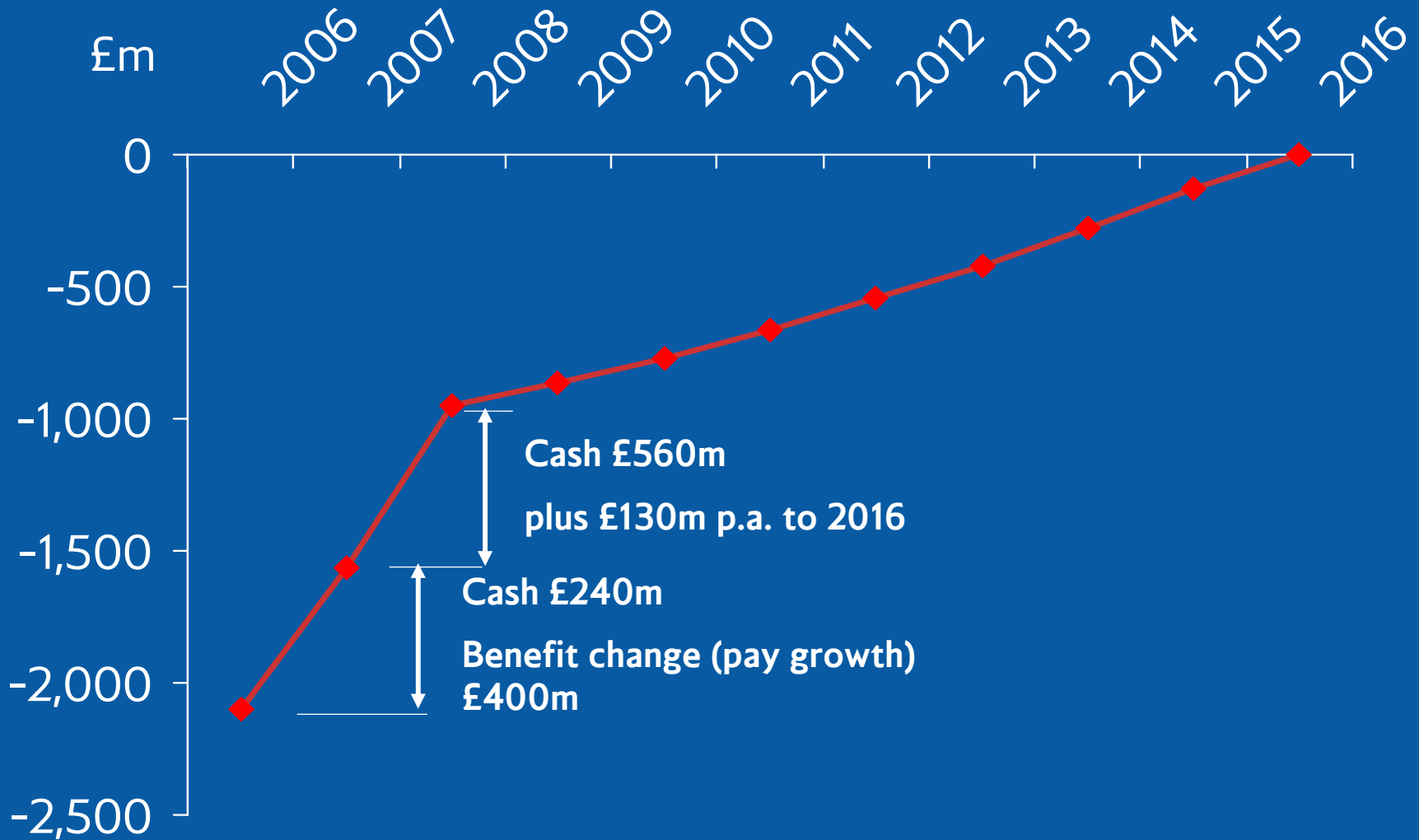
IAS19 position - NAPS



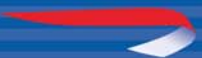
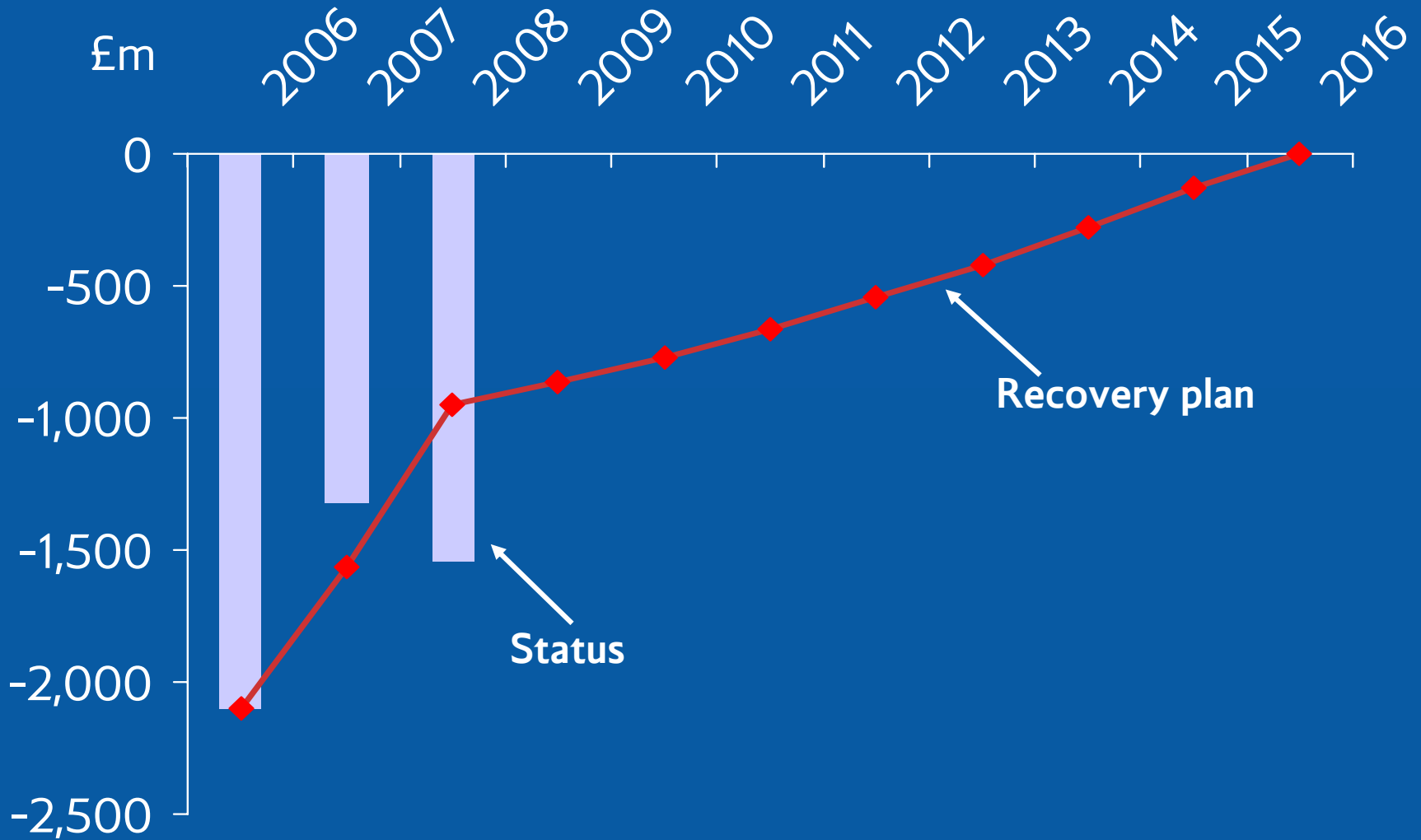
Actuarial valuation position - NAPS



NAPS Recovery Plan



Status v Recovery Plan



Recovery Plan must be affordable

"We reiterate that recovery plans should be affordable. The Pensions Regulator is not expecting increased payments in the next valuation cycle to arise from greater clarity on assumptions if a recovery plan was already at the maximum that was affordable....."

.....If payments were at the maximum reasonably affordable then any changes could lead to a longer recovery plan where appropriate."

Source: The Pensions Regulator's consultation report on assumptions and mortality, Sept 2008



Looking forward



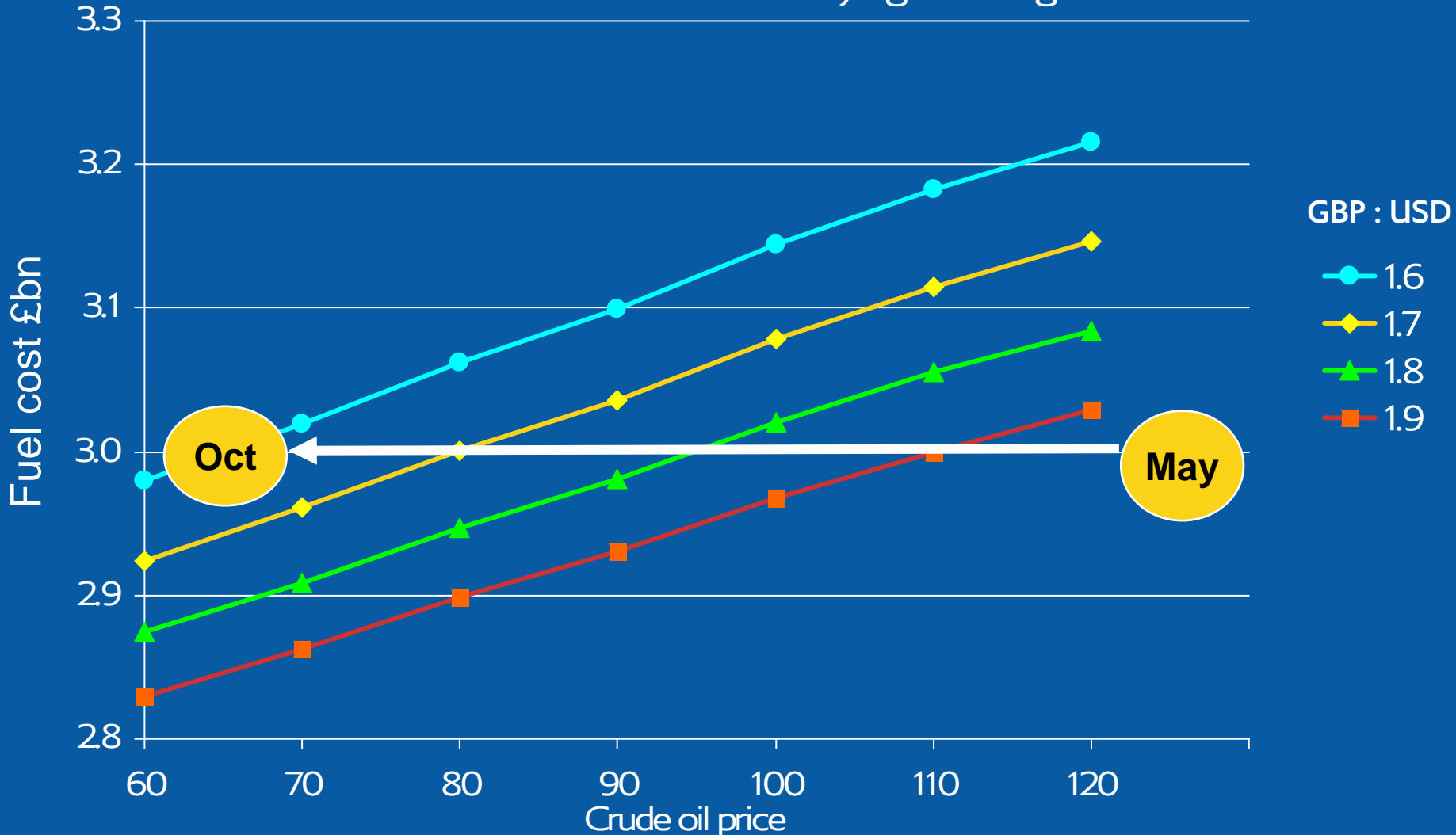
Revenue guidance update

- Revenue guidance raised to at least 4% (vs +3%) for full year
- Passenger volumes lower but yield higher
- Exchange benefits revenue growth
- Longhaul premium under pressure since September
- Non-premium showing some resilience

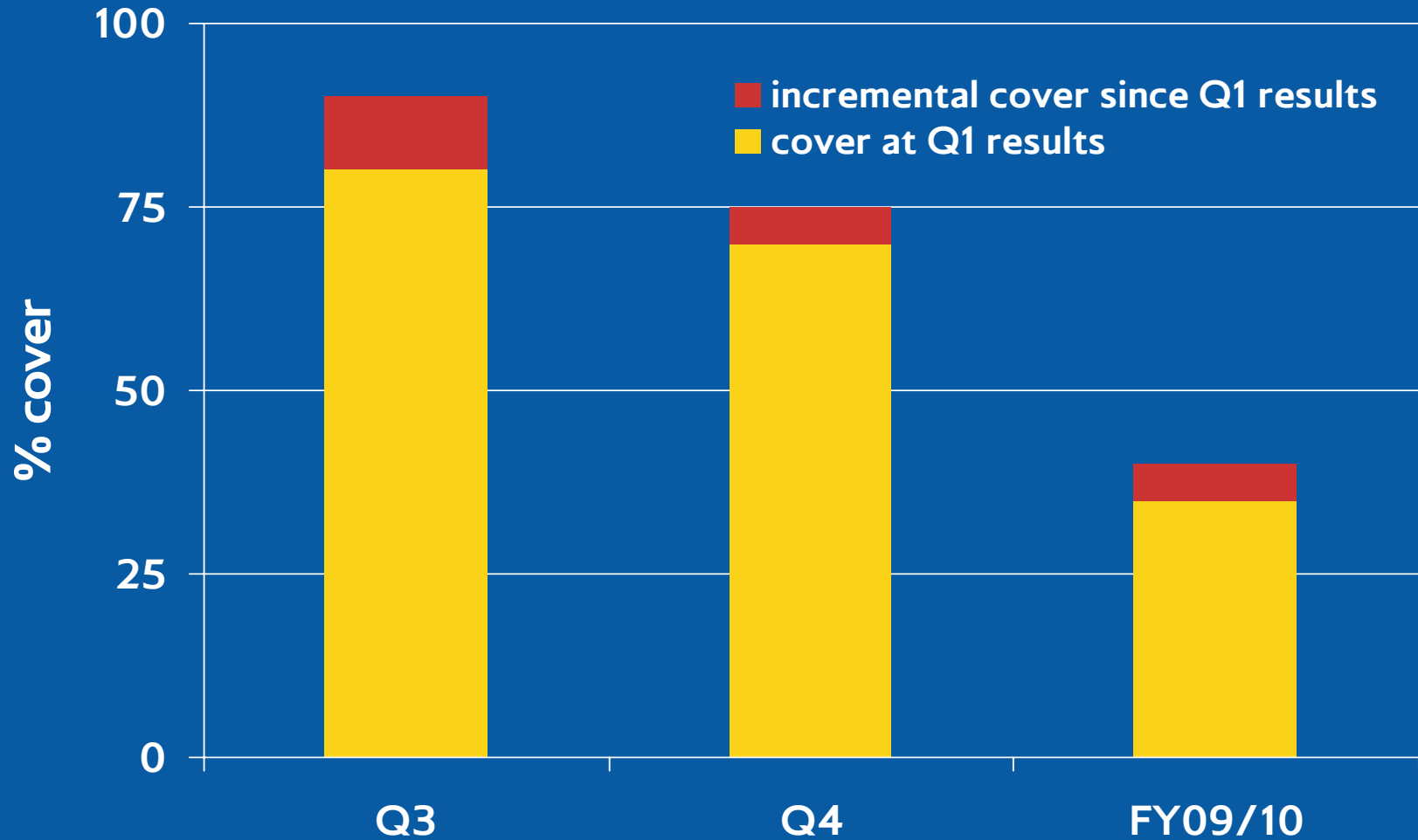


£ weakness keeps fuel cost around £3bn

FY08/09 fuel cost forecast at varying exchange rates

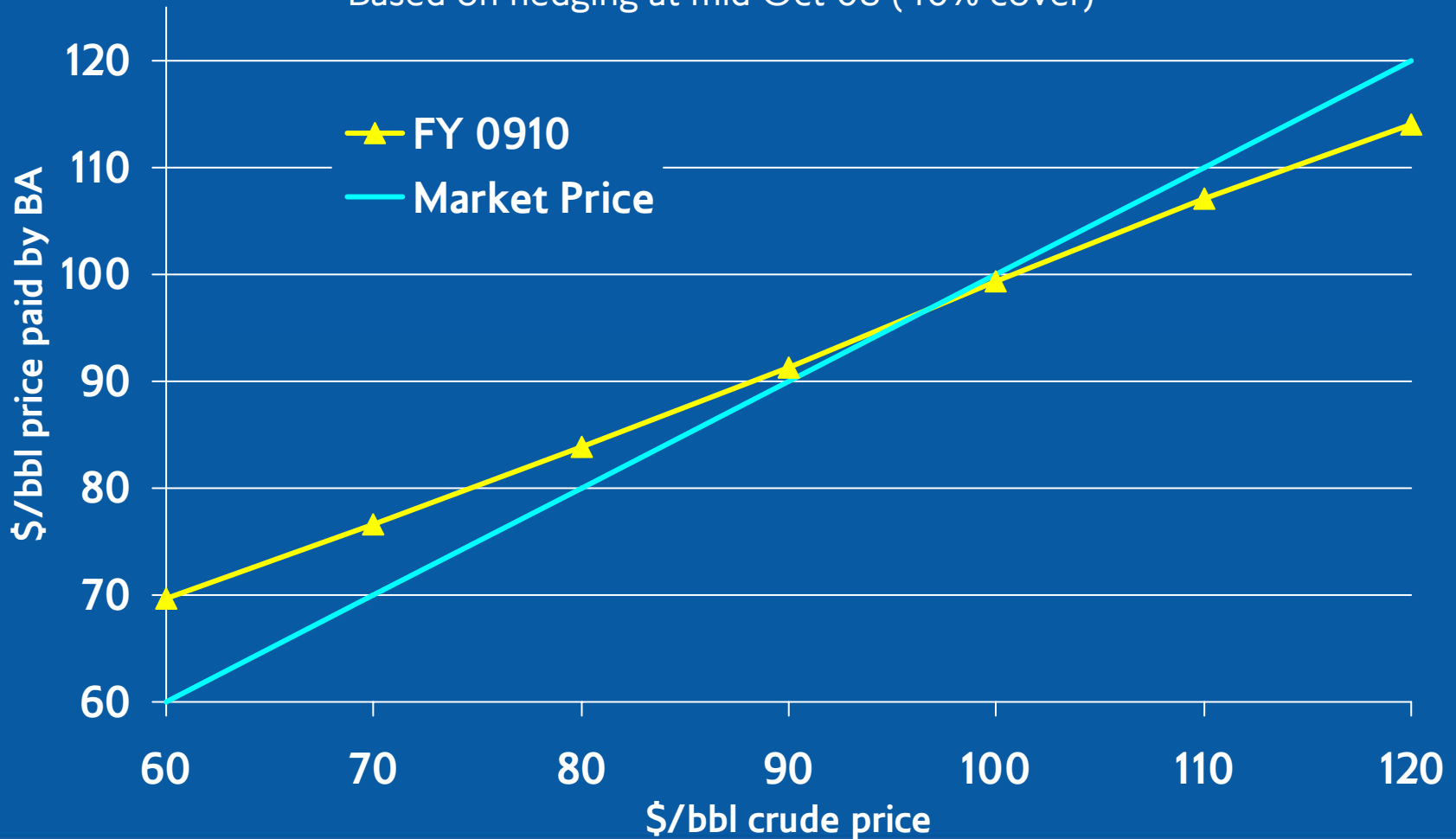


Limited hedging cover placed since Q1



Fuel cost down next year at current prices

Well placed to take advantage of price fall
Based on hedging at mid Oct 08 (40% cover)

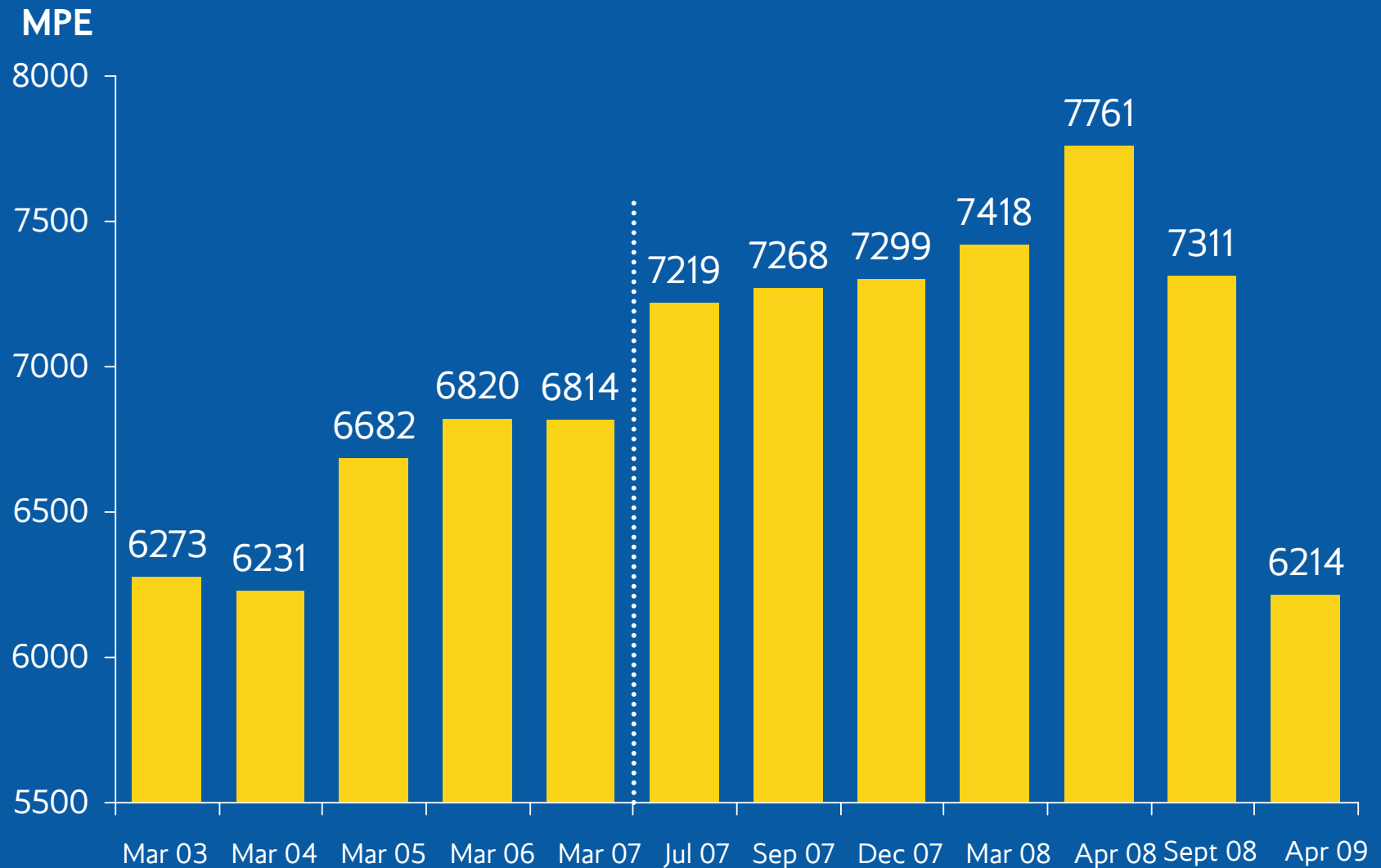


Other costs

- Capacity reduction gives cost reductions
- One-off restructuring costs
- Supplier costs moderating
- Increased airport costs
- All costs post Terminal 5 move under review
- T5 delivering cost reductions as planned

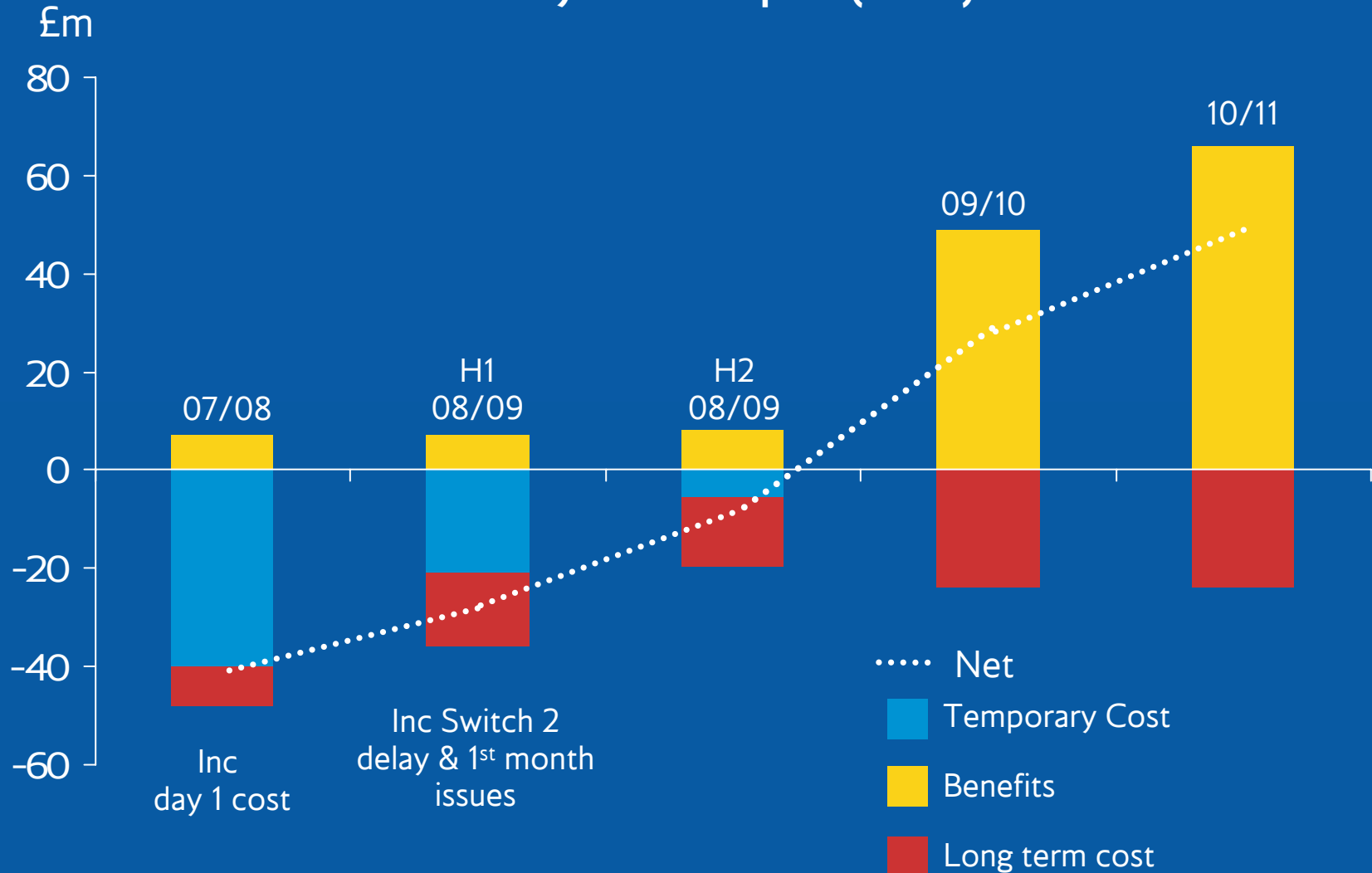


Heathrow manpower



T5 cost impact

08/09 full year net impact (£41m)



Revised outlook for the year

Q1 results
1 August

Revenue growth

c. 3%



up at least 4%

Fuel cost

up £1bn



up £1bn

Non-fuel costs

up c3%



up 5%

Focused on a small operating profit



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Willie Walsh

Chief Executive Officer



- Consolidation
- Terminal 5 update
- Capacity
- Restructuring our business



Consolidation

- More than 30 airline failures in last 6 months
- European industry in state of flux
- Iberia update
- American update
- Alitalia update



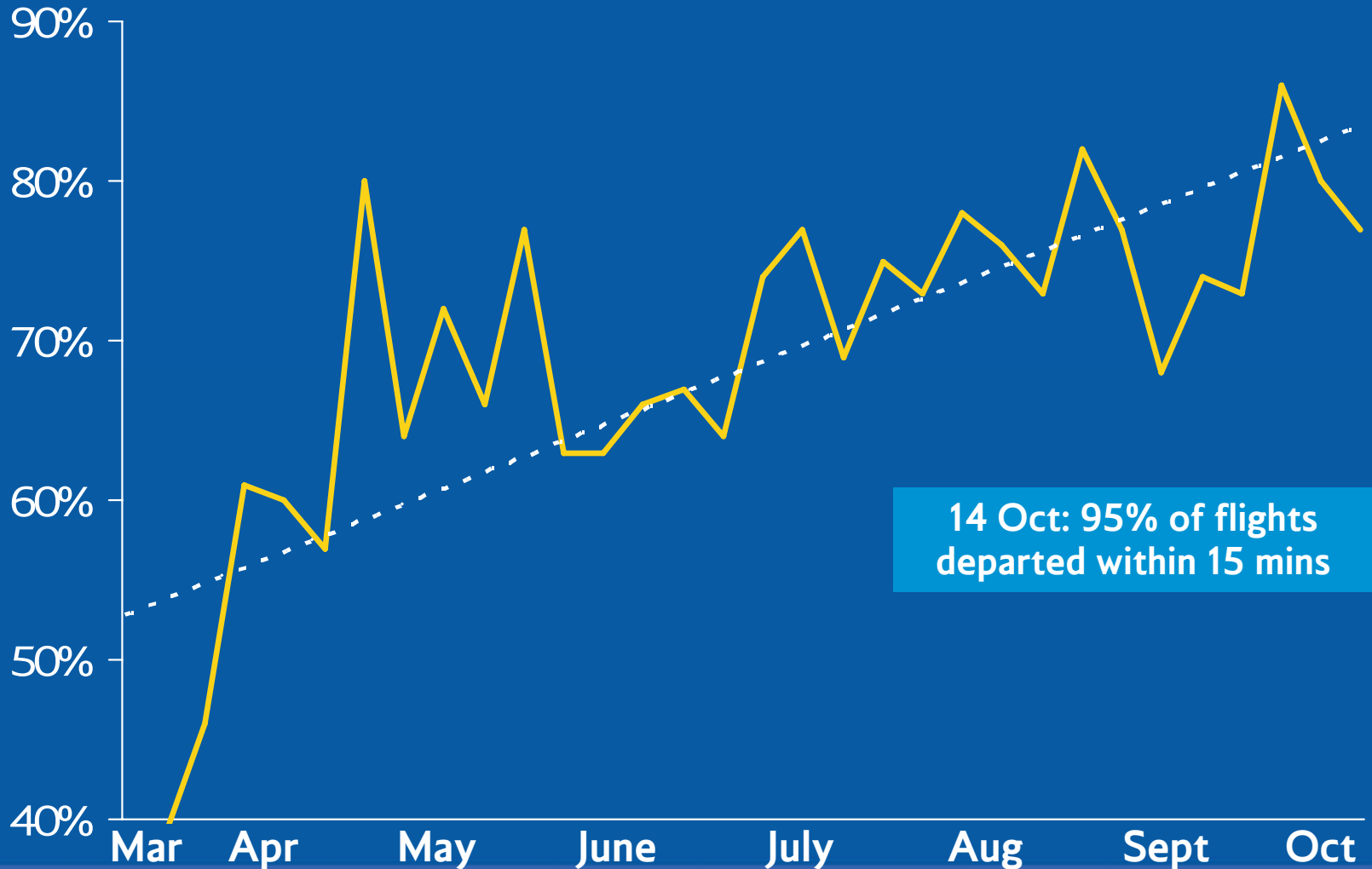
T5 – building a great customer experience

- Overall satisfaction with check-in is high
 - 78% of customers very or extremely satisfied
- Improved Connections experience:
 - 57% customers highly satisfied, +13% vs 2007
 - "My first 25 min connection at Heathrow and the luggage arrived!"
- Punctuality significantly improved
 - 57% of customers highly satisfied, +12% vs 2007
 - "On time, in peace, unstressful"



Best Heathrow punctuality since 2001/02

Weekly percentage of flights departing within 15 mins

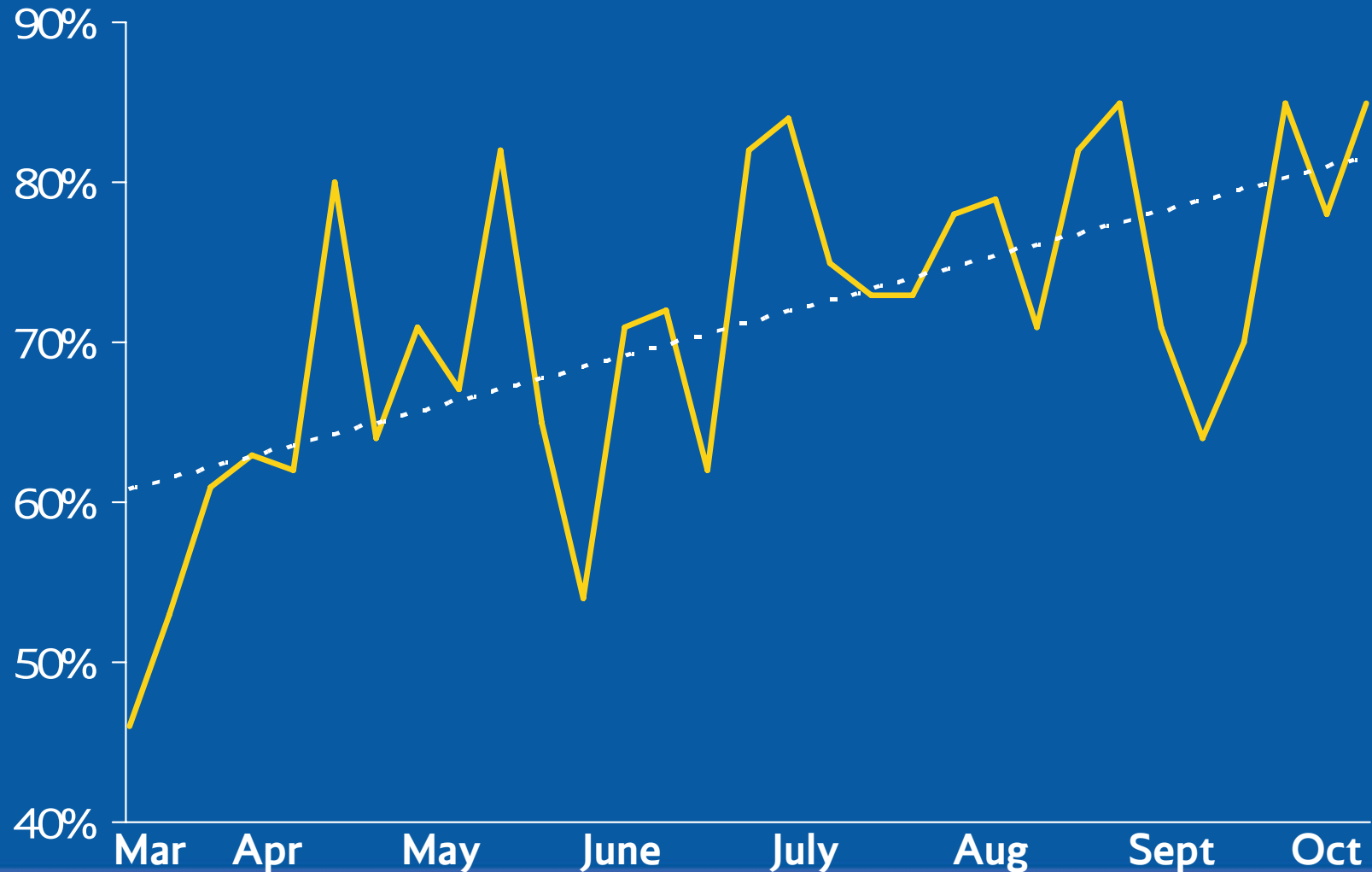


14 Oct: 95% of flights departed within 15 mins

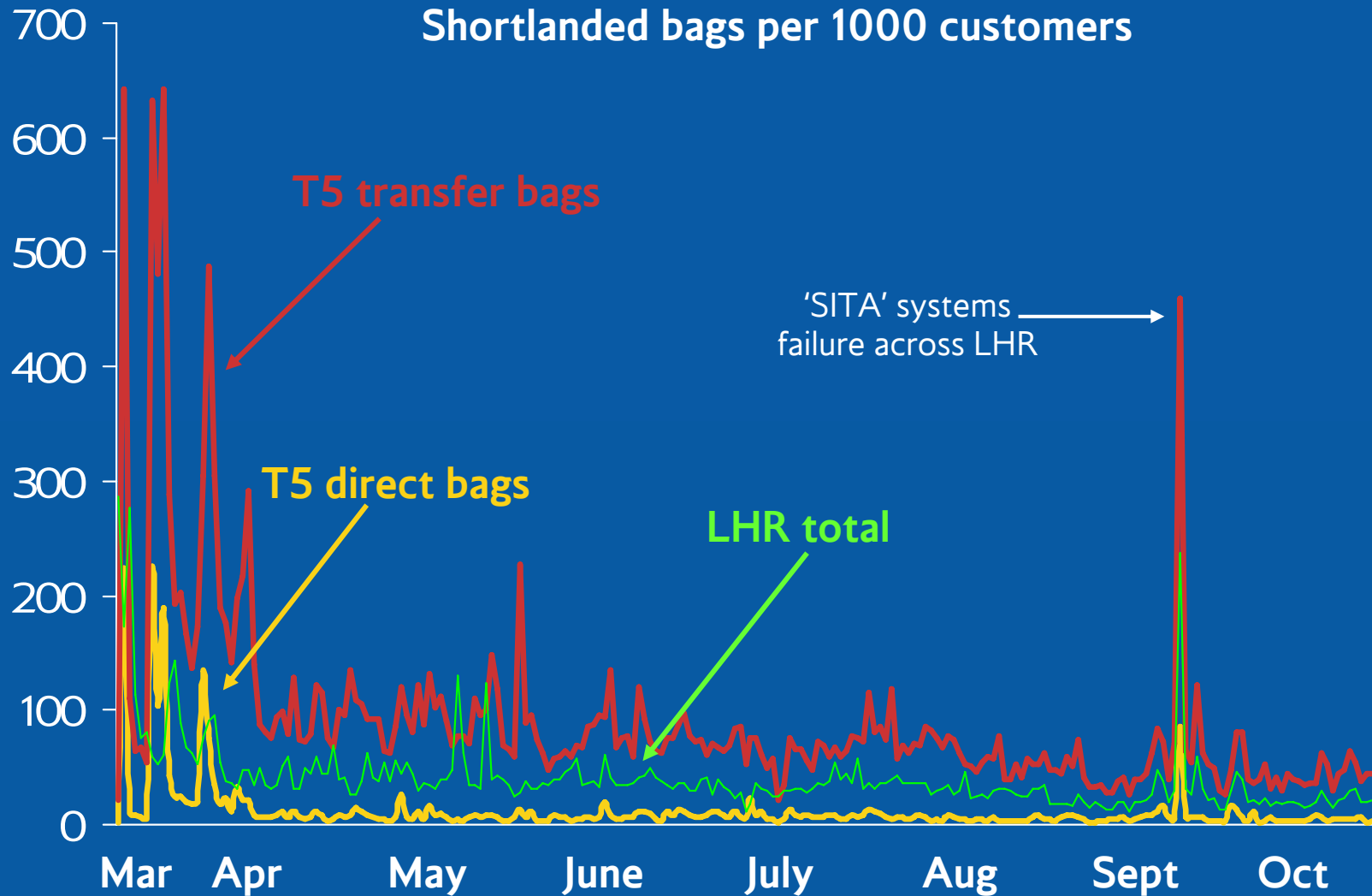


Arrivals punctuality also improved

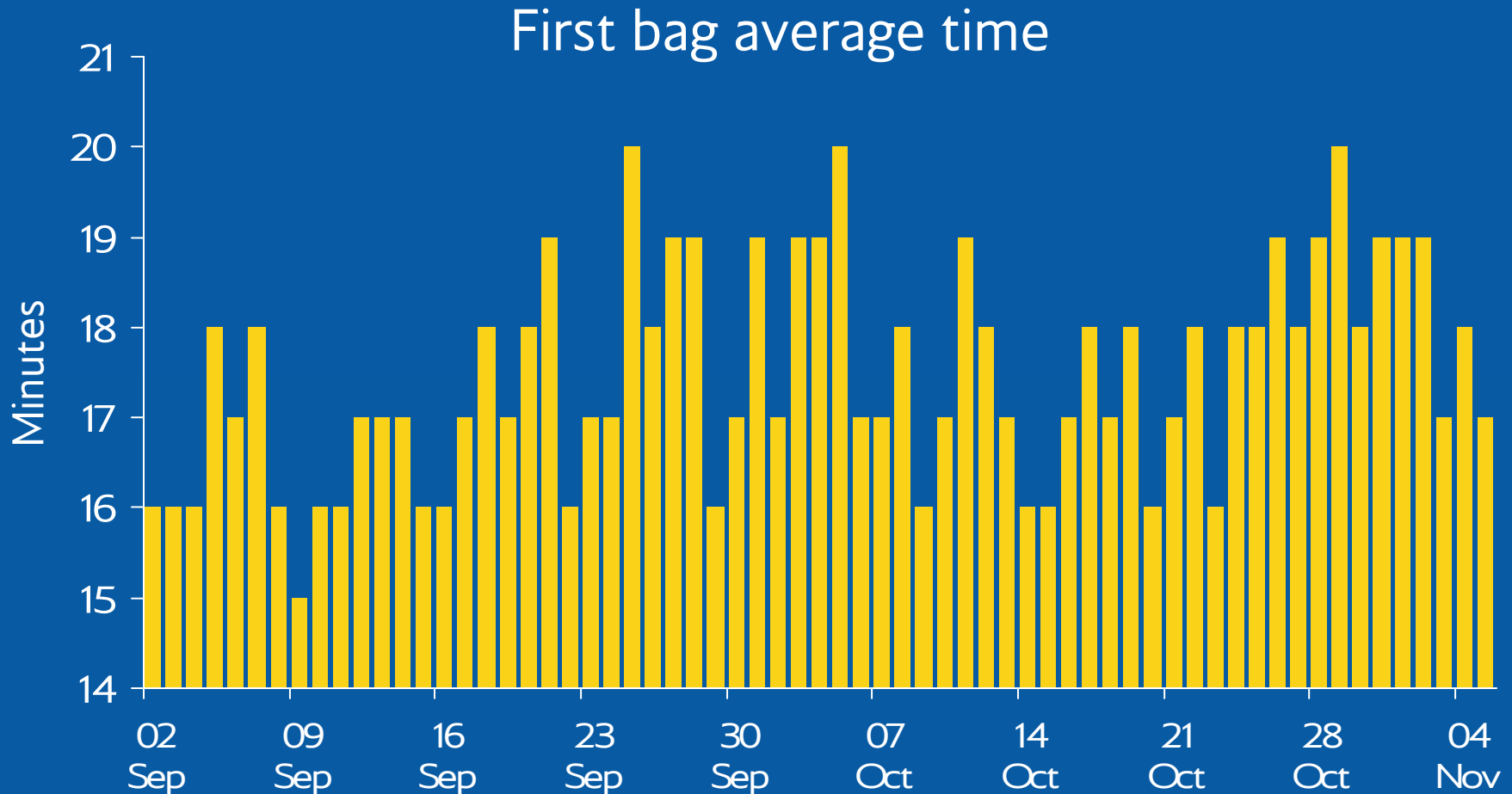
Weekly percentage of flights arriving within 15 mins



Baggage performance improving...



Baggage arrivals performance



Outstanding results for Customer Satisfaction

73%

“highly satisfied with the
journey experience”

Up 8% on September 2007

65%

“highly likely to recommend
BA”

Up 6% on September 2007

Source: GPM - Customers “extremely” or “very” likely/satisfied.
Data for **all** Mainline flights



Capacity – Summer '09

- ASKs down c1%
- Greater frequency reduction
- Movement of shorthaul aircraft from domestic to European flying
- Longhaul impacted by 777 benefit and 747 grounding



Restructuring the business

- Restructure of business under way
 - Streamlining what we do and how we do it
 - Culture change required to move forward
- 34% of managers taking severance
 - Completes December '05 management reduction
 - First step to changing the business
 - Leadership team structure under review
 - Departmental plans in place by year end



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Questions



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