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BRITISH AIRWAYS 

# O VERVIEW

THE MAGAZINE FOR BRITISH AIRWAYS SHAREHOLDERS

**FLYING IN THE FACE OF ADVERSITY**

INCORPORATING THE  
2008 HALF-YEAR  
FINANCIAL REPORT

[www.bashareholders.com](http://www.bashareholders.com)

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## The British Airways Board (as at November 7, 2008)

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## SHAREHOLDER DISCOUNT INCREASE

We are offering an increase in the shareholder discount for bookings made during December 2008. All shareholder bookings made online during this month will receive a 15 per cent discount rather than the usual 10 per cent\*.

To obtain your shareholder discount, you must book online at [www.bashareholders.com](http://www.bashareholders.com). This supports British Airways' strategy to drive bookings online, reduce costs and simplify processes.

Benefits to you include: no booking fee, clear and easy booking process, guaranteed lowest fare available, making bookings at a time convenient to you and managing your booking at the click of a button, for example, by adding a meal request or booking a hotel and car hire.

\*To qualify, you had to hold 200 or more BA Shares on November 7, 2008. Travel has to originate in the UK. Usual shareholder terms and conditions apply

The Summary Financial Statement in this magazine on pages 9 to 11 does not contain sufficient information to allow as full an understanding of the results of the group and state of affairs of the company or the group and of their policies as would be provided by the full interim management report. Shareholders who would like more detailed information may obtain this online at [www.bashares.com](http://www.bashares.com).

Certain statements included in this edition of *Overview* may be forward-looking and may involve 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 and financing plans, expected future revenues and 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.

Fuller information on some of the factors that could result in a material difference is available in the Company's Annual Report and Accounts for the year ended March 31, 2008, which is available on [www.bashares.com](http://www.bashares.com).

# WILLIE WALSH



## QUESTIONS AND ANSWERS

### How could you describe a 92 per cent drop in profits as a "good performance?"

It was a good financial performance given the very poor trading conditions. The six-month period was one of the worst on record and saw record fuel prices and the banking crisis. More than 30 airlines have gone out of business and both Air France-KLM and Lufthansa have issued profits warnings. In light of this incredibly bleak backdrop it's fair to say that it was a good performance. The half-year figures were measured against last year's record set of results, giving the large percentage drop.

### So how are you avoiding the impact of the credit crunch?

I wouldn't say we have escaped the credit crunch at all. All costs were up and we expect our annual fuel bill alone to be around £3bn. Conditions are not likely to improve any time soon either. Nobody is predicting that the economic downturn will lift in the near future and the governor of the Bank of England has confirmed that the country is in recession. We put a range of actions in place to mitigate the difficult conditions – even down to reducing the size of *Overview*. We reduced capacity in the winter and summer schedules, revised capital expenditure and are reducing costs wherever we can. We are determined to deliver a small operating profit this year but we have to be realistic about the challenges facing the airline industry.

### Let's be clear – British Airways is in a fight for survival, is it not?

I don't like looking at it that way. It's like Premiership football. You see teams whose ambition is just to stay in the league. To me, that's a miserable way to live. The challenges will be very significant. You look beyond and take steps to make sure that not only do you survive, you strengthen yourself – because there will be opportunities as airlines around us get weaker. If all we do is focus on survival we'll be in the middle of the pack. The competitors that look to long-term viability will be the winners. That's where we want to make sure we position ourselves.

### We can see the synergies for the Iberia deal on paper. But how will it work in practice?

It will make the process as seamless as possible.

BA passengers on Iberia will benefit from our frequent flyer programme. They won't get the BA brand, they won't get a BA aircraft – we need to be upfront about that. But in a merged environment you get the opportunity to equalise standards – over time. You don't move straight away. We have a world-class Club product and we have the patent on that. No one can use it. But if we merged with somebody there's no reason why we wouldn't allow our partner to use that product.

### You still maintain this is the most difficult environment the industry has ever seen?

Yes. In the US consumer confidence is 20 points below the previous lowest point. Oil prices are still higher than they were this time

"We recognise that there are areas where we can become more efficient and improve the customer experience"

last year. Volatility is incredible – oil, currency, shares. Throw on top of this the crisis in the banking industry. Although the Government has stepped in, the banks are reluctant to do business – 30 per cent of our corporate business comes from the banking industry, and it's clear some are not flying.

### So is it time to look hard at a business model that relies so much on premium traffic?

We have looked at it. And we've satisfied ourselves the business model remains the right one. You've got to tighten the belt. We're taking capacity out – 3 per cent less on the winter schedule and 1 per cent next summer. We will temporarily ground aircraft to match capacity to demand. But is the focus on premium long haul wrong? I don't believe so. I think our proposition will be reinforced.

People will look for value, as they always do, and we have a product that's excellent. T5 is fantastic and we've been able to invest in the product more than a lot of our competitors. And we'll continue to invest.

### Do you now regret ordering new aircraft?

Good question. The new aircraft are in fact a key strength, as the analysts are beginning to recognise. We have £1.8bn of financing secured and committed for all the aircraft we've ordered through to 2012. That's not unique in the industry, but it's rare. We are not using our cash resources, which are incredibly important at a time like this. This uses our strong balance sheet. There are many airlines that have a lot of confirmed airline deliveries but they can't finance them. Our guys did a fantastic job putting this together with banks that are strong on terms that you would just die for today.

### Where else are you investing?

We plan to roll out new and innovative products, such as the new First, which will be on the new Boeing 777s in 2010. The product is fantastic. The launch of new services from London City to New York are on track for 2009. The first Airbus A318 is now in production in Toulouse.

### How can you maintain customer service standards while cutting so many costs?

We recognise there are areas where we can become more efficient and where we can improve the customer experience – T5 is a great example of that. The standard of service is better than most of the airports anywhere around Europe, even the world. Our lounge facilities are the best out there.

### The memory of the launch is still fresh, though. Wasn't it rash to spend huge sums advertising T5 during the summer?

The campaign was brave. We were out there advertising how good it was as we were going through more moves into T5. It demonstrated our ability to deliver. We have proven to ourselves and to everyone we could do it. It was right to demonstrate our confidence. There are very few companies that are prepared to advertise their performance in real time. We ran a transparent campaign that showed performance and standards were better. Our critics tried to undermine us and they couldn't. ■



# MARTIN BROUGHTON

## CHAIRMAN'S NOTEBOOK

### POSITION OF STRENGTH

Views from the chair on the recession, brand definition, customer focus and the third runway

I'm not at all downhearted. We can't change the environment but we can outperform the market we're in. We are going into this recession in a strong financial position, and there has been an incredible improvement in operational performance thanks to T5.

Our competitive position is strong. The necessary shake out of excess capacity is happening and the opportunity for consolidation has finally arrived as political sensitivities give way to economic realities. The structure of the industry needed a shock. Whether it needed this much of a shock – \$5bn losses, and that seems a conservative estimate to me – is another matter.

Someone asked me if BA will ever need to be rescued, part-nationalised even like the banks. No. If it ever reached that point we'd be the last one standing and we'd thus pick up all that extra capacity!

Now is not the time to be cutting back on marketing and customer service. As I said in a recent speech to the travel industry, now is the time to focus on brand definition. You can do that through a straightforward advertising campaign or by taking that budget and focusing on customer service and the promise.

I'm in regular conversations with Willie Walsh about this. We're entirely at one that customer focus is foremost. We went through an exercise about the desired culture of the company with an outside consultancy. It asked us to choose from four different models for the business. One was called the 'Efficiency' model. Now a lot of people who only know Willie's public image would have expected him to have chosen that model. He didn't. He went straight for 'Market-Driven and Customer-Focused'.

The Conservative Party announced at its conference that it is going to oppose the third runway at Heathrow. It is proposing that a high-speed link between Manchester and the other provincial centres and Heathrow is a better option than investing in a third runway. Now, I'd love to see a high-speed rail link that went direct to Heathrow from Manchester, Leeds, Birmingham, not to say Paris and the continent. It's just not a substitute for a third runway! If all our domestic passengers decided to go by train, that would amount to 3 per cent less traffic.

Then there is Boris Johnson with his fantasy-island calls for a Thames estuary airport. Neither of these proposals solves the

Heathrow problem. But at least Boris has left himself some wriggle-room. He wants to be the visionary – even though his 'new' idea is an old one that's been rejected several times. But at least he's saying, "If you can persuade me this doesn't work, let's go back to a third runway because we need a serious competitive hub airport to serve London."

The Government is standing firm with its support for the third runway. We're sorry to see Ruth Kelly go. We were delighted to read that Geoff Hoon says transport is the portfolio he always wanted.

I've not always been a fan of Alastair Darling in his current role. But the Treasury and the Prime Minister got ahead of the curve with the bank bail out. Is it perfect? No. Should we carp about the detail? No again: let's work on the detail. They have stopped the financial crisis in its tracks. This is not to say everything is hunky dory, but the incessant week-on-week adrenalin rush for the media, the whole heading-for-the-abyss juggernaut has been stopped. Now, when journalists are in this mood they immediately want to find other crises. So they're building up the recession into more than it needs be – which may make it more than it needs be. But at least they're dealing with the genuine problem of a recession now that the technical issue of bank financing has been dealt with.

I'm not as pessimistic as some. Darling and his team, followed by the rest of the world, have addressed the credit issue as far as they can. So the recession could be at the shorter, shallower end of a range of possibilities. The thornier issue is consumer confidence and, given the daily headlines coming at consumers, you can hardly expect them to feel confident. But these things can turn quickly – just as they turn down sharply, so they can recover – look at the Russian and Korean crises.

We believe the granting of anti-trust immunity affecting us and American Airlines will happen. Virgin is objecting on the strange grounds that it will be disadvantaged because we'll put prices up for the consumer. Funny – you would have thought higher prices would advantage them. Richard Branson's actual concern is that this deal might in fact be consumer-friendly – especially with regard to scheduling and frequent flyer programmes. That is certainly not in his interest. ■

**"I'm not downhearted. We can't change the environment, but we can outperform the market we're in"**

**KEY FIGURES**

Revenue up **6.4%**  
 Costs up **18.2%**  
 Operating profit **£140m**  
 Pre-tax profit **£52m**  
 Operating margin **2.9%**  
 Earnings per share **-4.3p**

**KEITH  
WILLIAMS****BEHIND THE FIGURES****TOUGH TIMES, BUT  
WE ARE TARGETING  
BREAK EVEN**

Despite the economic downturn, British Airways remains in reasonable shape

**T**here is an old saying that a recession is when you need to tighten your belt. A depression is when you have no belt to tighten. And when you have lost your trousers then you are in the airline industry.

At the AGM this year the chairman said it would be an achievement to break even at the operating level this year. I am pleased to report that our first half results put us well on track to deliver that outcome.

I need, of course, to acknowledge that the operating result of £140m is well down on the record results that we delivered last year. However the landscape has moved on dramatically since then.

In the first six months to September 30, we saw an oil price that remained above \$100 a barrel for the entire period and reached record levels of \$147 a barrel. We had bought significant protection in the form of fuel hedging against this increase, which reduced our fuel spend by £329m. Even so our fuel bill in sterling terms was up an unprecedented 52 per cent and increased from £983m to £1,494m.

In the light of such increases it is appropriate that we increased fares to our customers, both passenger and cargo, and accordingly our revenue was up 6.4 per cent to £4,754m. Given the slowing economic position passenger numbers fell and our passenger load factor was 74.6 per cent versus 78.4 per cent last year.

Our other costs increased by some 6.8 per cent in part as a consequence of the large increases in airport charges, particularly at Heathrow as a result of the latest regulatory review and in part because of exchange. We have also racked up more cost as we have transitioned into Terminal 5. Finally, we have made provision for redundancy costs as we reduce our management workforce post the move into Terminal 5 and as we respond to reduce our costs in the light of the current financial crisis.

The economic landscape is concerning and we have seen falls in traffic, particularly premium traffic, in the last couple of months and this will undoubtedly slow our revenue growth in the second half of the year. Although the fuel price has fallen as the world economic situation has worsened, some of that benefit is reduced from our fuel hedging programme and from the fall in sterling.

We still remain focused on being profitable at the operating level and in making changes to our costs that will help us in the longer term.

The financial position of the company remains strong. We have £1.8bn in the bank and last year went into the financial markets to obtain commitments of funding for our aircraft deliveries out to 2012. Accordingly, we have £4.4bn of total liquidity, which will assist us as we go into the storm ahead. ■

**TAKING A WIDER VIEW...**

Robert French, treasury controller at BA, looks at how the interim figures have been received by the market

The interim results were generally well received by analysts – “surprisingly good” was a common phrase used. While clearly much lower than the previous year, the results were seen as good in the light of the extraordinary trading conditions of the last few months, stemming from the woes in the financial sector and weakening economic conditions. The better-than-expected results came mainly on the back of higher revenues than analysts had predicted.

The market also welcomed the increase in the guidance for the full-year results and was reassured that British Airways is still targeting a small full-year operating profit, despite the tough trading conditions. Analysts took comfort from the strength of BA's balance sheet and cash position, noting that financing has been secured to fund aircraft deliveries to 2012 and that both capital expenditure commitments and debt repayments are modest for the

next few years. Management reductions and other cost reduction measures were also seen as a positive, with the potential for T5 to switch from being a drag on profitability to a positive in 2009-10.

In light of the bleak trading conditions, the reduction in capacity for both the current winter and summer 2009 were seen as helpful. Of course, analyst views differ, but the fall in premium traffic in October of 9.2 per cent, announced on the same day as the results, was better than the 15 to 20 per cent that some had predicted. On the cost side, analysts also pointed to BA's hedging position – noting that with only around 40 per cent of requirements for 2009-10 already hedged the airline is well placed to participate in recent falls in oil prices. Longer-term analysts look to the prospects for recovery from the cyclical downturn and potential benefits from consolidation. ■

British Airways changed customers' views through a series of advertisements featuring Terminal 5 in action



# YESTERDAY AT T5

British Airways succeeded in restoring customer confidence in Terminal 5 thanks to a bold advertising campaign. Mark Jones reports

**W**hat is advertising good for? There's a plain commercial answer to that question: to drive people to buy goods and services. But there is a grander one, too – that it's a function of free speech, a democratic means of representing a point of view or a fact that, for some reason, has been overlooked or ignored.

British Airways' "Yesterday" campaign was born in the second camp. The launch of Terminal 5 was a disaster: lost bags, lost passengers and, worst of all, a huge loss of national prestige. Yet in the unsentimental world of the newsroom, it was a great story involving two big institutions – BA and BAA.

Apologies followed, penance was paid. Then T5 – quite quickly – began to deliver what it promised: shorter queues at Check-in and security, a less stressful, even pleasurable, airport experience, passengers and bags delivered where they were meant to be, on time.

Was that a great story? No. It wasn't even a weak story. In news terms, it wasn't a story at all.

Staff on the frontline at the terminal and within British Airways found this hard to stomach. They knew that T5 was working, not least because grateful passengers told them so. Frontline staff were saying, "Why aren't the papers printing that it is working? Why do they always just print the bad news?"

It would take too long to examine why the papers and the rest of the media prefer bad news to good. Let's just accept the evidence of our eyes: they do. But rather than shrug their shoulders, the marketing →

→ communications team at BA decided that if no one would get the good news out, then they would have to. And that meant spending money on a huge 'T5 is working' campaign.

Two big decisions were made early on. First, this would be much more than a pure advertising campaign. Second, it wouldn't be a glossy, Hollywood number. The ads would concentrate on real life and the facts.

"After we got over the glitches, T5 very soon became highly operational and delivered fantastic feedback from customers," says Abi Comber, British Airways' senior manager of global marketing communications. "But it was up to us at BA to make the case that Terminal 5 was working. And the best way was to be really open and transparent in a time when there was less trust because of the bad stories in the media".

If there were awards for the most understated, even prosaic campaign, then "Yesterday at Terminal 5" would win hands down. A team from the BBH agency went into Terminal 5 every day, took photographs of passengers and recorded the time it took for them to get through the process from Check-in to boarding. They didn't ask those passengers what they thought or felt about the experience: just where they were flying to and how long it took to get through what was still in the popular imagination a cross between a refugee camp and an overcrowded shopping mall.

"It was important to state the facts and not make big claims," says Comber. "People wanted to know their bags were going to arrive on the carousel, that they were going to get through Check-in swiftly, that planes were arriving and departing punctually. They were the opinions of real people and

## Opinion among those who had seen the ads turned sharply in BA's favour

the real facts day by day.

"And every day we were turning around 15 different ads: online ads, three press ads in different formats, radio ads, digital panels, cross-track projections, transvision screens. We chose every medium we possibly could. The media owners worked brilliantly with us, showing flexibility as we got the copy to them as quickly as possible, but fairly late each day."

The team's job was to tell the truth. If there were delays and problems, bad days as well as good days, that was the message that would go out. "In the event," says Comber, "we didn't actually have a bad day. The slowest Check-in we reported was only nine-and-a-half minutes, maybe five-and-a-half for security."

Suddenly, T5 was a story again and, to the amazement of many commentators, BA had deliberately made it so. The rules of crisis management say that after any public relations disaster you should do what's necessary to limit the damage, then lie low. Here was BA resurrecting the issue just a couple of months later. One marketing commentator accused the airline of effectively making the same mistake twice over – just as T5 was launched before all the right systems were in place, so the 'T5 Is Working' campaign was months, maybe even a year, too early.

Abi Comber has a simple factual retort to what she sees as the "subjectivity" of the pundits. First, the campaign earned acres of publicity. The 'talkability' factor, as she calls it, was exactly what they wanted. "It's very rare that an advertising campaign makes it into the news," she says. And this time the news was positive.

It's also abundantly clear that the four weeks of daily updates from T5 have begun to influence the people who really matter – the people who buy tickets and who, for a few very anxious weeks, saw T5 as a reason not to choose to fly BA or transit through London. A tracking study by Millward Brown found opinion among those who had seen the ads turning sharply in BA's favour. There was a 19-point rise in respondents who agreed that T5 made them more likely to fly BA compared to those who hadn't been exposed to the campaign, and a 1.5-point increase in those saying they would be happy to fly from T5 in the next few days.

"We saw vastly different opinions towards the positive," says Comber. "We achieved our goal. Those who matter no longer feel anxious about Terminal 5."

Having moved customers away from the negative feelings generated by coverage of the launch, the next job is to capture the positives. The next phase of the "Yesterday" campaign will capture the feelings and experiences of passengers. This time, T5 passengers will be given a choice of words – negative as well as positive – to describe their feelings about travelling through the terminal. The results will be shown daily on ba.com.

Comber believes the campaign has decisively influenced people where it matters – their choice of different carriers. In that sense, an exercise in democracy has satisfied that other, hard-headed aim of advertising – to drive sales. ■



### BA'S NEW CAMPAIGN GETS TRAVELLERS OFF THE BEATEN TRACK

British Airways launched a new global leisure travel campaign at the beginning of November, following independent Mintel research that showed consumers won't sacrifice their main holidays despite the credit crunch. The press, poster, online and radio campaign aims to promote authentic travel and inspire people to explore new cultures and local experiences when they travel. Reportage style photography captured in locations around the world gives the campaign a gritty, realistic feel. Examples of the poster executions include iconic photography

coupled with lines such as "Ask a local where to go for dinner" and "You can't smell a city from a coach". "Despite the economic environment, people won't sacrifice their holiday," says Katherine Whitton, BA's head of global marketing communications. "They may not be going as frequently as before but they are looking to get more out of their travel investment both in terms of experience and value. Through this campaign we want to demonstrate how we can help them to achieve this."

# THE FIGURES

## SUMMARY CONSOLIDATED INCOME STATEMENT

For the six months to September 30, 2008

£ million	2008	2007 Restated*	Better/ (worse)
Most of our revenue was earned from our main business, airline operations			
<i>Income from passengers flying on our services, plus excess baggage and fuel surcharges, was</i>	4,159	3,905	6.5%
<i>Freight and mail carried on scheduled services including fuel surcharges brought in another</i>	363	290	25.2%
<b>Added together, that gave us a total traffic revenue of</b>	<b>4,522</b>	<b>4,195</b>	<b>7.8%</b>
<i>Income from other airline related activities earned</i>	232	275	(15.6)%
<b>This gave us a total Consolidated TURNOVER of</b>	<b>4,754</b>	<b>4,470</b>	<b>6.4%</b>
<b>Our expenses comprised:</b>			
<i>Pay, pension contributions and other employee costs</i>	1,161	1,069	(8.6)%
<i>Depreciation, amortisation and impairment of fixed assets</i>	347	351	1.1%
<i>Charges for hiring the aircraft we fly on operating leases</i>	36	33	(9.1)%
<i>Fuel and oil costs (net of hedging)</i>	1,494	983	(52.0)%
<i>Engineering and other aircraft costs</i>	244	222	(9.9)%
<i>Airport landing fees and air traffic control charges</i>	305	269	(13.4)%
<i>Handling charges, catering and other operating costs</i>	510	492	(3.7)%
<i>Selling costs</i>	188	186	(1.1)%
<i>Currency differences</i>	28	(2)	nm
<i>Accommodation, ground equipment and IT costs</i>	301	300	(0.3)%
<b>In total, therefore, our overall Consolidated Operating Costs were</b>	<b>4,614</b>	<b>3,903</b>	<b>(18.2)%</b>
<b>This gave us a Consolidated OPERATING PROFIT of</b>	<b>140</b>	<b>567</b>	<b>(75.3)%</b>
<i>We took into account our fuel derivative (losses)/gains</i>	(31)	15	nm
<i>Finance costs amounted to</i>	(91)	(81)	(12.3)%
<i>Finance income amounted to</i>	58	56	3.6%
<i>Financing (expense) and income and relating to pensions amounted to</i>	(13)	38	nm
<i>Retranslation (charges) and credits on our currency borrowings amounted to</i>	(12)	1	nm
<i>The net profit on disposal of fixed assets and investments during the year was</i>	2	13	(84.6)%
<i>Our share of the profits in our associated companies was</i>	2	5	(60.0)%
<i>(Charges) and income relating to financial asset investments were</i>	(3)	2	nm
<b>This produced a Consolidated PROFIT BEFORE TAX of</b>	<b>52</b>	<b>616</b>	<b>(91.6)%</b>
<i>Then we adjusted for tax totalling</i>	(94)	(114)	17.5%
<b>This produced a PROFIT AFTER TAX from Continuing Operations of</b>	<b>(42)</b>	<b>502</b>	<b>nm</b>
<b>The loss from Discontinued Operations (including tax) was</b>		(2)	nm
<b>This produced a Consolidated PROFIT AFTER TAX of</b>	<b>(42)</b>	<b>500</b>	<b>nm</b>
The Consolidated PROFIT attributable to shareholders was	(49)	493	nm
Part of our profits are owed to a minority shareholder in one of our subsidiaries	7	7	
	<b>(42)</b>	<b>500</b>	<b>nm</b>

### EARNINGS PER SHARE

The standard measure of a company's profitability is calculated by dividing profit attributable to shareholders by the average number of shares in issue during the period.

On this basis, our earnings per share on continuing operations were:

-basic	(4.3)p	43.0p	nm
-diluted	(4.3)p	42.6p	nm
Our earnings per share on discontinued operations were:			
-basic	(0.0)p	(0.1)p	nm
-diluted	(0.0)p	(0.1)p	nm
And our total earnings/(loss) per share were:			
-basic	(4.3)p	42.9p	nm
-diluted	(4.3)p	42.5p	nm

\*The financial statements for the comparative period have been restated for the adoption of both IFRIC 13 ('Customer Loyalty Programmes') and IFRIC 14 ('Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction')

nm = not meaningful

## SUMMARY CONSOLIDATED BALANCE SHEET

As at September 30, 2008

£ million	September 30 2008	March 31 2008 <i>Restated</i>
The Consolidated tangible assets comprised:		
<i>Our fleet</i>	5,988	5,976
<i>Property</i>	964	977
<i>Computers, ground and other equipment</i>	291	310
The Consolidated intangible assets comprised:		
<i>Goodwill</i>	44	40
<i>Landing Rights</i>	198	159
<i>Other intangible assets</i>	21	22
<b>Together, these represented our intangible and tangible assets, of</b>	<b>7,506</b>	<b>7,484</b>
In addition, we had invested in other businesses	203	227
The market value of financial assets that are available for sale was	75	80
We had pension benefit assets of	315	320
Amounts receivable by us after more than one year were	157	99
<b>Our current assets, mainly money we are owed, our "cash in hand" and stock, represented</b>	<b>3,109</b>	<b>3,148</b>
<b>Therefore our total assets equalled</b>	<b>11,365</b>	<b>11,358</b>
The money invested in the British Airways Group comprised:		
<i>Our called-up share capital, some 1,153.6 million 25p shares</i>	288	288
<i>Treasury shares</i>	(9)	(10)
<i>Our reserves</i>	2,533	2,784
	2,812	3,062
<i>Amount due to a minority shareholder in one of our subsidiaries</i>	200	200
<b>Together our total shareholders' equity and minority interest were</b>	<b>3,012</b>	<b>3,262</b>
We owed to creditors amounts due after more than a year which included:		
<i>Interest-bearing long-term borrowings of</i>	2,708	2,751
<i>Our pension liabilities</i>	247	330
<i>Provision for deferred tax</i>	1,094	1,075
<i>Other provisions and long-term liabilities of</i>	458	411
<b>So the amounts we owe after more than one year are</b>	<b>4,507</b>	<b>4,567</b>
We also owe creditors amounts due within one year which included:		
<i>Most passengers book, and pay for, tickets in advance. This money, and amounts owing to creditors that are payable within one year, totalled</i>	3,824	3,525
<i>Current tax payable</i>	22	4
<b>Therefore our total shareholders' equity and liabilities equalled</b>	<b>11,365</b>	<b>11,358</b>

## OPERATING AND FINANCIAL STATISTICS

AIRLINE SCHEDULED SERVICES	For the six months to September 30, 2008	Difference on a year ago*
Passengers carried (000)	17,158	(3.9)%
Revenue passenger kilometres (RPKs) (m) <i>The number of passengers carried, multiplied by the distance they flew in kilometres</i>	57,237	(3.5)%
Available seat kilometres (ASKs) (m) <i>The number of seats available for sale, multiplied by the distance they flew in kilometres</i>	76,726	1.3%
Passenger load factor (%) <i>The percentage of seats available that were actually purchased</i>	74.6%	(3.8)pts
Revenue per RPK (p) <i>How much we received on average from each passenger for every kilometre flown</i>	7.27	10.5%
Tonnes of cargo carried (000)	404	3.1%
Aircraft in service (as at September 30, 2008)	250	5
Average manpower equivalent (MPE) <i>The number of employees adjusted for part time workers and overtime</i>	42,330	(0.7)%
Productivity (in terms of available tonne kilometres per MPE) (000)	272.0	(1.6)%

\*Difference is calculated on restated prior year financials

## BUSINESS REVIEW

### We remain committed to our key business priorities

#### UPGRADED CUSTOMER EXPERIENCE

We have won a raft of awards including best transatlantic airline in this year's Skytrax survey and best business airline at the *Condé Nast Traveller* awards. The airline also won best business class, best short-haul carrier and best frequent flyer programme at the *Business Traveller Awards*.

All 57 of our Boeing 747s and ten of our 42 Boeing 777s have been fitted with our multi-award-winning Club World cabin. The embodiment schedule for the remainder of the fleet is on track for completion by the end of next year.

We have begun a new premium service training course for our 10,000 long-haul cabin crew to ensure consistent, world-class levels of inflight service for our customers in the First and Club cabins.

Our new, double daily, business class only flights start from London City airport to New York next year and the first Airbus A318 aircraft to operate the service is now in production at Toulouse. The aircraft will feature fully flat business class beds for up to 32 passengers.

British Airways launched a social media platform called Metrotwin.com linking London and New York. We are the first airline to launch an online site of this kind offering information on the best of what to do and where to go in both cities, with recommendations from trendsetters, our own frequent flyers and bloggers.

We launched a new global press, poster, online and radio leisure advertising campaign to inspire customers to explore new cultures and local experiences when they travel. It comes after research by Mintel shows that consumers won't sacrifice their main holidays despite the economic downturn, and our own research that shows customers want holidays that capture the imagination through original experiences.

Our customers can now check in for their British Airways flight using mobile phones with wireless connectivity. The service is quick, free and available in 11 languages. Customers can access the BA timetable in real time, select seats and check in individuals, groups and families.

#### CAPACITY

We continue to review capacity plans across the network. We plan to reduce

capacity by around 1 per cent in the 2009 summer schedule without compromising the network.

As part of the planned 2009 summer schedule we have suspended four services. These are the Heathrow services to Dhaka and Kolkata and the Gatwick short-haul services to Dublin and Zurich.

#### COMPETITIVE COST BASE

We remain committed to maintaining a competitive cost base and continue to review all areas of the business.

We have invested in our future. Terminal 5 will deliver increased efficiencies to the business. Most transitional costs, including additional manpower resource, have been accounted for as we begin to move towards mid- and long-term benefits.

As part of our continuing restructuring process, around a third of the 1,350 eligible managers chose to take voluntary severance. This was in line with our expectations and most will leave the company by December 31, 2008.

We are conducting a major review to simplify the business, reduce costs and remain competitive. This includes the cancellation and deferral of significant projects and the closure of our Glasgow cabin crew base.

The company's continuing programme to achieve greater efficiency from its property is making good progress. We completed our move out of the Compass Centre at Heathrow Airport during the summer. All Heathrow-based cabin and flight crew now report for duty at Terminal 5.

#### CORPORATE RESPONSIBILITY

Britain's Olympic and Paralympic teams flew home from Beijing to a heroes' welcome with British Airways. We flew the athletes and support teams home on a dedicated Boeing 747 with a specially painted gold nose and winglets following their exceptional performances at the Beijing games.

We have invited 30 fuel supply companies to take part in a combined British Airways and Rolls-Royce in-depth study into the viability of alternative fuels. We have already had a good response from suppliers, who will offer alternative fuel samples for testing on a Rolls-Royce RB211 engine from a British Airways Boeing 747. The tender process closes in mid-November. ■

# IT WAS 50 YEARS AGO...

...that the first commercial transatlantic jet flight took off



**Above: passengers were served with Madeira and coffee, cocktails, and then luncheon with fine wine in a crystal glass. Below: customers board BOAC's inaugural transatlantic jet flight. "My," said one passenger, "isn't this the dreamiest?"**

**H**alf a century ago, two British-built de Havilland Comet 4 aircraft of British Overseas Airways Corporation (BOAC), precursor to British Airways, launched the first commercial flights by any airline across the Atlantic.

The pioneering jet services between London Airport and New York, Idlewild, took off for the first time on October 4, 1958, beating rival airline Pan American's Boeing 707s by three weeks and prompting British Prime Minister Harold Macmillan to announce, "The whole nation takes pride in the fact that a British aircraft has led the world."

The westbound crossing, which made a refuelling stop at Gander, Newfoundland, took ten hours, 13 minutes, at an average speed of 465mph, while the simultaneous eastbound flight created a new record of six hours, 11 minutes.

Thirty-one passengers paid a minimum of £279 and 15 shillings (almost £5,000 in today's money) to enjoy the Comet 4's "quietly elegant" cabin decor, cocktails, canapés and "powder rooms" containing "Elizabeth Arden toilet requisites for ladies and Yardley for men". The weekly flights were advertised under the slogan "Supreme in the skies!" and BOAC publicity boasted that seating, lighting and all other cabin appointments were "unsurpassed for comfort and efficiency". ■



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