

## **INTERIM MANAGEMENT STATEMENT**

**Period April 1, 2008 - December 31, 2008 (Unaudited)**

### **RESULTS HIT BY WEAK ECONOMY AND FALL IN STERLING**

British Airways today (February 6) presented its interim management statement for the nine months ended December 31, 2008.

#### **Period highlights:**

- Operating profit of £89 million (2007: £744 million - restated) down 88 per cent
- Loss before tax of £70 million (2007: Profit £816 million - restated)
- Revenue £7,046 million (2007: £6,634 million - restated) up 6.2 per cent
- Fuel costs up 48.4 per cent to £2,244 million

#### **British Airways' chief executive Willie Walsh, said:**

"These results have been hit by further economic weakness and the fall in sterling. This has resulted in an operating profit of £89 million.

"Revenue up 6.2 per cent received significant support from currency which more than offset volume declines.

"Costs were up by more than £1 billion in the period at £7 billion reflecting the significantly increased fuel costs and the impact of weak sterling. Fuel costs were up almost 50 per cent at £2.2 billion. Non-fuel costs rose by £335 million to £4.7 billion.

"We have already taken several actions to offset the unprecedented economic conditions. We have increased our sales activity in markets with stronger foreign currencies to benefit from exchange and continue to offer competitive fares in both premium and non-premium cabins. We continue to review every aspect of the business to control costs while at the same time improving the customer experience and operation."

#### **Financial review**

Total revenue in the period was up 6.2 per cent year on year.

Passenger revenue at £6.2 billion was up 6.6 per cent on capacity (measured in ASKs) up 0.2 per cent. Yields were up 9.6 per cent, due to a 4.2 per cent benefit from exchange, price increases of 5 per cent (including a 1.4 per cent benefit from a change in estimation basis for outdated tickets) and a positive mix impact of 0.4 per cent. Seat factor was down 2.3 points to 78.4 per cent as the current economic downturn continues to impact volumes.

Our cargo business has seen a strong nine months. Revenue improved by 18.8 per cent to £537 million. Volume, measured in cargo tonne kilometres (CTKs), was down 1.7 per cent, driven by a significant softening in the last quarter. This was offset by yield improvements due to exchange and fuel surcharge increases.

Total group operating costs were up 18.1 per cent, with unit costs up 20.4 per cent, due to the dramatic increase in fuel costs and weakening sterling.

The average market price of fuel, measured in US dollars, was up 40.7 per cent over the same period last year. Our fuel bill was up 48.4 per cent, despite a fuel hedging profit of £194 million, reflecting the collapse of sterling against the US dollar.

Other costs were up £335 million to £4,713 million. The underlying increase, excluding currency impacts of £237 million due to weakening sterling, was £98 million including a £40 million charge for severance taken in September.

Cash at the end of December was £1.6 billion, £278 million lower than at March 2008. Our net debt was £2.2 billion, up £0.9 billion since the year end, £0.6 billion of this increase due to exchange. Committed facilities of £2.4 billion have been secured for aircraft purchases out to

December 2012. This includes £0.2 billion for the Embraer aircraft ordered in December. We also have general purpose committed facilities of £0.7 billion.

As previously announced, during the nine month period we have taken a charge for the abolition of industrial building allowances. Excluding this one-off charge, the tax rate for the period would have been 27 per cent.

The Group adopted both IFRIC 13 ('Customer Loyalty Programmes') and IFRIC 14 ('Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction') on April 1, 2008. The results for the year ended March 31, 2008 have been restated accordingly.

## **Business review**

### **Upgraded customer experience**

Our multi-award winning Club World cabin has been fitted on 19 of our 42 Boeing 777s in addition to all 57 of our Boeing 747s with all aircraft to be completed by the end of the year.

A new cabin configuration will guarantee Club Europe customers a window or aisle seat from February 23, 2009. The new configuration will see the removal of the use of the middle seat in the shorthaul business class cabin.

We have finalised the design and certification of our new First class cabin. We will start to fit the cabin on our longhaul fleet later this year and will add it to our new Boeing 777-300s on delivery in 2010. The cabin will redefine our flagship brand and reinforce the exclusivity of First class and our dedication to customer service.

Terminal 5 is delivering consistently high levels of customer service and operational performance. Its first busy Christmas getaway went very well with more than one million customers and some 7,500 flights using the terminal. More than 17 million customers have now travelled through Terminal 5 since it opened. Customer feedback continues to be excellent with record breaking scores in our own monthly customer survey.

Our operational performance has gone from strength to strength. Network wide punctuality levels in October, November and December were more than 16 percentage points better than the same period last year. Gatwick punctuality levels were excellent. Our performance at the airport has been consistently better than our major competitors with 88 per cent of flights departing on time by the industry standard in the three months to December 31.

We won several awards including Best Scheduled Airline in Europe at both the British Travel Awards and the Travel Weekly Globe Travel Awards as well as Best Airline for Business Class in the Global Traveler Magazine awards. We also won the Innovation in Travel award for the ba.com iphone application, which allows customers to check-in from their mobile phone, at the Travel Weekly Globe Travel Awards.

11 new generation, fuel efficient Embraer aircraft were ordered which will fly from London City Airport and will offer customers unrivalled levels of space and comfort onboard.

The oneworld airline alliance celebrated its tenth anniversary this week. To mark the event we took the opportunity to paint six Boeing 747s in a commemorative oneworld livery when they were due to be repainted.

British Airways became the first UK airline to announce the introduction of a live communications service on transatlantic flights. We plan to launch text and mobile services for customers on our new all business class route from London City Airport to New York's JFK Airport later this year. Customers on the new service will also be able to clear US customs and immigration at Shannon Airport allowing them to bypass the normal arrivals checks when they land at JFK.

## **Capacity**

During the period we launched new routes from Heathrow to Hyderabad and from Gatwick to St Kitts. Shorthaul services from Gatwick to Newquay, Sarajevo, Poznan and Dresden were suspended.

Other reductions have come mainly from reduced frequencies on shorthaul routes where we operate several services so as not to compromise the network.

## **Competitive cost base**

The current weak economic environment drives a need for significant cost reduction, as revenue growth will be difficult. In the period we completed a management restructuring and associated voluntary severance programme.

We have opened discussions with the trade unions about pay and productivity, which is required to improve the financial performance of the company.

## **Corporate Responsibility**

The airline announced a new environmental target of halving net CO2 emissions by 2050. The ambitious target means that British Airways will reduce its net carbon output from 16 million tonnes in 2005 to eight million by mid-century.

British Airways won Best Airline at the annual ICARUS Environmental Awards.

## **Trading Outlook**

The industry continues to face very difficult trading conditions on the back of a weak economic environment.

Our revenue guidance for the year remains unchanged as being up at least 4 per cent year on year with yields benefiting from exchange more than offsetting volume declines. Traffic volumes remain in line with the market.

Our fuel bill for the year is still expected to be some £3 billion and we are well placed to benefit from falling fuel prices going into next year.

Including the impact of restructuring costs and exchange, our non-fuel costs are now expected to rise 8 per cent (5 per cent last guidance).

Our capital guidance remains unchanged at £550 million.

Our overall guidance is for an operating loss of around £150 million for the year.

Our efforts are focused on continuing to improve the customer experience and the profitability of the business during very difficult trading conditions.

*ends*

*February 6, 2009*

## **Note to Editors:**

There will be a webcast of an analyst conference call and slide presentation at 2pm (GMT) available through our website [www.bashares.com](http://www.bashares.com).

**Financial Position and Performance for the nine months ended December 31, 2008**  
**Continuing Operations (Unaudited)**

		Nine months ended December 31		Change
		2008	2007	
			Restated (Note 1)	
Revenue	£m	7,046	6,634	6.2 %
Operating profit	£m	89	744	(88.0)%
(Loss)/profit before tax	£m	(70)	816	nm
Losses from discontinued operations	£m	-	(4)	100.0 %
(Loss)/profit after tax	£m	(127)	642	nm
EBITDAR	£m	745	1,438	(693)
Net debt	£m	2,209	1,448	(761)
Cash & cash equivalents	£m	1,586	1,724	(138)
Basic earnings/(loss) per share	P	(12.0)	54.9	nm
Cash in / (out) from operating activities	£m	283	(12)	295
Passenger revenue per RPK	P	6.95	6.34	9.6 %

Note 1: Restatement due to the adoption of IFRIC 13 and 14.

nm: not meaningful

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 itemize 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.

The Annual Report and Accounts for the financial year 2007-08, which is available online at [www.bashares.com](http://www.bashares.com), included a section discussing the principal risks and uncertainties which could cause such forward-looking statements to be incorrect.

Investor Relations - **Waterside (HAA3), PO Box 365, Harmondsworth, Middlesex, UB7 0GB**

Tel: +44 (0) 20 8738 6947

Fax: +44 (0) 20 8738 9602