

**THIRD QUARTER RESULTS 2005-2006 (unaudited)**
**OPERATING AND FINANCIAL STATISTICS (unaudited)**

|                          |    | Three months ended |       |                    | Nine months ended |       |                    |
|--------------------------|----|--------------------|-------|--------------------|-------------------|-------|--------------------|
|                          |    | December 31        |       | Better/<br>(Worse) | December 31       |       | Better/<br>(Worse) |
|                          |    | 2005               | 2004  |                    | 2005              | 2004  |                    |
| Revenue                  | £m | <b>2,129</b>       | 1,957 | 8.8%               | <b>6,393</b>      | 5,897 | 8.4%               |
| Operating profit         | £m | <b>175</b>         | 136   | 28.7%              | <b>612</b>        | 510   | 20.0%              |
| Profit before tax        | £m | <b>164</b>         | 151   | 8.6%               | <b>529</b>        | 519   | 1.9%               |
| Profit after tax         | £m | <b>123</b>         | 118   | 4.2%               | <b>384</b>        | 386   | (0.5)%             |
| Net assets               | £m | <b>1,953</b>       | 1,387 | 40.8%              | <b>1,953</b>      | 1,387 | 40.8%              |
| Basic earnings per share | p  | <b>10.3</b>        | 10.7  | (3.7)%             | <b>33.4</b>       | 35.1  | (4.8)%             |

| Three months ended |      |                    | Nine months ended |      |                    |
|--------------------|------|--------------------|-------------------|------|--------------------|
| December 31        |      | Better/<br>(Worse) | December 31       |      | Better/<br>(Worse) |
| 2005               | 2004 |                    | 2005              | 2004 |                    |

**TOTAL GROUP OPERATIONS**
*TRAFFIC AND CAPACITY*

|                               |               |        |        |                |         |          |
|-------------------------------|---------------|--------|--------|----------------|---------|----------|
| RPK (m)                       | <b>27,499</b> | 25,999 | 5.8%   | <b>85,079</b>  | 81,831  | 4.0%     |
| ASK (m)                       | <b>37,119</b> | 35,723 | 3.9%   | <b>111,277</b> | 108,512 | 2.5%     |
| Passenger load factor (%)     | <b>74.1</b>   | 72.8   | 1.3pts | <b>76.5</b>    | 75.4    | 1.1pts   |
| CTK (m)                       | <b>1,325</b>  | 1,321  | 0.3%   | <b>3,693</b>   | 3,740   | (1.3)%   |
| RTK (m)                       | <b>4,076</b>  | 3,921  | 4.0%   | <b>12,187</b>  | 11,910  | 2.3%     |
| ATK (m)                       | <b>5,815</b>  | 5,607  | 3.7%   | <b>17,384</b>  | 16,968  | 2.5%     |
| Overall load factor (%)       | <b>70.1</b>   | 69.9   | 0.2pts | <b>70.1</b>    | 70.2    | (0.1)pts |
| Passengers carried (000)      | <b>8,530</b>  | 8,428  | 1.2%   | <b>27,474</b>  | 27,538  | (0.2)%   |
| Tonnes of cargo carried (000) | <b>211</b>    | 232    | (9.1)% | <b>593</b>     | 661     | (10.3)%  |

*FINANCIAL*

|  |               |        |         |               |        |         |
|--|---------------|--------|---------|---------------|--------|---------|
| Operating margin (%)                                   | <b>8.2</b>    | 6.9    | 1.3pts  | <b>9.6</b>    | 8.6    | 1.0pts  |
| Passenger revenue per RPK (p)                          | <b>6.11</b>   | 6.20   | (1.5)%  | <b>6.07</b>   | 6.04   | 0.5%    |
| Passenger revenue per ASK (p)                          | <b>4.53</b>   | 4.52   | 0.2%    | <b>4.64</b>   | 4.56   | 1.8%    |
| Cargo revenue per CTK (p)                              | <b>10.19</b>  | 10.14  | 0.5%    | <b>10.13</b>  | 9.89   | 2.4%    |
| Total traffic revenue per RTK (p)                      | <b>44.53</b>  | 44.55  | (0.0)%  | <b>45.43</b>  | 44.61  | 1.8%    |
| Total traffic revenue per ATK (p)                      | <b>31.21</b>  | 31.16  | 0.2%    | <b>31.85</b>  | 31.31  | 1.7%    |
| Net operating expenditure per RTK (p)                  | <b>40.24</b>  | 41.09  | 2.1%    | <b>40.40</b>  | 40.33  | (0.2)%  |
| Net operating expenditure per ATK (p)                  | <b>28.20</b>  | 28.73  | 1.8%    | <b>28.32</b>  | 28.31  | (0.0)%  |
| Average fuel price before hedging (US cents/US gallon) | <b>200.47</b> | 156.57 | (28.0)% | <b>187.73</b> | 134.08 | (40.0)% |

**TOTAL AIRLINE OPERATIONS (Note 1)**
*OPERATIONS*

|                                   |               |        |      |               |        |      |
|-----------------------------------|---------------|--------|------|---------------|--------|------|
| Average Manpower Equivalent (MPE) | <b>45,624</b> | 45,888 | 0.6% | <b>45,949</b> | 46,116 | 0.4% |
| ATKs per MPE (000)                | <b>127.5</b>  | 122.2  | 4.3% | <b>378.3</b>  | 367.9  | 2.8% |
| Aircraft in service at period end | <b>289</b>    | 293    | (4)  | <b>289</b>    | 293    | (4)  |

Note 1: Excludes non airline activity companies, principally, Airmiles Travel Promotions Ltd, BA Holidays Ltd, BA Travel Shops Ltd, Speedbird Insurance Company Ltd and The London Eye Company Ltd.

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## **CHAIRMAN'S STATEMENT**

### **Group Performance**

Group profit before tax for the three months to December 31 was £164 million; this compares with a profit of £151 million last year.

Operating profit - - at £175 million - - was £39 million better than last year. The operating margin of 8.2% was 1.3 points higher than last year. The improvement in operating profit primarily reflects improvements in revenue, partially offset by increased fuel costs (up 28% in the quarter).

Group profit before tax for the nine months to December 31 was £529 million, £10 million better than last year; operating profit - - at £612 million - - was up £102 million on the same period a year ago. The improvement in operating profit primarily reflects improvements in turnover, including fuel surcharges, partially offset by higher costs, mainly fuel.

Cash inflow from operating activities was £809 million for the nine months, with the closing cash, cash equivalents and short-term deposits at £2,109 million representing a £427 million increase versus March 31, 2005. Net debt fell by £744 million from March 31, 2005 to £2,178 million.

### **Turnover**

For the three month period, Group turnover - - at £2,129 million - - was up 8.8% on a flying programme 3.7% larger in ATKs. The improvement in ATKs includes a 2 point increase due to temporary reductions in the flying programme in Quarter 3 last year. Passenger yields were down 1.5% per RPK; seat factor was up 1.3 points at 74.1% on capacity 3.9% higher in ASKs.

For the nine month period, turnover improved by 8.4% to £6,393 million on a flying programme 2.5% larger in ATKs. Passenger yields were up 0.5% per RPK with seat factor up 1.1 points at 76.5% on capacity 2.5% higher in ASKs.

Cargo volumes for the quarter (CTKs) were up 0.3% compared with last year, with yields (revenue/CTK) up 0.5%. For the nine month period, cargo volumes were down 1.3%, with yields up 2.4%.

Overall load factor for the quarter was up 0.2 points at 70.1%, and for the nine months down 0.1 points at 70.1%.

### **Costs**

For the quarter, unit costs (pence/ATK) reduced by 1.8% on the same period last year as a result of a net cost increase of 1.8% on capacity 3.7% higher in ATKs.

Operating expenditure in the quarter increased by 7.3%. Fuel costs increased by 28.2% due to the increase in fuel price net of hedging, a larger flying programme and a stronger US dollar. Employee costs increased by 8.3% as wage awards and increased pension service costs were only partially offset by manpower reductions. In addition, a £10 million restructuring provision was included in the quarter to support the first phase of the management restructuring programme announced in December 2005. Selling costs were up 7.8% due to additional promotional spend as a result of the expansion of flights to India, the timing of marketing campaigns this year versus last year and an adverse exchange impact. Engineering spend was up 20.4% in the quarter primarily driven by the non-recurrence of one-off recoveries last year, additional maintenance costs due to the timing of minor overhauls versus last year and an adverse exchange impact.

For the nine months, unit costs (pence/ATK) were unchanged versus last year. This reflects a net cost increase of 2.5% on capacity 2.5% higher in ATKs.

## **Non Operating Items**

Interest expense for the quarter reduced by £7 million from last year to £51 million reflecting the impact of lower debt. Interest income at £24 million was £9 million higher than last year, reflecting higher cash balances. The retranslation of currency borrowings generated a charge of £3 million, compared with a credit of £59 million last year. The movement results from changes in accounting treatment following the adoption of IAS39 whereby unhedged currency borrowings are now hedged against future cash flows. The share of profits in associates at £25 million was £24 million higher than last year due to our share of Iberia's profit on its disposal of its investment in Amadeus.

For the nine month period, interest expense was £164 million, £28 million lower than last year due to the impact of lower debt levels. The retranslation of currency borrowings generated a charge of £13 million, compared with a credit of £70 million last year. This is due to the changes in accounting treatment as above. Profit on sale of fixed assets and investments was £82 million lower than last year, reflecting the non-recurrence of the £86 million profit on disposal of our investment in Qantas last year. The share of profits in associates includes our share of Iberia's profit on its disposal of its investment in Amadeus.

## **Earnings Per Share**

The earnings attributable to shareholders for the three months was equivalent to 10.3 pence per share, compared with last year's earnings per share of 10.7 pence.

For the nine month period, the profit attributable to shareholders was £371 million, equivalent to 33.4 pence per share, compared with earnings of 35.1 pence per share last year.

## **Net Debt / Total Capital Ratio**

Borrowings, net of cash and short term loans and deposits, were £2,178 million at December 31, down £744 million since the start of the year, partly due to the conversion of the £112 million of bonds from debt to equity. The net debt/total capital ratio reduced by 15.0 points from March 31 to 52.7%. The net debt/total capital ratio including operating leases was down 12.5 points from March 31 to 59.9%.

## **Cash Flow**

During the nine months we generated a positive cash flow from operating activities of £809 million, £126 million higher than last year. Including current interest bearing deposits, the cash position at December 31, 2005 was £2,109 million, an increase of £427 million compared with March 31, 2005.

## **Aircraft Fleet**

Compared to September 30, 2005, the Group fleet in service increased by 1 aircraft to 289.

## **Subsidiaries**

In a major drive to improve profitability we are re-launching our regional subsidiary, British Airways CitiExpress, under the new name of BA Connect. BA Connect will bring significant benefits to regional air travellers by offering more choice, greater business traveller benefits and even lower fares with prices reduced by up to 40%.

## **Pensions**

Tackling our pension deficit continues to be a key driver in making our cost base competitive for the future. We have come to the end of a staff awareness programme on the implications of the significant deficit and we are reviewing the feedback before starting consultations with the trades unions and trustees by the end of March.

## **Outlook**

Some yield improvement is still expected for this financial year. Consequently, revenue is now expected to grow by more than 8%.

Despite the improved revenue outlook, market conditions remain broadly unchanged as significant promotional activity is required to maintain seat factors.

Underlying costs excluding fuel are now expected to be some 1% higher than the guidance we gave at the beginning of the year, which was flat.

Fuel costs continue to be a challenge for the industry, but our guidance is unchanged with total fuel costs expected to be up by £525 million this year.

Our focus remains on preparing for the move to Terminal 5 in 2008, investing in products for our customers and continuing to drive simplification to deliver a competitive cost base.

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. Information on some factors which could result in material difference to the results is available in the Company's SEC filings, including, without limitation the Company's Report on Form 20-F for the year ended March 2005.

**CONSOLIDATED INCOME STATEMENT (unaudited)**

|  | Three months ended |              |                    | Nine months ended |              |                    |
|--|--------------------|--------------|--------------------|-------------------|--------------|--------------------|
|  | December 31        |              | Better/<br>(Worse) | December 31       |              | Better/<br>(Worse) |
|  | 2005 £m            | 2004 £m      |                    | 2005 £m           | 2004 £m      |                    |
| Traffic Revenue  |                    |              |                    |                   |              |                    |
| Passenger  | 1,680              | 1,613        | 4.2%               | 5,162             | 4,943        | 4.4%               |
| Cargo  | 135                | 134          | 0.7%               | 374               | 370          | 1.1%               |
|  | <b>1,815</b>       | <b>1,747</b> | <b>3.9%</b>        | <b>5,536</b>      | <b>5,313</b> | <b>4.2%</b>        |
| Other revenue  | 314                | 210          | 49.5%              | 857               | 584          | 46.7%              |
| <b>TOTAL REVENUE</b>                                   | <b>2,129</b>       | <b>1,957</b> | <b>8.8%</b>        | <b>6,393</b>      | <b>5,897</b> | <b>8.4%</b>        |
| Employee costs   | 576                | 532          | (8.3)%             | 1,714             | 1,623        | (5.6)%             |
| Depreciation and amortisation                          | 184                | 183          | (0.5)%             | 533               | 542          | 1.7%               |
| Aircraft operating lease costs                         | 26                 | 28           | 7.1%               | 82                | 81           | (1.2)%             |
| Fuel and oil costs                                     | 423                | 330          | (28.2)%            | 1,188             | 859          | (38.3)%            |
| Engineering and other aircraft costs                   | 118                | 98           | (20.4)%            | 353               | 309          | (14.2)%            |
| Landing fees and en route charges                      | 139                | 140          | 0.7%               | 426               | 426          |                    |
| Handling charges, catering and other operating costs   | 247                | 231          | (6.9)%             | 729               | 701          | (4.0)%             |
| Selling costs  | 110                | 102          | (7.8)%             | 324               | 375          | 13.6%              |
| Currency differences                                   | (12)               | 28           | nm                 | (15)              | 16           | nm                 |
| Accommodation, ground equipment and IT costs           | 143                | 149          | 4.0%               | 447               | 455          | 1.8%               |
| <b>TOTAL EXPENDITURE FROM OPERATIONS</b>               | <b>1,954</b>       | <b>1,821</b> | <b>(7.3)%</b>      | <b>5,781</b>      | <b>5,387</b> | <b>(7.3)%</b>      |
| <b>OPERATING PROFIT</b>                                | <b>175</b>         | <b>136</b>   | <b>28.7%</b>       | <b>612</b>        | <b>510</b>   | <b>20.0%</b>       |
| Fuel derivative (losses)/gains*                        | (4)                |              | nm                 | 9                 |              | nm                 |
| Interest expense                                       | (51)               | (58)         | 12.1%              | (164)             | (192)        | 14.6%              |
| Interest income  | 24                 | 15           | 60.0%              | 67                | 55           | 21.8%              |
| Other financing income                                 |                    | 8            | nm                 |                   | 8            | nm                 |
| Financing income and expense relating to pensions      | (4)                | (11)         | 63.6%              | (12)              | (33)         | 63.6%              |
| Retranslation (charges)/credits on currency borrowings | (3)                | 59           | nm                 | (13)              | 70           | nm                 |
| Profit on sale of fixed assets and investments         | 2                  | 1            | 100.0%             |                   | 82           | nm                 |
| Share of profits in associates                         | 25                 | 1            | nm                 | 28                | 18           | 55.6%              |
| Income relating to fixed asset investments             |                    |              | nm                 | 2                 | 1            | 100.0%             |
| <b>PROFIT BEFORE TAX</b>                               | <b>164</b>         | <b>151</b>   | <b>8.6%</b>        | <b>529</b>        | <b>519</b>   | <b>1.9%</b>        |
| Tax  | (41)               | (33)         | (24.2)%            | (145)             | (133)        | (9.0)%             |
| <b>PROFIT AFTER TAX</b>                                | <b>123</b>         | <b>118</b>   | <b>4.2%</b>        | <b>384</b>        | <b>386</b>   | <b>(0.5)%</b>      |
| Attributable to:                                       |                    |              |                    |                   |              |                    |
| Equity holders of the parent                           | 117                | 115          |                    | 371               | 376          |                    |
| Minority interest                                      | 6                  | 3            |                    | 13                | 10           |                    |
|  | <b>123</b>         | <b>118</b>   | <b>4.2%</b>        | <b>384</b>        | <b>386</b>   | <b>(0.5)%</b>      |
| Earnings per share:                                    |                    |              |                    |                   |              |                    |
| Basic  | 10.3               | 10.7         | (3.7)%             | 33.4              | 35.1         | (4.8)%             |
| Fully diluted  | 10.3               | 10.4         | (1.0)%             | 32.8              | 34.1         | (3.8)%             |

nm: Not meaningful

\* Fuel derivative gains and losses reflect the ineffective portion of unrealised gains and losses on fuel derivative hedges required to be recognised through the income statement under IAS 39.

**CONSOLIDATED BALANCE SHEET (unaudited)**

**December 31**    December 31    March 31  
**2005 £m**        2004 £m        2005 £m

|   |               |               |               |
|---|---------------|---------------|---------------|
| NON-CURRENT ASSETS                                |               |               |               |
| Property, plant and equipment                     |               |               |               |
| <i>Fleet</i>                                      | 6,703         | 7,056         | 6,944         |
| <i>Property</i>                                   | 949           | 1,021         | 1,000         |
| <i>Equipment</i>                                  | 366           | 414           | 385           |
|   | 8,018         | 8,491         | 8,329         |
| Goodwill  | 72            | 72            | 72            |
| Landing rights                                    | 117           | 104           | 122           |
| Other intangible assets                           | 48            | 47            | 60            |
| Investments in associates                         | 130           | 122           | 126           |
| Long term investments                             | 29            | 30            | 30            |
| Available-for-sale financial assets               | 4             |               |               |
| Employee benefit assets                           | 138           | 125           | 137           |
| Other financial assets                            | 105           | 44            | 38            |
| <b>TOTAL NON-CURRENT ASSETS</b>                   | <b>8,661</b>  | <b>9,035</b>  | <b>8,914</b>  |
| <b>NON-CURRENT ASSETS HELD FOR SALE</b>           | <b>1</b>      | <b>4</b>      | <b>5</b>      |
| CURRENT ASSETS AND RECEIVABLES                    |               |               |               |
| Expendable spares and other inventories           | 98            | 95            | 84            |
| Trade receivables                                 | 589           | 586           | 685           |
| Other current assets                              | 480           | 312           | 301           |
| Other current interest bearing deposits           | 1,164         | 1,408         | 1,134         |
| Cash and cash equivalents                         | 945           | 406           | 548           |
|   | 2,109         | 1,814         | 1,682         |
| <b>TOTAL CURRENT ASSETS AND RECEIVABLES</b>       | <b>3,276</b>  | <b>2,807</b>  | <b>2,752</b>  |
| <b>TOTAL ASSETS</b>                               | <b>11,938</b> | <b>11,846</b> | <b>11,671</b> |
| SHAREHOLDERS' EQUITY AND LIABILITIES              |               |               |               |
| SHAREHOLDERS' EQUITY                              |               |               |               |
| Issued share capital                              | 283           | 271           | 271           |
| Treasury shares                                   | (2)           | (27)          | (26)          |
| Other reserves                                    | 1,459         | 932           | 940           |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>1,740</b>  | <b>1,176</b>  | <b>1,185</b>  |
| <b>MINORITY INTEREST</b>                          | <b>213</b>    |               |               |
| <b>TOTAL EQUITY</b>                               | <b>1,953</b>  |               |               |
| Equity minority interest                          |               | 11            | 12            |
| Non-equity minority interest                      |               | 200           | 200           |
| <b>MINORITY INTERESTS</b>                         |               | <b>211</b>    | <b>212</b>    |
| PROVISIONS  |               |               |               |
| Employee benefit obligations                      | 1,808         | 1,828         | 1,820         |
| Provisions for deferred tax                       | 912           | 845           | 816           |
| Other provisions                                  | 39            | 35            | 34            |
| <b>TOTAL PROVISIONS</b>                           | <b>2,759</b>  | <b>2,708</b>  | <b>2,670</b>  |
| NON-CURRENT LIABILITIES                           |               |               |               |
| Interest bearing long-term borrowings             | 3,794         | 4,405         | 4,045         |
| Other long term liabilities                       | 364           | 307           | 306           |
| <b>TOTAL LONG-TERM LIABILITIES</b>                | <b>4,158</b>  | <b>4,712</b>  | <b>4,351</b>  |
| CURRENT LIABILITIES                               |               |               |               |
| Current portion of long-term borrowings           | 493           | 491           | 447           |
| Convertible long-term borrowings                  |               | 112           | 112           |
| Trade and other payables                          | 2,498         | 2,409         | 2,658         |
| Current tax payable                               | 77            | 27            | 36            |
| <b>TOTAL CURRENT LIABILITIES</b>                  | <b>3,068</b>  | <b>3,039</b>  | <b>3,253</b>  |
| <b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b> | <b>11,938</b> | <b>11,846</b> | <b>11,671</b> |

**CONSOLIDATED CASHFLOW STATEMENT (unaudited)**

|  | Nine months ended |                        | Better/<br>(Worse) |
|--|-------------------|------------------------|--------------------|
|  | 2005 £m           | December 31<br>2004 £m |                    |
| <b>CASHFLOWS FROM OPERATING ACTIVITIES</b>                 |                   |                        |                    |
| <i>Operating profit</i>                                    | <b>612</b>        | 510                    | 102                |
| <i>Depreciation and amortisation</i>                       | <b>533</b>        | 542                    | (9)                |
| Operating cashflow before working capital changes          | <b>1,145</b>      | 1,052                  | 93                 |
| <i>Decrease in inventories and other receivables</i>       | <b>52</b>         | 15                     | 37                 |
| <i>Decrease in trade and other payables and provisions</i> | <b>(208)</b>      | (210)                  | 2                  |
| <i>Other non-cash movements</i>                            | <b>9</b>          | 6                      | 3                  |
| Cash generated from operations                             | <b>998</b>        | 863                    | 135                |
| <i>Interest paid</i>                                       | <b>(149)</b>      | (181)                  | 32                 |
| <i>Taxation</i>  | <b>(40)</b>       | 1                      | (41)               |
| <b>NET CASHFLOW FROM OPERATING ACTIVITIES</b>              | <b>809</b>        | 683                    | 126                |
| <b>CASHFLOWS FROM INVESTING ACTIVITIES</b>                 |                   |                        |                    |
| Purchase of property, plant and equipment                  | <b>(184)</b>      | (312)                  | 128                |
| Purchase of intangible assets                              | <b>(3)</b>        | (13)                   | 10                 |
| Purchase of interest in associated undertakings            | <b>(5)</b>        |                        | (5)                |
| Proceeds from sale of associated undertaking               |                   | 427                    | (427)              |
| Proceeds from sale of trade investment                     | <b>1</b>          |                        | 1                  |
| Proceeds from sale of property, plant and equipment        | <b>9</b>          | 56                     | (47)               |
| Costs of disposal of subsidiary undertakings               | <b>(6)</b>        | (11)                   | 5                  |
| Interest received  | <b>55</b>         | 54                     | 1                  |
| Dividends received   | <b>22</b>         | 20                     | 2                  |
| Increase in interest bearing deposits                      | <b>(29)</b>       | (770)                  | 741                |
| <b>NET CASHFLOW FROM INVESTING ACTIVITIES</b>              | <b>(140)</b>      | (549)                  | 409                |
| <b>CASHFLOWS FROM FINANCING ACTIVITIES</b>                 |                   |                        |                    |
| Proceeds from long term borrowings                         |                   | 47                     | (47)               |
| Repayment of borrowings                                    | <b>(40)</b>       | (104)                  | 64                 |
| Payment of finance lease liabilities                       | <b>(241)</b>      | (688)                  | 447                |
| Exercise of share options                                  | <b>18</b>         | 4                      | 14                 |
| Distributions made to holders of perpetual securities      | <b>(10)</b>       | (6)                    | (4)                |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>               | <b>(273)</b>      | (747)                  | 474                |
| Net increase/(decrease) in cash and cash equivalents       | <b>396</b>        | (613)                  | 1,009              |
| Net foreign exchange difference                            | <b>1</b>          | (8)                    | 9                  |
| Cash and cash equivalents at March 31                      | <b>548</b>        | 1,027                  | (479)              |
| <b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>            | <b>945</b>        | 406                    | 539                |

These summary financial statements were approved by the Directors on February 2, 2006.

## NOTES TO THE ACCOUNTS (unaudited)

For the period ended December 31, 2005

### 1 BASIS OF PREPARATION

These summary financial statements have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS)\* issued by the International Accounting Standards Board (IASB) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB with the exception of the disclosure requirements of IAS 34 - 'Interim Reporting'.

The accounting policies and basis of preparation differ from those set out in the Report and Accounts for the year ended March 31, 2005 which were prepared in accordance with United Kingdom accounting standards and the Companies Act 1985 (UK GAAP).

A summary of the significant accounting policies used in the preparation of these financial statements under IFRS and a summary of the impact of the change from UK GAAP to IFRS on comparative periods as required by IFRS 1 - 'First-time adoption of International Financial Reporting Standards' were included in the group's 'Release of financial information for 2004/05 under International Financial Reporting Standards' published on July 4, 2005. The release included the quarterly results for quarters ended June 30, 2004, September 30, 2004, December 31, 2004 and March 31, 2005 restated under the recognition and measurement rules of IFRS and a summary of the significant differences to UK GAAP. The release also included restated balance sheets at those dates in addition to the restated balance sheet at April 1, 2004, the group's transition date to IFRS.

As permitted under IFRS 1, the group elected to apply the requirements of IAS 32 - 'Financial Instruments - Disclosure and Presentation' and IAS 39 - 'Financial Instruments - Recognition and Measurement' from April 1, 2005. As a consequence certain assets and liabilities are required to be recognised and measured at fair value. As a result of the application of IAS 39 the opening net assets of the group increased by £183 million at April 1, 2005. The increase represents the fair value of financial instruments and available for sale financial assets (£193 million, net of deferred tax), partially offset by the impact of the group's share of the opening reserves adjustments of associated undertakings (£10 million). The adoption of IAS 32 had no impact on the reserves or net assets of the group except for minor presentational differences. The £200 million Euro Perpetual Preferred securities, issued by British Airways Finance (Jersey) L.P. in 1999, (in which the general partner is British Airways Holdings Limited, a wholly owned subsidiary of British Airways Plc) have been classified as Minority Interest. In previous quarters this has been shown within other reserves.

Under IAS 39, financial instruments are recorded initially at fair value. Subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument.

Listed investments (other than interests in associates) are designated as available-for-sale assets and are recorded at fair value. Any change in the fair value is reported in reserves until the investment is sold when the cumulative reserves movement is recognised in income.

Any provisions for impairment of the carrying value are reflected in income when they arise.

Exchange gains and losses on monetary items are taken to income unless the item has been designated as a hedging instrument. Exchange gains and losses on non-monetary investments are reflected in reserves until the investment is sold when the balance is recognised in income.

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and collars) are measured at fair value on the group balance sheet. Changes in the fair value are reported through operating income or financing according to the nature of the derivative financial instrument unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cashflow. Gains and losses on forward exchange contracts to hedge capital expenditure commitments are recognised as part of the total sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out. Gains and losses on derivative financial instruments designated as hedging instruments that are expected to be highly effective at inception and were highly effective for the period are taken to reserves and reflected in the income statement when the cashflow either occurs or ceases to be highly probable.

Certain loan repayment instalments denominated in US dollars and Japanese yen are designated as hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are taken to reserves until the future revenue occurs when the cumulative exchange difference is recognised in income.

The hedging relationships are tested for effectiveness in accordance with IAS 39 - 'Financial Instruments'.

Long term borrowings, finance leases and hire purchase agreements are recorded at amortised cost. Certain leases contain interest rate swaps that are closely related to the underlying financing and, as such, are not accounted for as an embedded derivative. The carrying value of the interest rate swap is reflected within the carrying value of the long-term borrowing.

The financial information presented has been prepared on the basis of those Standards and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC).



**NOTES TO THE ACCOUNTS (unaudited)** (Continued)

For the period ended December 31, 2005

## BASIS OF PREPARATION (continued)

and Standard Interpretations Committee (SIC) that are expected to be applicable to 2005/06 financial reporting. These are subject to ongoing review and endorsement by the European Commission, whilst the application of the Standards continues to be subject to interpretation by IFRIC as well as emerging industry consensus. As a consequence, further adjustments to the accounting policies and treatments may need to be made in the first complete set of IFRS financial statements for 2005/06 for the year ending March 31, 2006.

These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets, that are measured at fair value. The carrying value of recognised assets and liabilities that are hedged are adjusted to record changes in the fair values attributable to the risks that are being hedged.

- For the purposes of these statements IFRS also include International Accounting Standards (IAS).

## 2 FINANCE COSTS / INCOME

|   | Three months ended<br>December 31 |           | Nine months ended<br>December 31 |            |
|---|-----------------------------------|-----------|----------------------------------|------------|
|   | 2005 £m                           | 2004 £m   | 2005 £m                          | 2004 £m    |
| <b>FINANCE COSTS</b>  |                                   |           |                                  |            |
| Interest payable on bank and other loans and finance charges payable under finance leases and hire purchase contracts | 51                                | 58        | 164                              | 192        |
| Interest capitalised  |                                   |           |                                  |            |
| <b>Total finance costs</b>  | <b>51</b>                         | <b>58</b> | <b>164</b>                       | <b>192</b> |
| <b>FINANCE INCOME</b>   |                                   |           |                                  |            |
| Bank interest receivable  | 24                                | 15        | 67                               | 55         |
| <b>Total finance income</b>   | <b>24</b>                         | <b>15</b> | <b>67</b>                        | <b>55</b>  |
| <b>FINANCING INCOME AND EXPENSE RELATING TO PENSIONS</b>  |                                   |           |                                  |            |
| Net financing expense/(income) relating to pensions   | 4                                 | 11        | 12                               | 33         |
| Amortisation of actuarial (gains)/losses on pensions  |                                   |           |                                  |            |
| <b>Total financing income and expense relating to pensions</b>  | <b>4</b>                          | <b>11</b> | <b>12</b>                        | <b>33</b>  |
| Retranslation (charges)/credits on currency borrowings  | (3)                               | 59        | (13)                             | 70         |

## 3 PROFIT/(LOSS) ON SALE OF FIXED ASSETS AND INVESTMENTS

|  | Three months ended<br>December 31 |          | Nine months ended<br>December 31 |           |
|--|-----------------------------------|----------|----------------------------------|-----------|
|  | 2005 £m                           | 2004 £m  | 2005 £m                          | 2004 £m   |
| Net profit on disposal of investment in Qantas                     |                                   |          |                                  | 86        |
| Net profit/(loss) on the disposal of property, plant and equipment | 2                                 | 1        |                                  | (4)       |
|  | <b>2</b>                          | <b>1</b> |                                  | <b>82</b> |

## 4 TAX

The tax charge for the quarter is £41 million of which £11 million represents deferred tax in the UK and £30 million current UK tax.

## 5 EARNINGS/(LOSS) PER SHARE

Basic earnings per share for the quarter ended December 31, 2005 are calculated on a weighted average of 1,128,475,000 ordinary shares (December 2004: 1,071,112,000; March 2005: 1,071,126,000) as adjusted for shares held for the purposes of employee share ownership plans including the Long Term Incentive Plan. Diluted earnings per share for the quarter ended December 31, 2005 are calculated on a weighted average of 1,138,143,000 ordinary shares (December 2004: 1,119,111,000; March 2005: 1,126,485,000).

The number of shares in issue at December 31, 2005 was 1,130,882,000 (December 31, 2004: 1,082,903,000; March 31, 2005: 1,082,903,000) ordinary shares of 25 pence each.

**NOTES TO THE ACCOUNTS (unaudited)** (Continued)

For the period ended December 31, 2005

## 6 RECONCILIATION OF MOVEMENT IN NET DEBT TO CHANGES IN CASH FLOWS

|  | Nine months ended |         |
|--|-------------------|---------|
|  | December 31       |         |
|  | 2005 £m           | 2004 £m |
| Increase/(decrease) in cash and cash equivalents during the period | 396               | (613)   |
| Net cash used in repayment of long-term borrowings                 | 281               | 745     |
| Increase in interest bearing deposits                              | 29                | 770     |
| Change in net debt resulting from cash flows                       | 706               | 902     |
| New finance leases taken out and hire purchase arrangements made   | (7)               | (8)     |
| Conversion of Convertible Capital Bonds 2005                       | 112               |         |
| Exchange movements   | (67)              | 70      |
| Movement in net debt during the period                             | 744               | 964     |
| Net debt at April 1  | (2,922)           | (4,158) |
| Net debt at period end   | (2,178)           | (3,194) |

Net debt comprises the current and non-current portions of long-term borrowings, convertible long-term borrowings and overdrafts, less cash and cash equivalents plus interest-bearing short-term deposits.

## 7 ANALYSIS OF LONG-TERM BORROWINGS

|   | December 31  | December 31  | March 31     |
|---|--------------|--------------|--------------|
|   | 2005 £m      | 2004 £m      | 2005 £m      |
| Interest bearing long-term borrowings comprise:   |              |              |              |
| Loans   | 1,081        | 1,064        | 1,105        |
| Finance Leases                                    | 1,452        | 1,762        | 1,493        |
| Hire purchase arrangements                        | 1,261        | 1,579        | 1,447        |
|   | <b>3,794</b> | <b>4,405</b> | <b>4,045</b> |
| Current portion of long-term borrowings comprise: |              |              |              |
| Loans   | 62           | 95           | 63           |
| Finance Leases                                    | 121          | 105          | 96           |
| Hire purchase arrangements                        | 310          | 291          | 288          |
|   | <b>493</b>   | <b>491</b>   | <b>447</b>   |

## 8 RESERVES

|   | December 31  | December 31 | March 31   |
|---|--------------|-------------|------------|
|   | 2005 £m      | 2004 £m     | 2005 £m    |
| Balance at April 1  | 940          | 557         | 557        |
| Transitional effects from the adoption of IAS 39 and IAS 32 | 183          |             |            |
| Profit for the period                                       | 384          | 386         | 392        |
| Distributions to perpetual preferred security holders       | (10)         | (10)        | (14)       |
| Conversion of Convertible Capital Bonds 2005                | 100          |             |            |
| Exchange and other movements                                | (138)        | (1)         | 5          |
|   | <b>1,459</b> | <b>932</b>  | <b>940</b> |

9 The figures for the three months and nine months ended December 31, 2005 and 2004 are unaudited and do not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year ended March 31, 2005 have been delivered to the Registrar of Companies and on which the auditors have issued an unqualified audit report and did not contain a statement under Section 237 of the Companies Act 1985.

## **INDEPENDENT REVIEW REPORT TO BRITISH AIRWAYS Plc**

### **Introduction**

We have been instructed by the Company to review the financial information for the three months and nine months ended December 31, 2005, which comprises the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement and Notes to the Accounts. We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of Interim Financial Information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The interim results, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with those IFRSs adopted for use by the European Union.

The accounting policies are consistent with those that the directors intend to use in the next financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRS adopted for use by the European Union.

### **Review work performed**

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit.

Accordingly we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the three months and nine months ended December 31, 2005.

*Ernst & Young LLP*  
London

February 2, 2006

**UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) INFORMATION**  
**(unaudited and for information only)**

The accounts have been prepared in accordance with the measurement and recognition requirements of International Financial Reporting Standards (IFRS) which differ in certain respects from those generally accepted in the United States.

The comparatives have been restated to recognise the adoption of IFRS by the group.

The adjusted net income/(loss) and shareholders' equity applying US GAAP are set out below:

|  | Three months ended |         | Nine months ended |         |
|--|--------------------|---------|-------------------|---------|
|  | December 31        |         | December 31       |         |
|  | 2005 £m            | 2004 £m | 2005 £m           | 2004 £m |
| Profit for the period attributable to equity holders of the parent as reported in the Group income statement | 117                | 115     | 371               | 376     |
| US GAAP adjustments  | (130)              | (132)   | (257)             | (150)   |
| Net income/(loss) as so adjusted to accord with US GAAP  | (13)               | (17)    | 114               | 226     |
| Net income/(loss) per Ordinary Share as so adjusted  |                    |         |                   |         |
| Basic  | (1.2)p             | (1.6)p  | 10.3p             | 21.1p   |
| Diluted  | (1.2)p             | (1.6)p  | 10.2p             | 20.7p   |
| Net income/(loss) per American Depositary Share as so adjusted   |                    |         |                   |         |
| Basic  | (12)p              | (16)p   | 103p              | 211p    |
| Diluted  | (12)p              | (16)p   | 102p              | 207p    |

|   | December 31 |         | March 31 |
|---|-------------|---------|----------|
|   | 2005 £m     | 2004 £m | 2005 £m  |
| Shareholders' equity as reported in the Group balance sheet | 1,740       | 1,176   | 1,185    |
| US GAAP adjustments   | 436         | 852     | 759      |
| Shareholders' equity as so adjusted to accord with US GAAP  | 2,176       | 2,028   | 1,944    |

Net income for the three months ended December 31, 2004 and the nine months ended December 31, 2004, as reported under US GAAP, has been adjusted by approximately £(2) million and £16 million respectively, to reflect the quarterly impact of adjustments made during the 4th quarter of the year.

Shareholders' equity as at December 31, 2004 as reported under US GAAP has been adjusted by £16 million which reflects the cumulative impact of the adjustments.

**AIRCRAFT FLEET**

(unaudited and for information only)

**Number in service with Group companies at December 31, 2005**

|                           | On Balance<br>Sheet aircraft | Off Balance<br>Sheet Aircraft | Total<br>December<br>2005 | Changes Since<br>September<br>2005 | Future<br>deliveries | Options   |
|---------------------------|------------------------------|-------------------------------|---------------------------|------------------------------------|----------------------|-----------|
| <b>AIRLINE OPERATIONS</b> | <b>(Note 1)</b>              |                               | <b>(Note 7)</b>           |                                    |                      |           |
| Boeing 747-400            | 57                           |                               | <b>57</b>                 |                                    |                      |           |
| Boeing 777                | 40                           | 3                             | <b>43</b>                 |                                    |                      |           |
| Boeing 767-300            | 21                           |                               | <b>21</b>                 |                                    |                      |           |
| Boeing 757-200            | 13                           |                               | <b>13</b>                 |                                    |                      |           |
| Airbus A319 (Note 2)      | 21                           | 12                            | <b>33</b>                 |                                    |                      | 36        |
| Airbus A320 (Note 3)      | 9                            | 18                            | <b>27</b>                 | <b>1</b>                           | 7                    |           |
| Airbus A321               | 7                            |                               | <b>7</b>                  |                                    | 3                    |           |
| Boeing 737-300            |                              | 5                             | <b>5</b>                  |                                    |                      |           |
| Boeing 737-400 (Note 4)   | 19                           |                               | <b>19</b>                 | <b>1</b>                           |                      |           |
| Boeing 737-500            |                              | 9                             | <b>9</b>                  |                                    |                      |           |
| Turboprops (Note 5)       |                              | 8                             | <b>8</b>                  |                                    |                      |           |
| Embraer RJ145             | 16                           | 12                            | <b>28</b>                 |                                    |                      |           |
| Avro RJ100 (Note 6)       |                              | 15                            | <b>15</b>                 | <b>(1)</b>                         |                      |           |
| British Aerospace 146     | 4                            |                               | <b>4</b>                  |                                    |                      |           |
| <b>GROUP TOTAL</b>        | <b>207</b>                   | <b>82</b>                     | <b>289</b>                | <b>1</b>                           | <b>10</b>            | <b>36</b> |

## Notes:

1. Includes those operated by British Airways Plc and British Airways CitiExpress Ltd.
2. Certain future deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft.
3. Includes 1 Airbus A320 returned to service from sub-lease to GB Airways.
4. Includes 1 Boeing 737-400 returned to service from sub-lease to Air One.
5. Comprises 8 de Havilland Canada DHC-8s. Excludes 5 British Aerospace ATPs stood down pending return to lessor and 12 Jetstream 41s sub-leased to Eastern Airways.
6. Excludes 1 Avro RJ100 sub-leased to Swiss.
7. Future deliveries have increased by 4 to 10 to replace 10 A320 aircraft due to leave the fleet from 2007.