INTERIM MANAGEMENT STATEMENT

Period April 1, 2007 – June 30, 2007 (Unaudited)

PROFITS UP ON GOOD RESULTS

British Airways today (August 3) presented its interim management statement for the quarter ended June 30, 2007.

Period highlights:

- Operating profit of £263 million (2006: £206 million)
- Operating margin of 12 per cent (2006: 9.2 per cent)
- Profit before tax of £289 million (2006: £191 million)
- Revenue excluding exchange level with last year
- Strong cost performance
- Increased resources to address Heathrow operational issues
- Pay and working practices agreed
- Non-stop direct US Europe flights approved

British Airways' chief executive Willie Walsh, said:

"These are very good results despite operational difficulties at Heathrow. Profits are up as a result of the steps we took last year to control costs and strengthen our business.

"Revenue is flat before exchange and reflects the continued impact of security and baggage restrictions on shorthaul and premium transfer traffic, which Heathrow has been struggling to cope with.

"We appreciate how frustrating this has been for our customers and I am pleased the Government has also recognised this and set up a working group to see how quickly the restrictions on hand baggage can be eased. In order for the Government to remove the restrictions, the BAA must recruit additional personnel and invest in the right equipment so we can get back to offering good customer service.

"In the meantime we have taken all available steps to minimise inconvenience to our customers and have increased manpower levels in the terminals at Heathrow to an all time high.

"The opening of Terminal 5 is now just 236 days away and on September 17 BAA hands over the terminal to us. Trials with staff and 2,000 members of the public on all aspects of the new facility start in November.
"I am delighted that ahead of our move we have agreed working practice changes with all our Heathrow customer service and operational staff and a two year pay deal with all our trade union groups which takes us through to 2009.

"Our operating margin for the quarter is 12 per cent and our target of a 10 percent operating margin for the year remains."

Financial review:

Revenue excluding exchange was flat.

Passenger revenue fell to £1,899 million on a flying programme 0.3 per cent bigger measured in available seat kilometres (ASKs). Traffic measured in revenue passenger kilometres (RPKs) fell by 1.9 per cent delivering seat factors down to 76.8 per cent. Yields were flat year on year with price and mix benefits offset by exchange.

Demand for First and Club World remains strong and traffic was up 0.1 per cent despite a very strong performance in the same period last year and the impact of the baggage and security restrictions on premium transfer traffic. However, traffic in non-premium cabins fell in the quarter by 2.3 per cent driven by the North Atlantic and domestic routes where the increase in air passenger duty tax has dampened demand most significantly. The weakness of the dollar has also affected our US business.

Cargo revenue fell to £146 million due to exchange, reductions in capacity of 5.2 per cent and operational disruptions.

Our cost performance was strong and benefited from the weak US dollar. Employee costs fell by 8.3% to £542 million largely because of the changes to the NAPS pension scheme and severance costs which together were some £50 million lower than last year. Fuel fell 5.2 per cent to £473 million mainly because of favourable exchange. Selling costs were down £15 million in the quarter due to lower agency commissions and passenger numbers. Unit costs in the period were down 3.9 per cent on an ATK reduction of 1.6 per cent.

The profit before tax of £289 million benefited from financing income from pensions following the company’s one-off contribution to the pension scheme and a reduction in provisions for aircraft end of lease guarantees.

The financial position of the company remains strong. This is reflected by the Standard and Poors upgrade of the company’s credit rating to investment grade that will support our investment programme. Our cash position continues strong at a healthy £1,954 million despite a one-off payment of £560 million into the company’s pension scheme. This had an impact on net debt, which was up from year end to £1,246 million. The cash outflow from operating activities in the period was £172 million, £647 million worse than last year reflecting the £560 million pension payment and working capital movements. Capital expenditure in the period was higher than last year at £163 million, reflecting delivery of one new Airbus 321 and spend on our new club world cabin and Terminal 5.

The tax rate in the period was just 6 per cent benefiting from a one-off credit arising from the reduced corporation tax rate effective from April 1, 2008.

Business issues

Terminal 5

BAA formally hands over the Terminal in September and we will begin a parallel operation with staff and members of the public, testing every aspect of the facility. Customer facilities will be better than any other hub in Europe. Terminal 5 offers unparalleled standards of passenger comfort and convenience.

Customer developments

Our new Club World cabin has been a huge success and customer satisfaction levels are high. We are fitting aircraft at the rate of one per week and have completed more than half the Boeing 747 fleet. The new cabin is flying on 96 services per week to New York.

We are introducing six more languages onto ba.com including Japanese, Swedish, Portuguese, Chinese, Polish and Hungarian. Ba.com currently offers five core languages: English, French, Spanish, Italian and German.

Environment

Climate change continues to be at the top of the public and political agenda and it is one of our key priorities. Aviation must play its full part in containing and ultimately neutralising CO2 emissions.

We know this issue is of concern to our customers and we will be re-developing our carbon offset scheme to make it more user-friendly and give us more choice over the emissions reducing projects it will finance. We have also created a new position, Head of Corporate Social Responsibility.

We set ourselves a target of improving fuel efficiency by 30 per cent by 2010, compared with 1990. By the end of last year, we had achieved a 28 per cent improvement. We have now set a new target for a further improvement of 25 per cent by 2025, compared with 2005.

Open skies

Our plans to launch non-stop direct services between the United States and Europe have been approved by the US DoT and we are looking forward to the opportunity this gives us to build on our established brand and deep roots in the US and Europe.

Our Dallas and Houston services, which we currently operate from Gatwick, will also benefit from the 'open skies' agreement. They will be moved to Heathrow from next March. They will benefit from the stronger feeder traffic at our main base and better serve the oil and gas industries. We have planned for open skies for many years now and we are ready to take up the opportunity it offers.

Fleet

We have taken the first steps towards a single short-haul fleet across our mainline network with the order of eight new Airbus A320 family aircraft powered by IAE engines. We are also near to a decision on a major order for replacement and growth longhaul aircraft.

Iberia

We have joined with a consortium led by TPG to look at a potential bid for Iberia and are currently involved in due diligence.

Investigations

We announced that we have agreed a resolution with the UK Office of Fair Trading (OFT) and entered into a plea agreement with the United States Department of Justice (DoJ) on fines relating to anti-competitive activity in the company's longhaul passenger surcharges and cargo business.

Under the terms of the agreements, we have agreed to pay a fine of £121.5 million to the OFT and $300 million (£145 million) to the DoJ for infringements of competition laws. The sum of the combined fine is consistent with our guidance and provision of £350 million.

This resolves the OFT's and the DoJ's investigation of British Airways.

Trading Outlook

Turning now to the outlook. As the Heathrow terminals continue to operate above capacity this will affect our ability to recover quickly from any unexpected events. Combined with the continued weakness of the US dollar our revenue guidance is reduced by 1 per cent to around 4 per cent to reflect these risks.

Our revised cost guidance year on year is flat, excluding fuel, reflecting both expected exchange benefits from the weaker dollar and strong performance in the first quarter.

Fuel costs are now expected to be up £120 million on last year, £20 million worse than our previous guidance.

ends

Note to Editors:

This is the first Interim Management Statement that British Airways has released under the European Union Transparency Directive. The new rules apply for all accounting periods beginning on or after January 20, 2007. The new rules combined with our application for deregistration from the Securities and Exchange Commission (SEC), have provided the Company with an opportunity to review its quarterly financial reporting requirements. The Interim Management Report that will be provided for the Interim Results in November, will include financial statements.

In addition there will be a webcast of an analyst conference call and slide presentation at 2pm (BST) available through our website www.bashares.com.

Appendix

Financial Position and Performance for the three months ended June 30, 2007
Continuing Operations (Unaudited)

		Three months ended June 30		
		2007	2006 *Restated*	Change
Passenger revenue	£m	**1,899**	1,936	(1.9)%
Cargo revenue	£m	**146**	165	(11.5)%
Other revenue	£m	**148**	146	1.4%
Revenue	£m	**2,193**	2,247	(2.4)%
Operating profit	£m	**263**	206	27.7%
Profit before tax	£m	**289**	191	51.3%
(Loss)/profit from discontinued operations	£m	**(3)**	4	nm
Tax	£m	**(17)**	(41)	58.5%
Profit after tax	£m	**269**	154	74.7%
Basic earnings per share	P	**23.4**	12.9	81.4%
EBITDAR	£m	**502**	437	65
Net assets	£m	**2,712**	2,349	15.5%
Net debt	£m	**(1,246)**	(1,149)	(97)
Cash	£m	**1,954**	2,776	(822)
Cash (out)/in from operating activities	£m	**(172)**	475	(647)

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.

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