BRITISH AIRWAYS

INTERIM MANAGEMENT STATEMENT

Period April 1, 2008 – June 30, 2008 (Unaudited)

Q1 RESULTS HIT BY FUEL COSTS

British Airways today (August 1) presented its interim management statement for the quarter ended June 30, 2008.

Highlights:

- Profit before tax of £37 million (2007: £298 million - restated)
- Operating profit of £35 million (2007: £266 million - restated)
- Fuel costs up 49 per cent
- Winter schedule capacity reductions of 3.1 per cent versus last year (6.4 per cent against plan)
- More than six million passengers through Terminal 5 since March 27
- Iberia merger talks under way

British Airways' chief executive Willie Walsh, said:

"We are in the worst trading environment the industry has ever faced. The combination of unprecedented oil prices, economic slowdown and weaker consumer confidence has led to substantially lower first quarter profits.

"Fuel prices have doubled in the past year. A successful hedging programme mitigated the impact but nevertheless fuel costs at £706 million were up £233 million in the quarter. We expect our fuel bill to top £3 billion this year – the equivalent of more than £8 million every day.

"We are well prepared. Since year end we have adapted our plans to reflect the fast moving and challenging conditions. We have reduced capacity in the winter schedule without compromising our network and at the same time we have the flexibility in the business to capitalise when conditions improve. We have revised our capital expenditure plans and are focusing on cost control.

"We have ordered six new Boeing 777-300ER aircraft for delivery beginning in 2010. They are 23 per cent more fuel efficient than the Boeing 747-400 and give us additional flexibility in the longhaul fleet.

"I'm pleased to say that talks towards a merger with Iberia are under way. This is good news for both airlines, our shareholders and our customers. The potential benefits are significant. We can build on our successful 10 year relationship with increased efficiencies, synergies and an excellent network fit. It will be several months before talks are finalised but we are confident of securing regulatory approval. Our talks with American Airlines and Iberia towards further cooperation are progressing well.

"Despite the difficult situation the industry is in, we remain absolutely focused on the interests of our customers.

"Terminal 5 is performing very well and more than six million customers have now travelled through it. The first move of longhaul services from Terminal 4 to Terminal 5 went smoothly and the remaining services will move in after the busy summer period. We continue to refine and improve Terminal 5 and plan to introduce a dedicated check-in for our Club World customers. The terminal continues to go from strength to strength delivering new levels of operational performance and real value to our customers."

Financial review:

Total revenue in the period was up by 2.8 per cent.

Passenger revenue was up 2.9 per cent on capacity up 0.7 per cent. Weaker consumer confidence, particularly in the UK and US, has resulted in reduced traffic volumes, and seat factor was down 3.4 points to 73.4 per cent. Yields were up 6.9 per cent on the back of price increases as a result of increasing fuel surcharge levels, the stronger Euro and good longhaul premium traffic.

Our cargo business continues to perform well with volumes measured in cargo tonne kilometres (CTKs) up 4.1 per cent on last year. Revenue rose 21.9 per cent to £178 million, underpinned by fuel surcharge recoveries and strong volumes. Overall, yields improved by 17.1 per cent.

Operating costs were up 15.2 per cent with unit costs up 16.5 per cent. Most costs were up but the biggest increase was fuel. After hedging, fuel costs were up almost 50 per cent on last year. Employee costs rose by 2.4 per cent mainly due to pay awards, partially offset by lower pension service costs. Engineering costs were up 7.3 per cent because of higher freighter costs and changes in inventory provisions. Landing fees and en-route charges were up 6.7 per cent mainly because of the stronger Euro. Handling charges and other operating costs were up 8.5 per cent due to costs associated with the delayed moves to Terminal 5, cargo handling and trucking charges, and the stronger Euro. Accommodation, ground equipment and IT costs were up 5.4 per cent, predominantly due to property costs, including rent and rate increases.

Our financial position remains strong. Our cash position at the end of the quarter was just under £2 billion, up £91 million since March. Net debt was £1.1 billion, £206 million lower than at year end.

The tax rate for the quarter was 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. The net impact on the income statement for the quarter ended June 30, 2007 is a £2 million increase to profit after tax. The net impact on the balance sheet as at March 31, 2008 is a £235 million increase to total assets, a £29 million increase to shareholders equity, and a £206 million increase to total liabilities.

We had anticipated making a change to deferred tax as a result of proposals to change Industrial Buildings Allowance for corporation tax, but as this was not enacted into law in the quarter, no change has been made.

Business review:

Our four key business priorities remain unchanged.

Upgraded customer experience

We are committed to delivering excellent customer service on the ground and in the air.

The first of our 42 Boeing 777s has been fitted with our award winning Club World cabin and the embodiment schedule for the remainder of the fleet is on track. We have appointed two design agencies, Forpeople and Tangerine, to work with our in-house design experts on our new First class cabin to be launched next year. At the Taste of London Festival we announced the BA Taste Team top chefs who will be developing a new range of menus for our on board hospitality.

We introduced a unique application for the new Apple iPhone 3G which lets customers access real-time arrival and departure information, view the BA timetable and book flights. Since launch, the number of times users have accessed ba.com, through the iPhone, has on average doubled from 10,000 to 20,000 times a day. We are the first airline to offer this service.

We continue to develop and improve Terminal 5 and a dedicated check-in area for Club World customers will be opened soon. We have started a $30 million refurbishment of our terminal at New York JFK airport which includes a new premium check-in pavilion and lounges refurbished to the same specification as the Terminal 5 suite at Heathrow.

To ensure we continue to offer the best customer service in the air, we are currently developing and trialling new premium service training for all cabin crew to start later this year.

OpenSkies has confirmed that it is launching a daily service between Amsterdam’s Schiphol International Airport and New York’s John F. Kennedy Airport beginning on 15 October 2008. This is the airline’s second European route. OpenSkies launched on June 19 providing a premium service between Paris-Orly and JFK. The business is performing in line with our expectations.

Capacity

We have ordered six Boeing 777-300ER aircraft, and placed options for four more. The B777-300ER is 23 per cent more fuel efficient than the Boeing 747. The aircraft will give us greater flexibility in the longhaul fleet following delays to our Boeing 787 deliveries. We ordered 24 B787s and 12 Airbus A380s, for delivery between 2010 and 2014, to replace some of our oldest aircraft and expand our fleet.

Competitive cost base

We remain focused on maintaining a competitive cost base. We have cut capacity in the winter schedule, have revised our capital expenditure plans and will stay focused on cost control.

Corporate responsibility

We continue to invest in this important area and make progress minimising our environmental impact and carbon emissions.

We are working on an in-depth study with Rolls-Royce on the viability of alternative fuels. Together we will invite suppliers to offer alternative fuel samples for testing on a Rolls-Royce RB211 engine from a British Airways Boeing 747. The tests will be carried out on an indoor engine test bed at Rolls-Royce in Derby, UK and we will then select up to four alternative fuels for laboratory testing.

Our strategy on community investment is to support community and conservation projects, enabling them to become self-sustaining through donating funds, flights, excess baggage and cargo capacity. We recently celebrated reaching £25 million for our UNICEF Change for Good programme that helps millions of vulnerable children around the world. Small change donated by our customers has made a big difference to the lives of countless children over the past 14 years.

Earlier this week we were proud to fly Britain’s Olympic athletes and their kit to Beijing on an aircraft re-named ‘Pride’ in their honour. We wish them every success.

Trading Outlook

The industry is facing very difficult trading conditions on the back of high oil prices and a weak economic environment. Price increases are being implemented to reflect fuel cost rises but will have an impact on volumes. Overall we expect revenue to grow by around 3 per cent, previous guidance was a 4 per cent increase. Non-fuel costs are targeted to rise 3 per cent (3-3.5 per cent last guidance) and fuel is expected to rise around £1 billion against last year, at current fuel prices and exchange rates, an increase of some 50 per cent. As a result of further hedging, our fuel cost guidance of a £16 million profit impact for every $1 change in the crude oil price has reduced to £8 million.

We have a good fuel hedging position and are focused on achieving a small profit in the current financial year and sustainable profitability in the medium and long term in a high fuel price environment.

ends

August 1, 2008

Note to Editors:

There will be a webcast of the analyst presentation at 9am (BST) followed by a conference call at 2pm (BST) available through our website www.bashares.com.

Appendix

Financial Position and Performance for the three months ended June 30, 2008
Continuing Operations (Unaudited)

		Three months ended June 30		
		2008	2007	Change
			Restated	
Revenue	£m	2,259	2,197	2.8 %
Operating profit	£m	35	266	(86.8)%
Profit before tax	£m	37	298	(87.6)%
Losses from discontinued operations	£m	-	(3)	100.0 %
Profit after tax	£m	27	274	(90.1)%
EBITDAR	£m	253	505	(252)
Net debt	£m	1,104	1,246	142
Cash & cash equivalents	£m	1,955	1,954	1
Basic earnings per share	P	2.0	23.6	(91.5)%
Cash in / (out) from operating activities	£m	285	(172)	457
Passenger revenue per RPK	P	7.10	6.64	6.9 %

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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