Rod Eddington

Chief Executive

BRITISH AIRWAYS

Future Size and Shape

Profitability

Simplification

Competing with ‘No Frills’

Manpower

We Will Deliver

Future Size and Shape

Profitability

10% Operating margin

£650 million annual cost savings

Modest revenue growth

Future Size and Shape

Simplification/Shorthaul Proposition

Shorthaul

Gatwick - Fleet simplification

Future Size and Shape

Manpower

5,800 further manpower reductions

Over a third of overhead to go

Future Size and Shape

We Will Deliver

Gatwick

Shorthaul

Total costs down 8.5% in Q3

Manpower reduced by 5,800 in three months

Future Size and Shape

The End Result

Post future size and shape vs August 2001

- 9% less capacity
- 10% higher shorthaul utilisation
- 15% fewer destinations
- 49 fewer aircraft
- 40% fewer sub types
- 52% less capacity at Gatwick
- Total manpower reduction of 13,000

Future Size and Shape

Profitability

Simplification

Competing with ‘No Frills’

Manpower

We Will Deliver

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Robert Boyle

General Manager
Network Planning

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Background

- World economy
  - Weak growth / recession
  - Gradual recovery late 2002
- Air traffic
  - Leisure - recovering
  - Business - slower to recover
- Yield
  - Decline - competition; corporate purchasing power; and discounting

Background

- Competition
  - More and stronger than ever
- Deregulation - UK/US open skies not imminent
- Consolidation
  - Bankruptcy
  - Asset acquisitions
  - Few merger opportunities (legal/ political hurdles)
- BA Financials
  - Losses
  - Debt

Key issues

- Profitability
- Simplification
- Compete with ‘No Frills’

Rejected options

- Close Gatwick
- Longhaul only (the “BOAC” option)
- Further significant down-sizing/ route cancellations
- Going single class in shorthaul

Why rejected?

- Criteria
  - Financial impact
  - Deliverability
  - Long term competitive position
- Rejected options failed on more than one count
- No “silver bullet”

Fleet and network strategy

Fleet & network strategy

- Strategy unchanged but accelerated
- Smaller aircraft improve revenue mix and support frequency to key business destinations
- De-hubbing of Gatwick
- 21% reduction in capacity from 1999 peak

Size & shape changes

- Further trimming of London routes
- Greater and faster downsizing of Gatwick
- Simplification of regional operations
- Focus on fleet simplification
- Improved shorthaul aircraft utilisation

Network changes

- 14 route suspensions already since Sept 11th
- 10 more planned
- Route moves from LGW to LHR in S02
  - four Eastern European routes
  - four longhaul destinations

Gatwick’s role

- Proposals build on already planned reduction and “de-hubbing” at Gatwick
- Strengthen London network
- Operate profitable services which do not fit Heathrow
- Achieve an adequate return

Gatwick Fleet and network

Summer	99	00	01	02	03
Longhaul Aircraft	33	33	32	16	11
				21	
Shorthaul Aircraft	54	54	57	46	35
				22	
Longhaul Destinations	48	44	41	19	15
				26	
Shorthaul Destinations	54	54	54	42	34
				20	
ASKs % vs 1999	-	(5)	(14)	(46)	(60)

UK Regions

- British Airways CitiExpress
- Largest regional airline in Europe
- Replace Airbus and 737 fleets with RJ100’s from Gatwick
- Regional capacity cut by 5%
- Manx Airlines adopting the British Airways brand
- Isle of Man services move from Heathrow to Gatwick

Longhaul subtypes at Heathrow cut by 44%

Type	Product	Club Seats	2001	2003
744	New	102	●	
	New	70	●	●
	New	38	●	●
	Old	55	●	
742	Old	76	●	
777	New	48	●	●
	Old	56	●	
	Old	70	●	
777ER	New	48	●	●
767	Old	36		●
			9	**5**

Fleet simplification

Number of Sub-types by base

(aircraft type / configuration combinations)

	S01	Future	Change
LHR Longhaul	9	5	-44%
LGW Longhaul	6	3	-50%
LHR Shorthaul	5	4	-20%
LGW Shorthaul	4	2	-50%
UK Regions	9	6	-33%
Total	33	20	-40%

Shorthaul aircraft utilisation - up 10%

Through:

- Newer, smaller aircraft and simpler fleets
- Reducing turnaround times
- More off-peak flights

Fleet and network statistics - aircraft

Summer	99	00	01	02	03
Longhaul	118	122	126	114	112
				$\boxed{14}$	
Shorthaul					
London	138	140	142	129	122
UK Regions			93	82	78
			235	211	200
				$\boxed{35}$	

Fleet and network statistics - destinations

Summer	**99**	**00**	**01**	**02**	**03**
Longhaul	92	84	82	76	71
				11	
Shorthaul (London)	74	77	74	67	62
				12	
From UK Regions			51	48	48
				3	
ASKs % vs 1999		(1)	(12)	(21)	(21)

Fleet and network summary

- Strategy accelerated
- Capacity reduced - especially Gatwick
- Simplification
- Utilisation

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Andrew Crawley

General Manager
Western Europe

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Dispelling rumour and myth

- “BA is to set up ‘No Frills’ carrier at Gatwick”
- “BA to close Gatwick”
- “BA abandons shorthaul”

INCORRECT!


AmsterDAM
good price!
Fly from Edinburgh and Glasgow twice daily
from £27.50 single
easyJet.com
the web's favourite airline

Business travel has changed...

have you?

It no longer makes sense to waste company money on unnecessary frills for short journeys. Low-cost business travel is the way forward...

Frequent flights between the UK and Amsterdam

London Luton - 6 daily
London Gatwick - 4 daily
Liverpool - 5 daily
Belfast, Edinburgh and Glasgow - 2 daily

Great value flexible fares

All our fares are one way and you can change every flight for just £10 plus any difference in fare.

No rip-off day returns

No ridiculous minimum two night stay for our lowest fares.

Good punctuality

Best punctuality record of all Low Cost Airlines. (CAA data - Aug 01)

easyJet - good business sense

easyJet.com

the web's favourite airline

‘No Frills’ Competition

- ‘No Frills’ now compete on 62% of BA’s SH routes
- 300% growth in ‘No Frills’ frequency in 3 years
  - 5500 freq in Feb ex UK compared with around 8000 on BA
- ‘No Frills’ growing the market…but BA losing leisure share on key routes
- 27% of low fares in UK sold through business agents

Our response

- Strengthen and maintain our offering to the business market
- Move the shorthaul economy offering closer to ‘No Frills’ model
- Cost and efficiency improvements across our shorthaul business

Strong proposition for business travellers

- Strong Club Europe offering
- Airport, schedule and frequency
- Speed and efficiency throughout the journey
- FFP
- Customer service and operational reliability
- Changes to the way we price and distribute

Adapting shorthaul economy

- Pricing
  - New structure
  - Inventory management
  - Communication
  - On-line booking
- Distribution costs
- Delivery costs

We are often price competitive

London - Amsterdam

Airline	Web Price Return	Price including other charges	Price with credit card	Total extras
British Airways LHR	£103.00	£98.00	£98.00	(£5)
"No Frills" Carrier	£96.18	£113.06	£116.06	£19.88

Prices quoted as at 8 February 2002 for last outbound flight on 14 February returning around midday on 18 February for an eTicket, includes Saturday night stay.

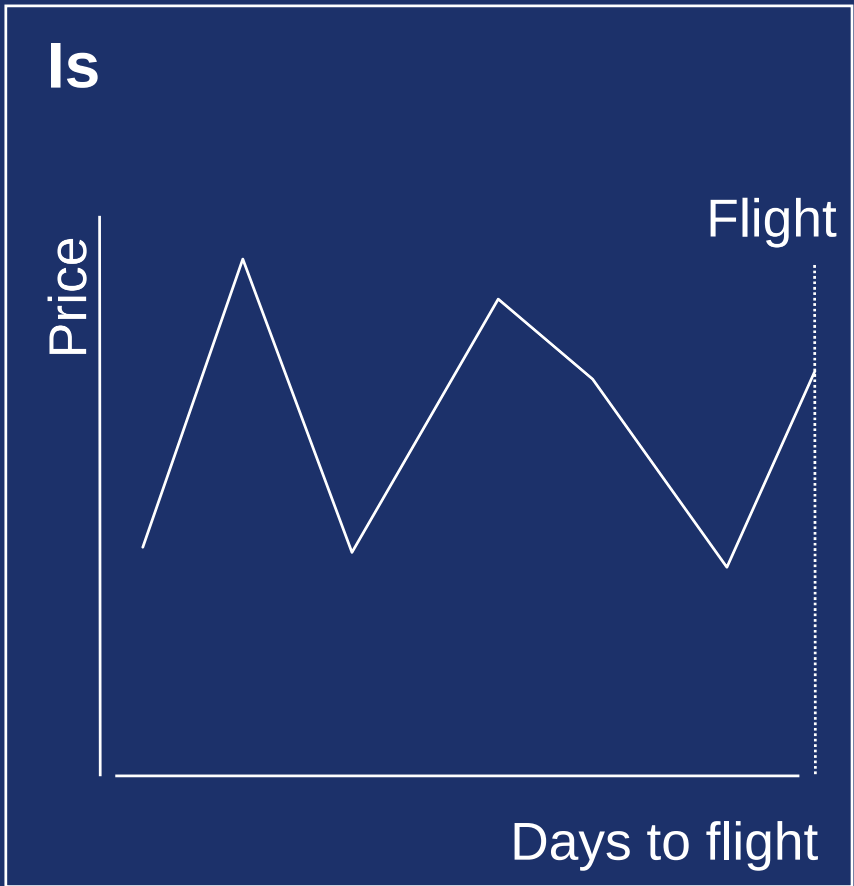
We are often price competitive

London - Barcelona

Airline	Web Price Return	Price including other charges	Price with credit card	Total extras
British Airways LHR	£169.00	£164.00	£164.00	(£5)
"No Frills" Carrier	£205.00	£208.30	£211.30	£6.30

Prices quoted as at 8 February 2002 for last outbound flight on 14 February returning around midday on 19 February for an eTicket, includes Saturday night stay.

Adapting inventory management



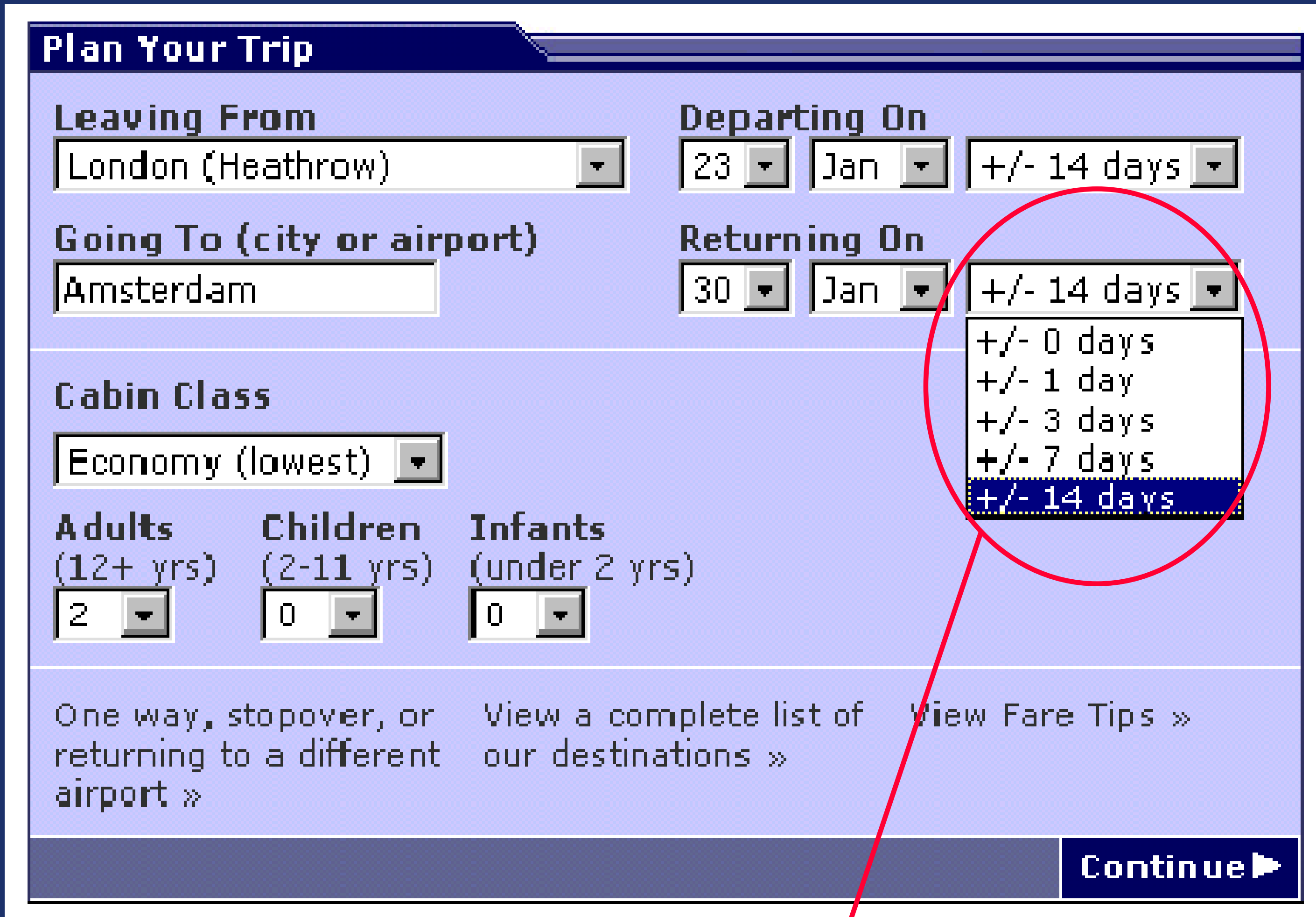
Low fares – easy to find

Current booking engine searches by day and flight

Very small chance of selecting right date/flight combination to get our low fares

Absolutely key that customer sees the best fare available and then makes trade up decisions themselves

Low fares on-line

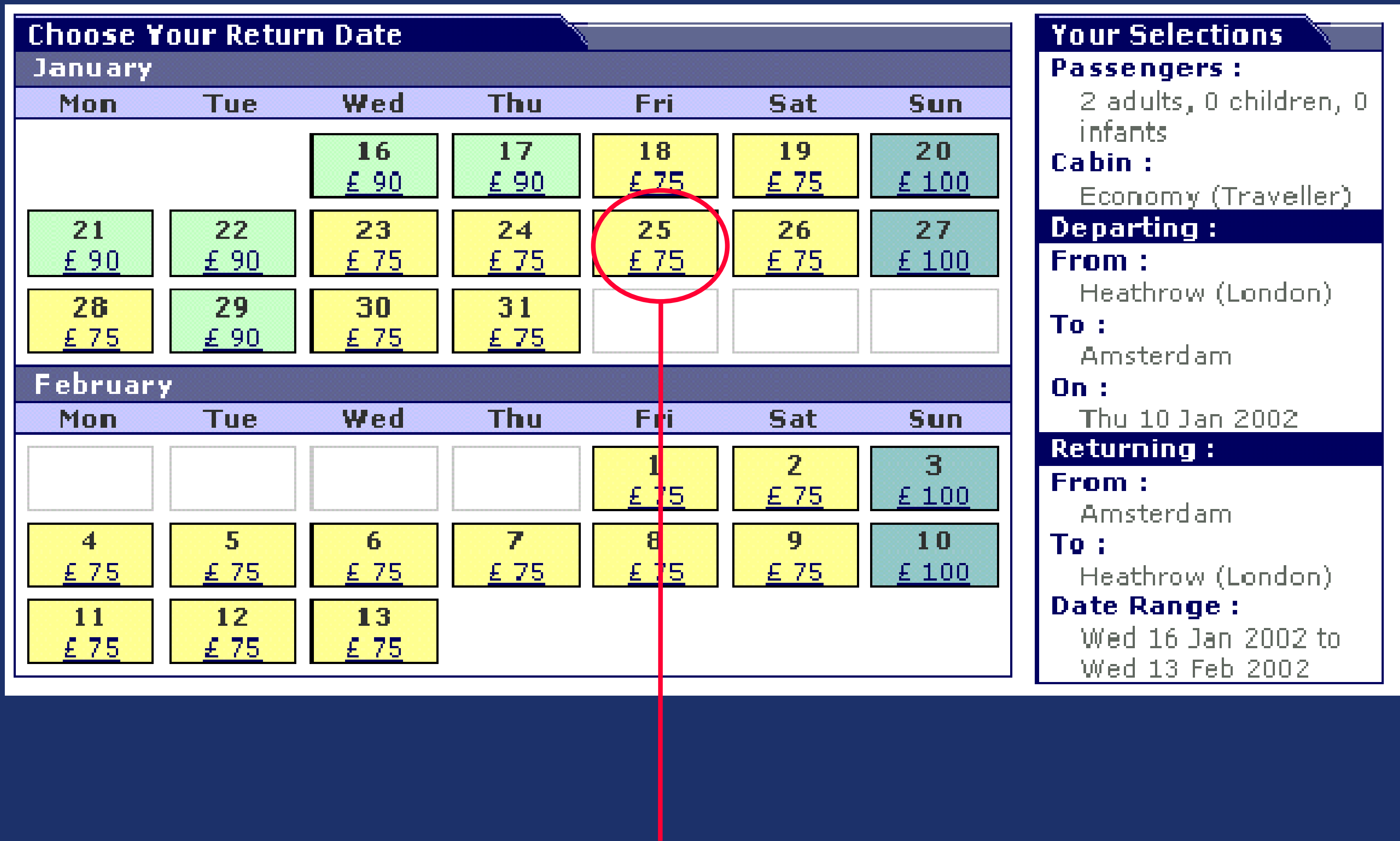


Can select +/- search range to find best available fare

Low fares on-line

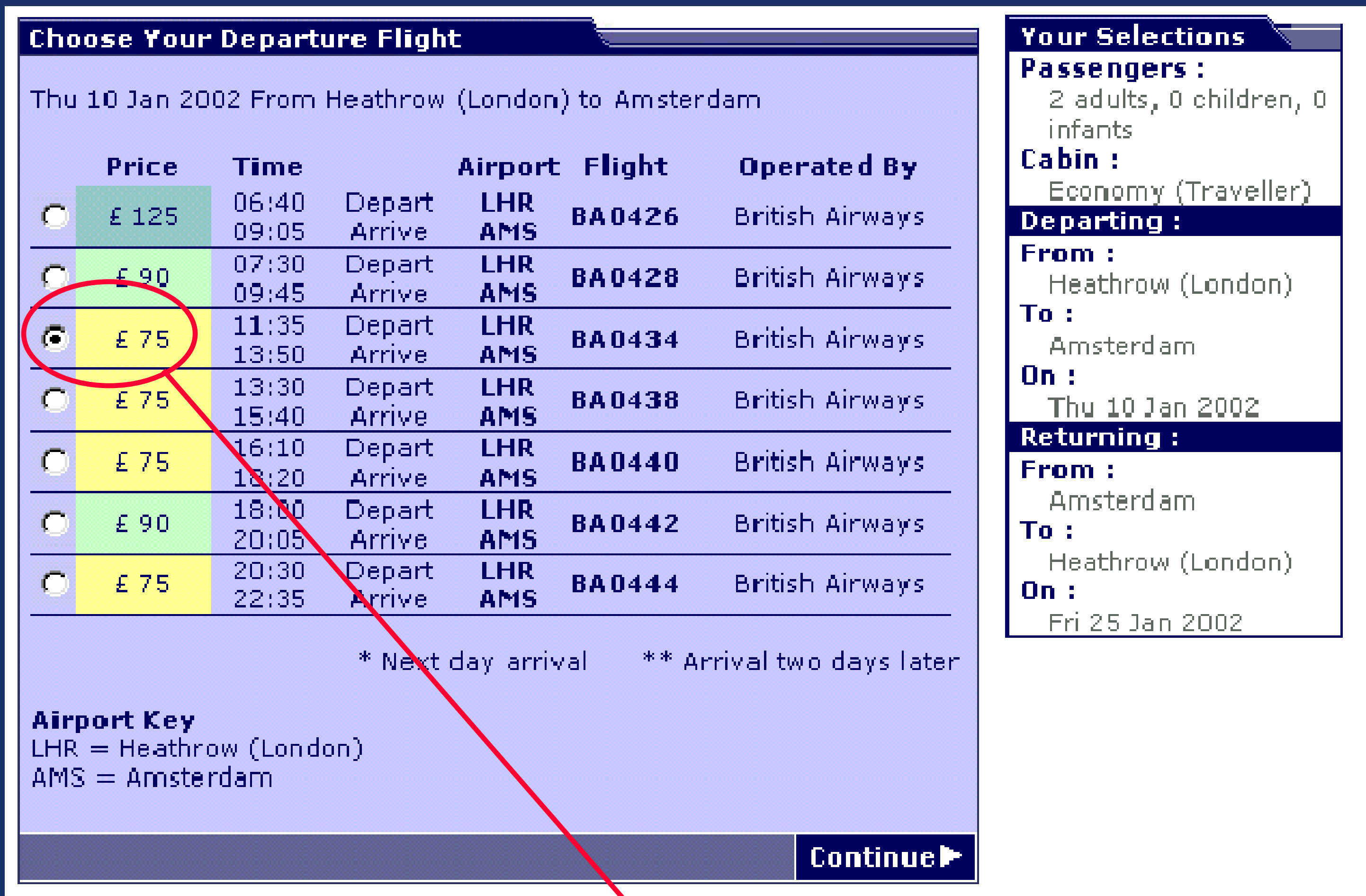
See which day has best fare available

Low fares on-line



Choose a return date

Low fares on-line



Choose Your Departure Flight

Thu 10 Jan 2002 From Heathrow (London) to Amsterdam

	Price	Time		Airport	Flight	Operated By
○	£ 125	06:40 09:05	Depart Arrive	LHR AMS	BA0426	British Airways
○	£ 90	07:30 09:45	Depart Arrive	LHR AMS	BA0428	British Airways
●	£ 75	11:35 13:50	Depart Arrive	LHR AMS	BA0434	British Airways
○	£ 75	13:30 15:40	Depart Arrive	LHR AMS	BA0438	British Airways
○	£ 75	16:10 18:20	Depart Arrive	LHR AMS	BA0440	British Airways
○	£ 90	18:00 20:05	Depart Arrive	LHR AMS	BA0442	British Airways
○	£ 75	20:30 22:35	Depart Arrive	LHR AMS	BA0444	British Airways

* Next day arrival ** Arrival two days later

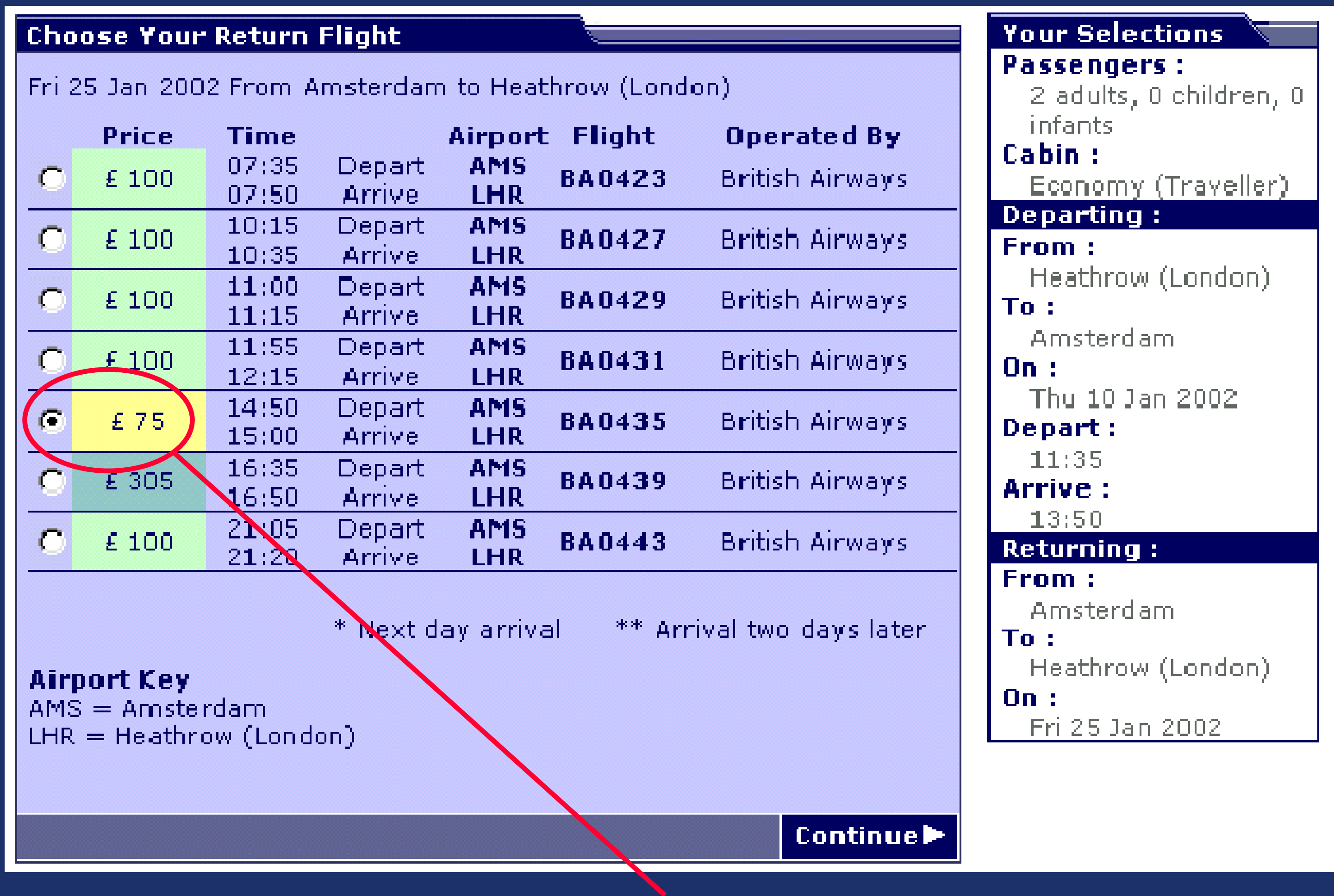
Airport Key
LHR = Heathrow (London)
AMS = Amsterdam

Continue

Your Selections
Passengers :
2 adults, 0 children, 0 infants
Cabin :
Economy (Traveller)
Departing :
From :
Heathrow (London)
To :
Amsterdam
On :
Thu 10 Jan 2002
Returning :
From :
Amsterdam
To :
Heathrow (London)
On :
Fri 25 Jan 2002

Time of day price differences show up clearly

Low fares on-line



Only one chance to get back at the best fare

Restructuring of Distribution – UK Travel Trade

Routing/Ticket Type	Current Payment	Payment	Change (from June 02)
Per Sector			
Domestic/ European Flexible	£11	£5	↓ 55%
Domestic/ European Restricted	£6	£2.50	↓ 58%
Longhaul Premium	£20	No change	
Longhaul Non-Premium	£11	No change	

Reducing delivery costs

- Fleet simplification and aircraft utilisation
- Self-service and on-line
- Simplification on-board

What changes for the customer

- New pricing proposition
- Lowest advertised price on-line
- Easier access to our fares through BA.com
- Choice to use other channels still available
- BA direct channels off-line will be £10 higher
- Fares will be based on eTicket, £10 extra for paper
- Better communications

Summary

- Maintaining our strong business offering
  - Club Europe
  - Network and schedule
  - FFP
- Competing more effectively with ‘No Frills’
  - Pricing
  - On-line
  - Distribution savings
  - Better communications
  - Improving economy load factor and yield

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John Rishton

Chief Financial Officer

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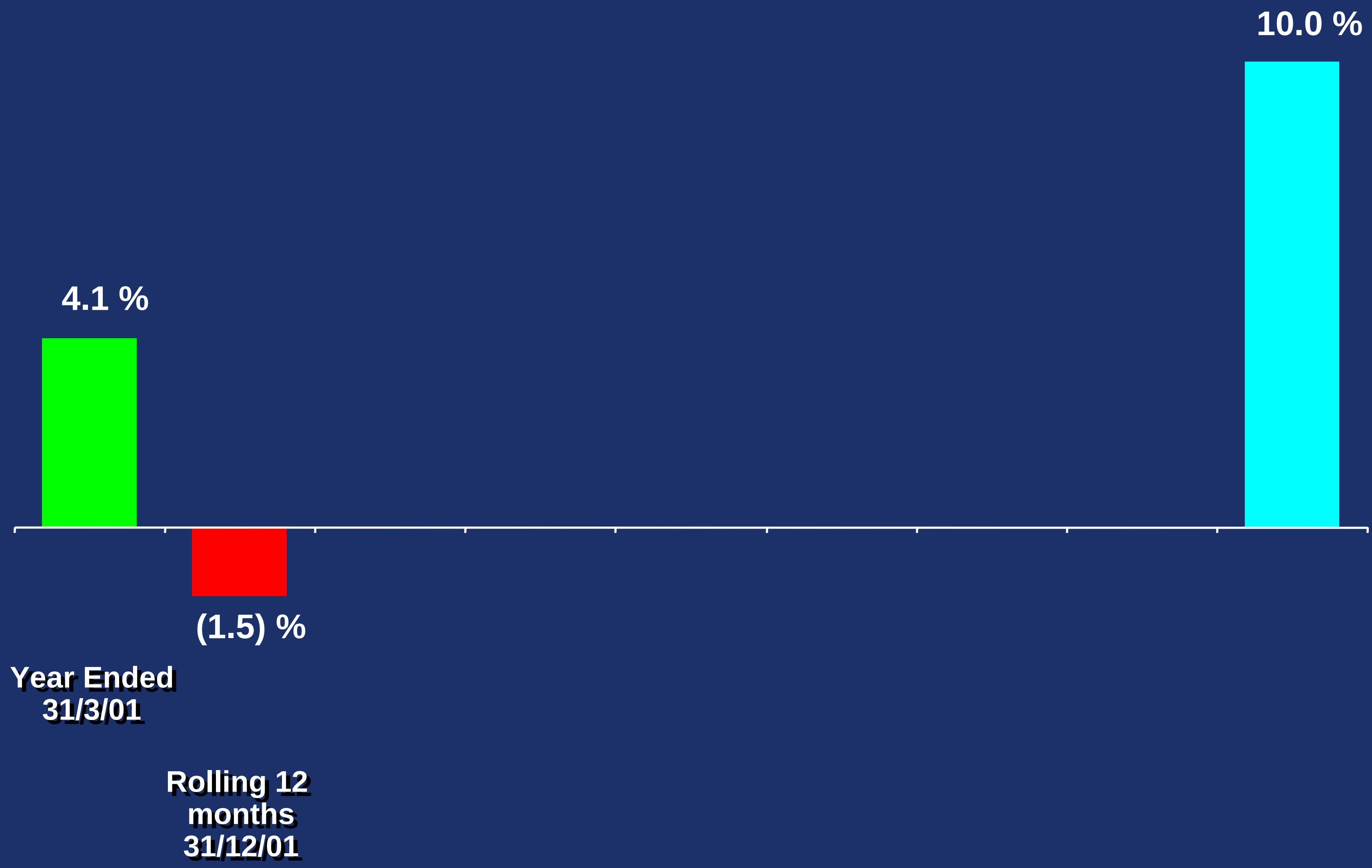
Financial targets

- Profit
  - –operating margin 10%
  - –CVA positive
- Debt /equity toward 50%
- Cash flow positive

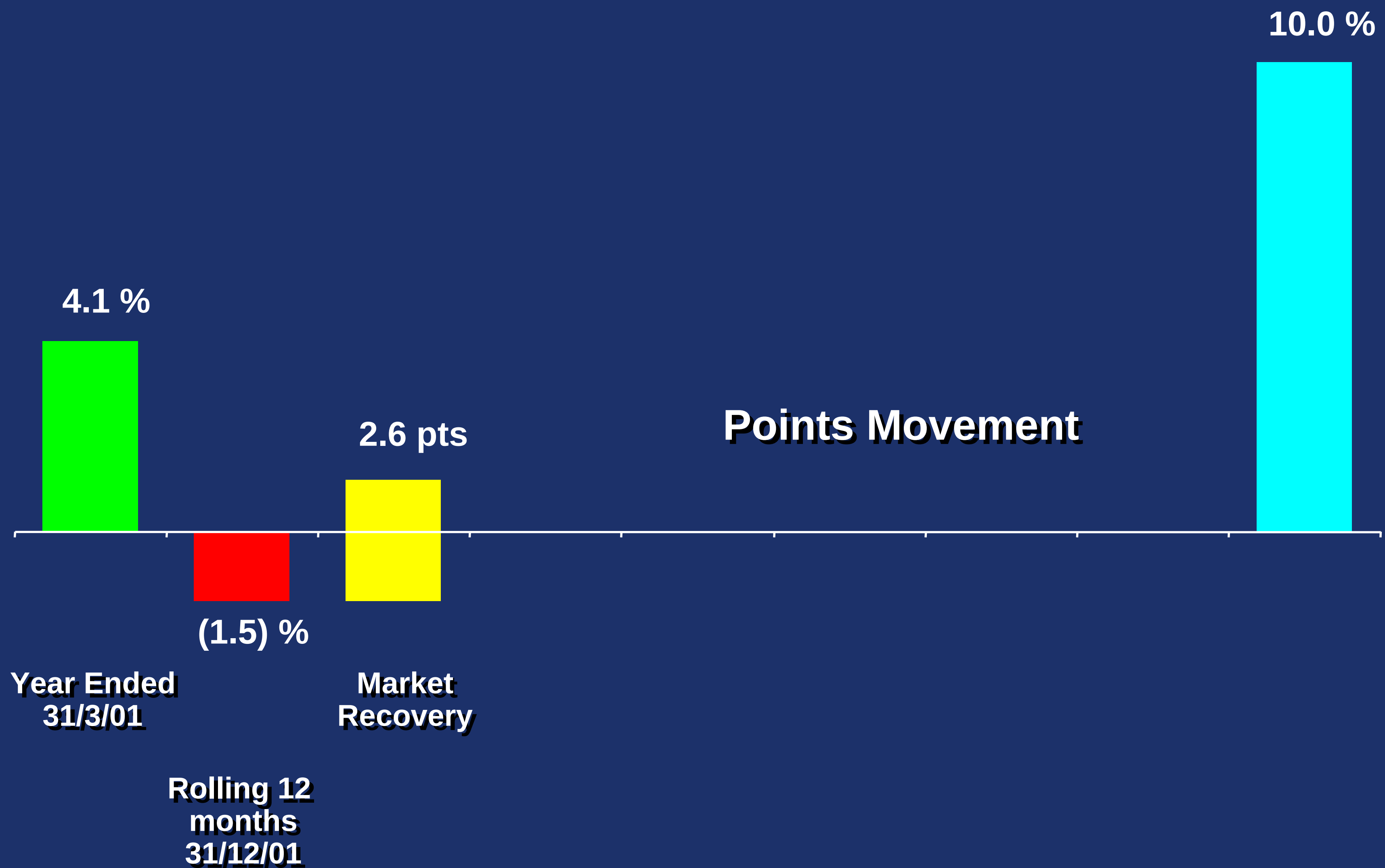
Profitability

	Today	Future
• Shorthaul	Unprofitable	Profitable
• Longhaul	Profitable	Profitable
• Regional	Unprofitable	Profitable
• Total		10% margin

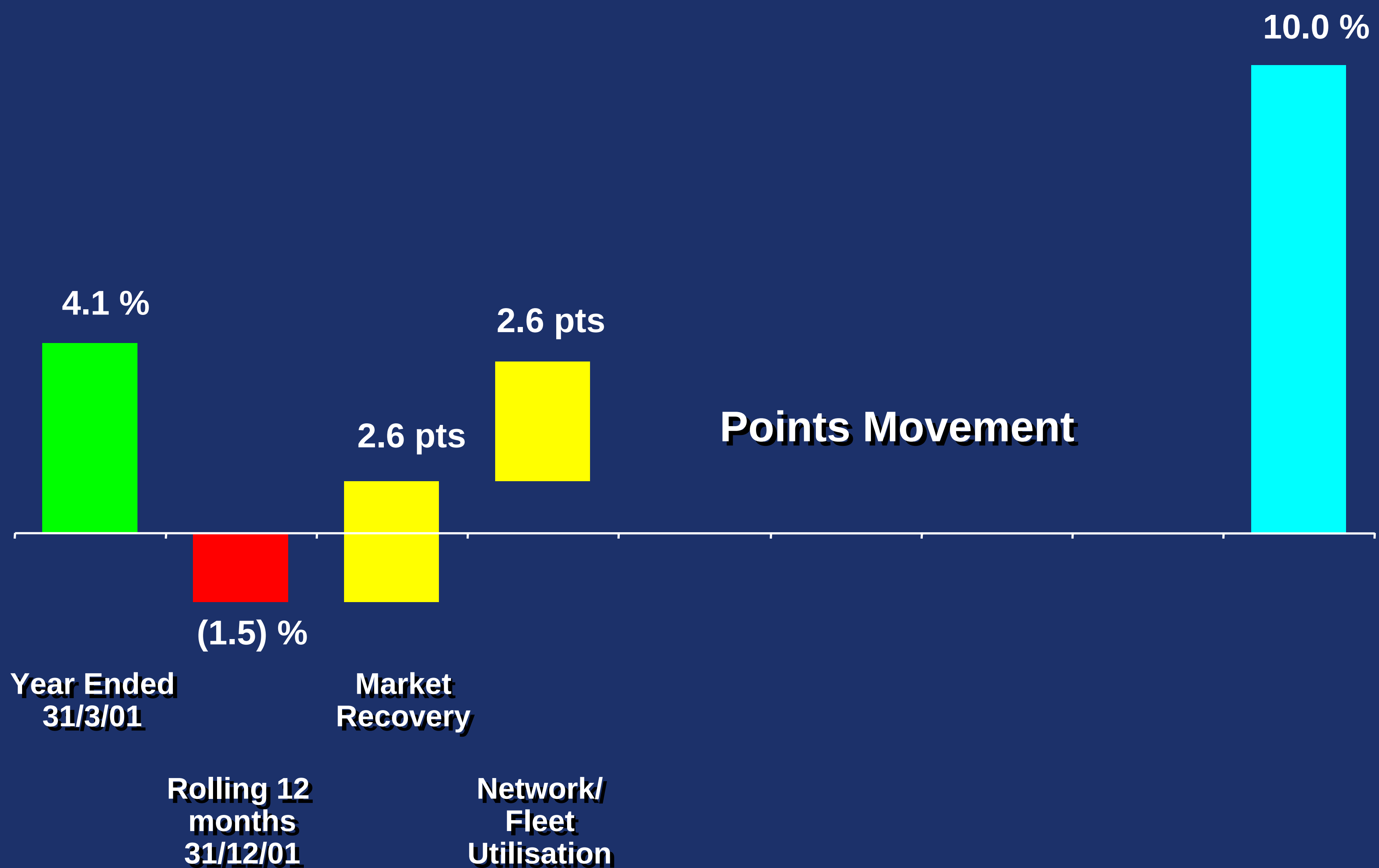
Achieving our operating margin



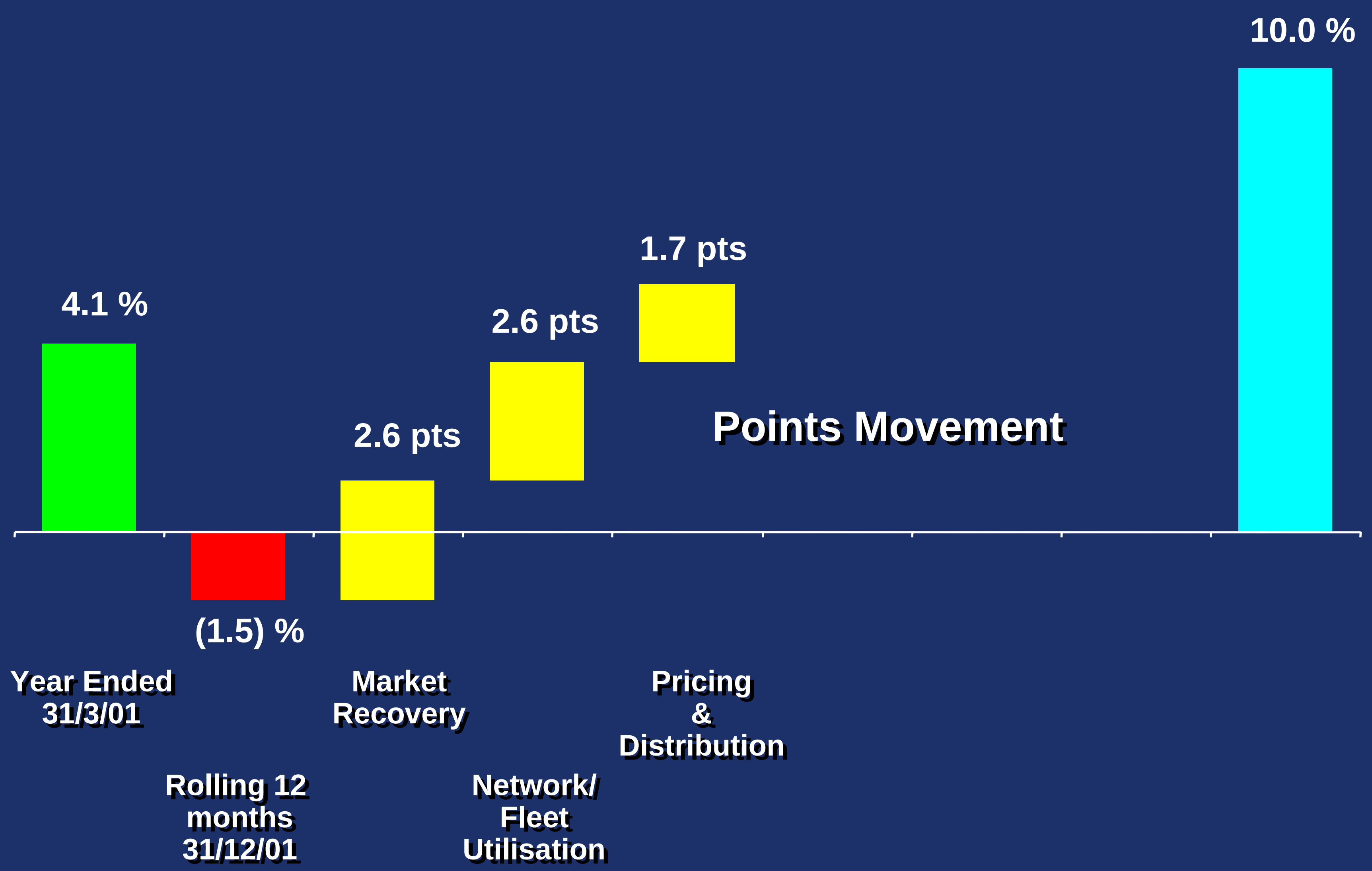
Achieving our operating margin



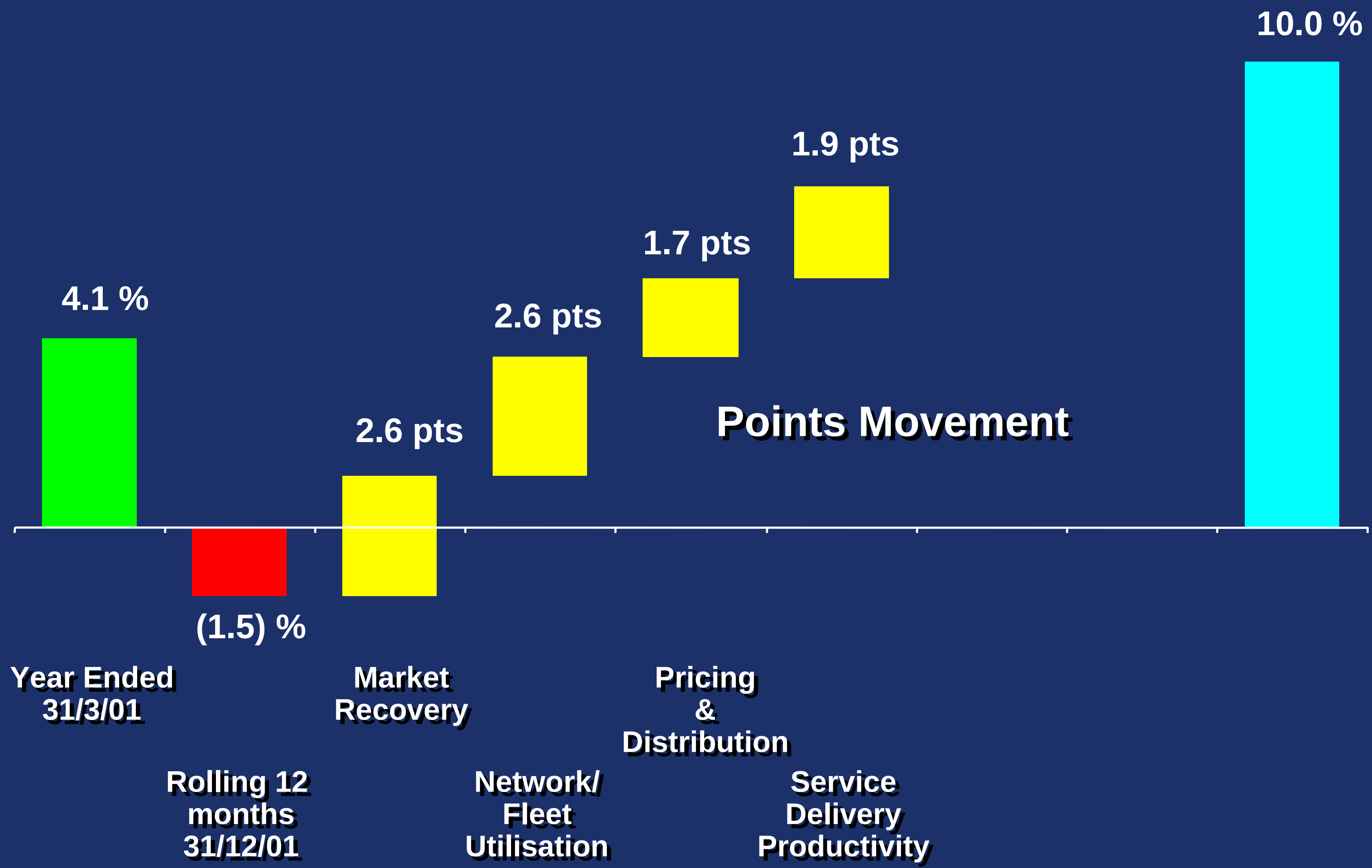
Achieving our operating margin



Achieving our operating margin



Achieving our operating margin



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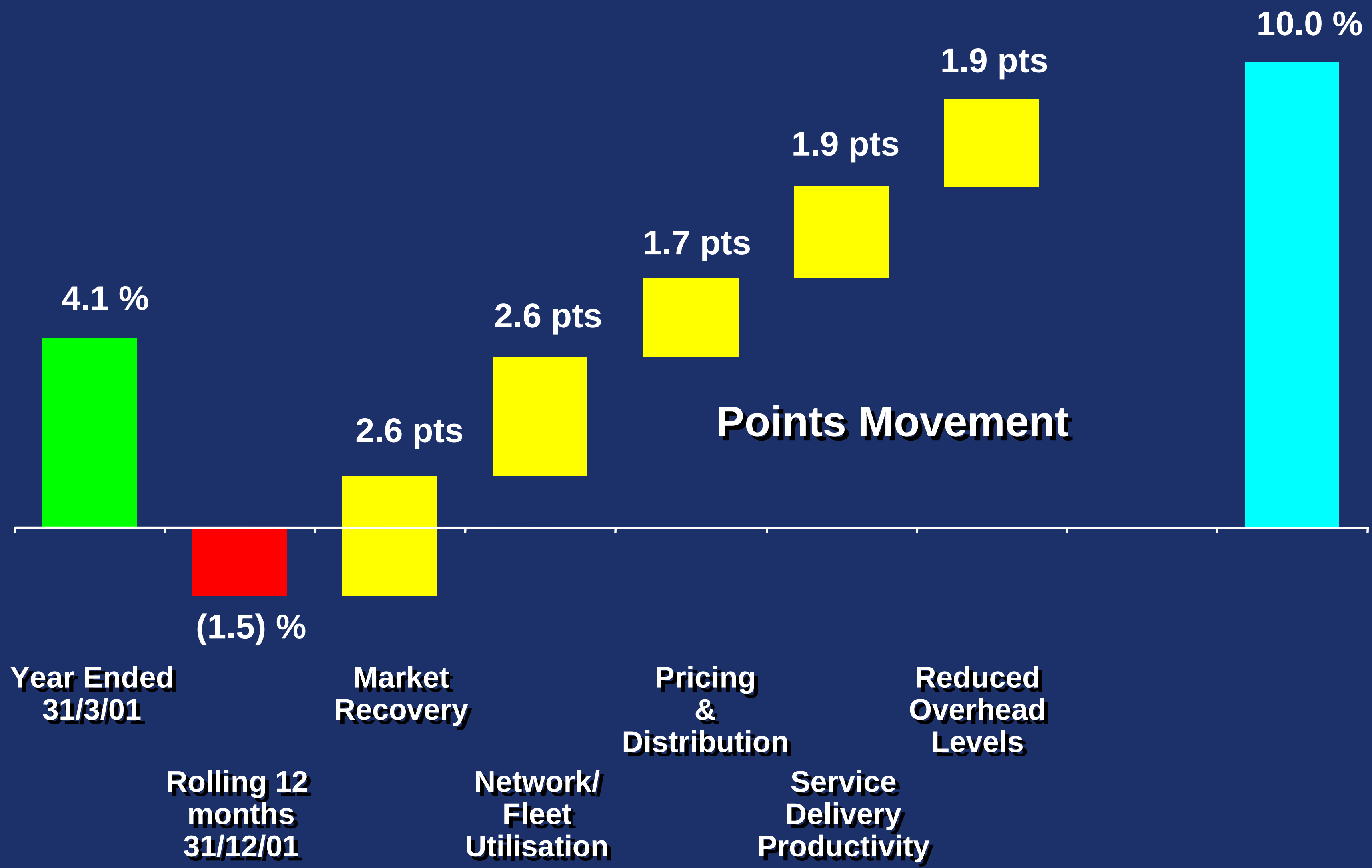
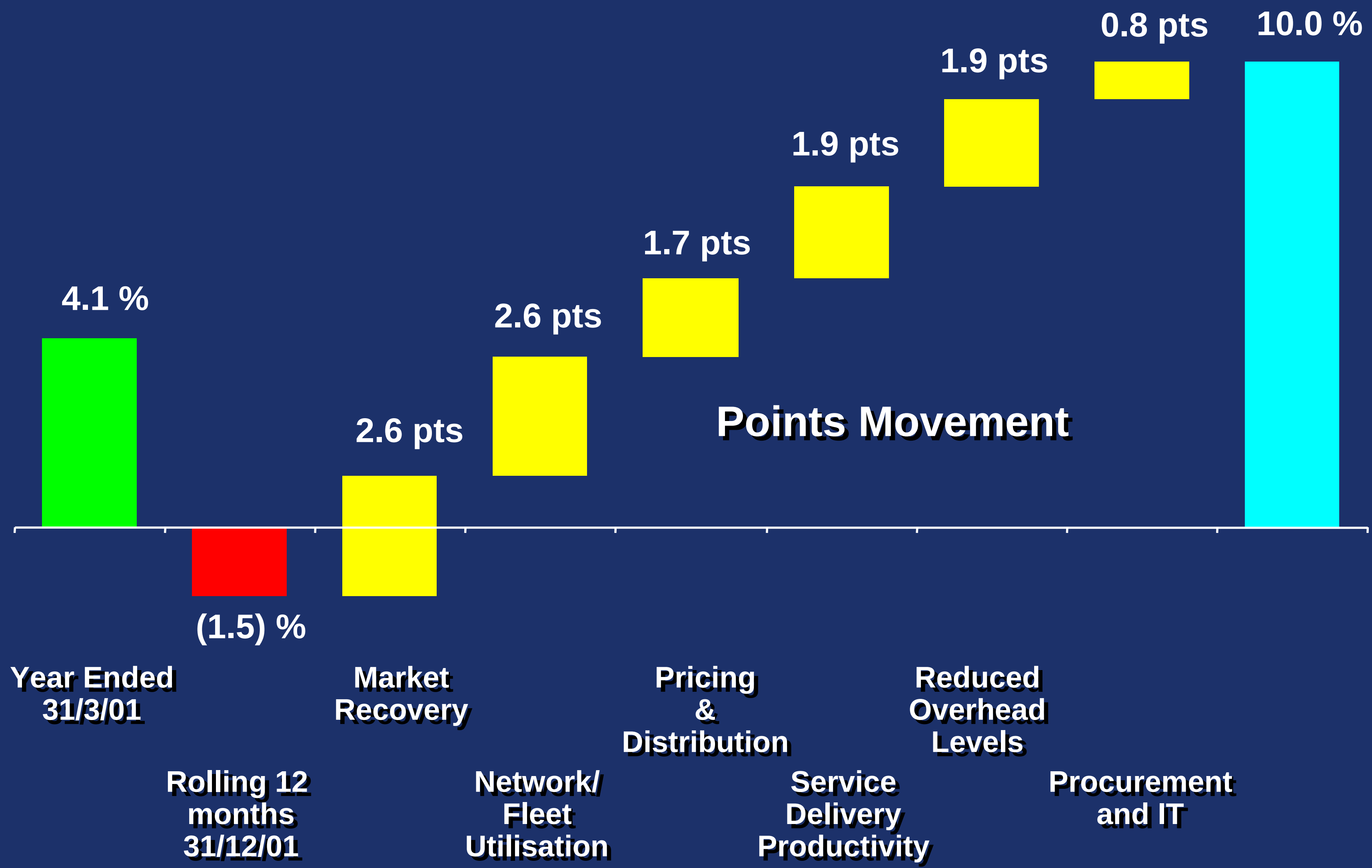


Achieving our operating margin

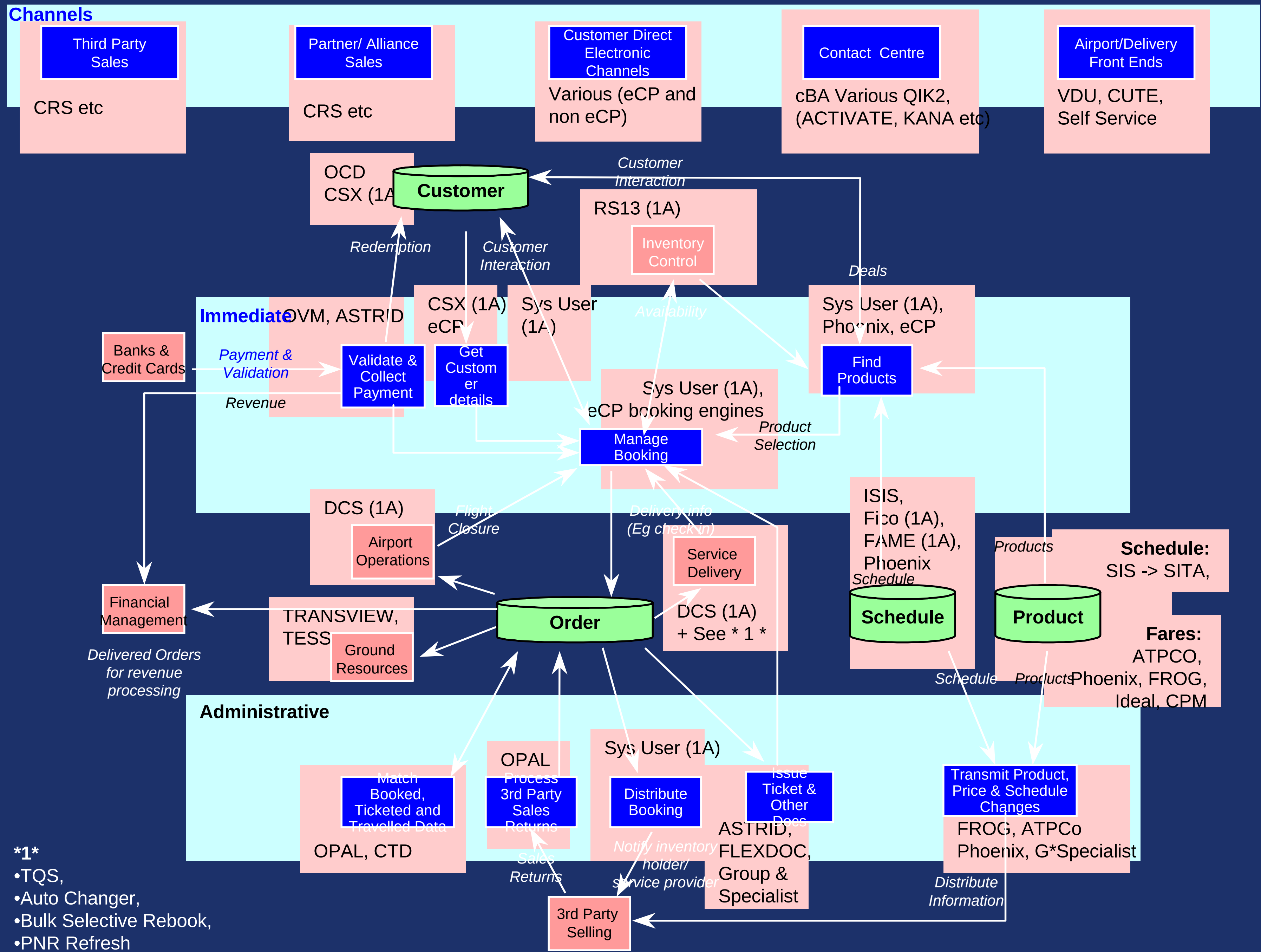


Cost reductions

	£m
• Distribution	100
• Procurement and IT	100
• Manpower	450
• Total	650

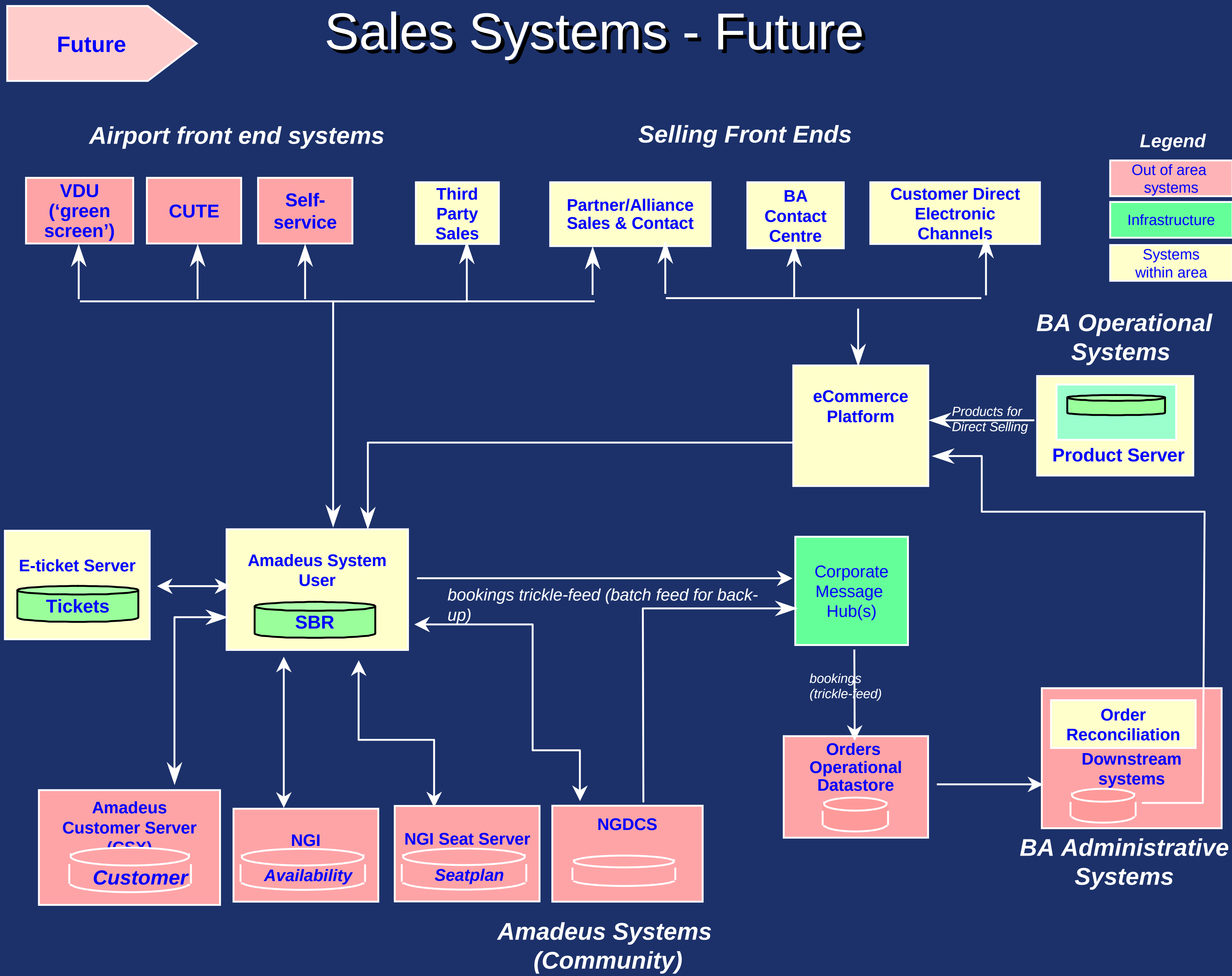
Logical Map

Sales Systems - Current



1
- TQS,
- Auto Changer,
- Bulk Selective Rebook,
- PNR Refresh
- Codeshare Reacc

Sales Systems - Future



Manpower reductions

	Number	Per cent reduction
Overhead	4,200	36%
Operational	8,800	20%
Total	13,000	23%

31 August '01 baseline

Manpower reductions

	Number	Per cent reduction
March ‘03	10,000	80%
March ‘04	13,000	100%

against 31 August ‘01 baseline

Employee reductions by area

Cabin Services	3,400
Heathrow customer services	800
Gatwick customer services	550
Flight Operations	400
Engineering	1,500
Cargo	800
World Sales	2,600
Other areas	2,950
Total	13,000

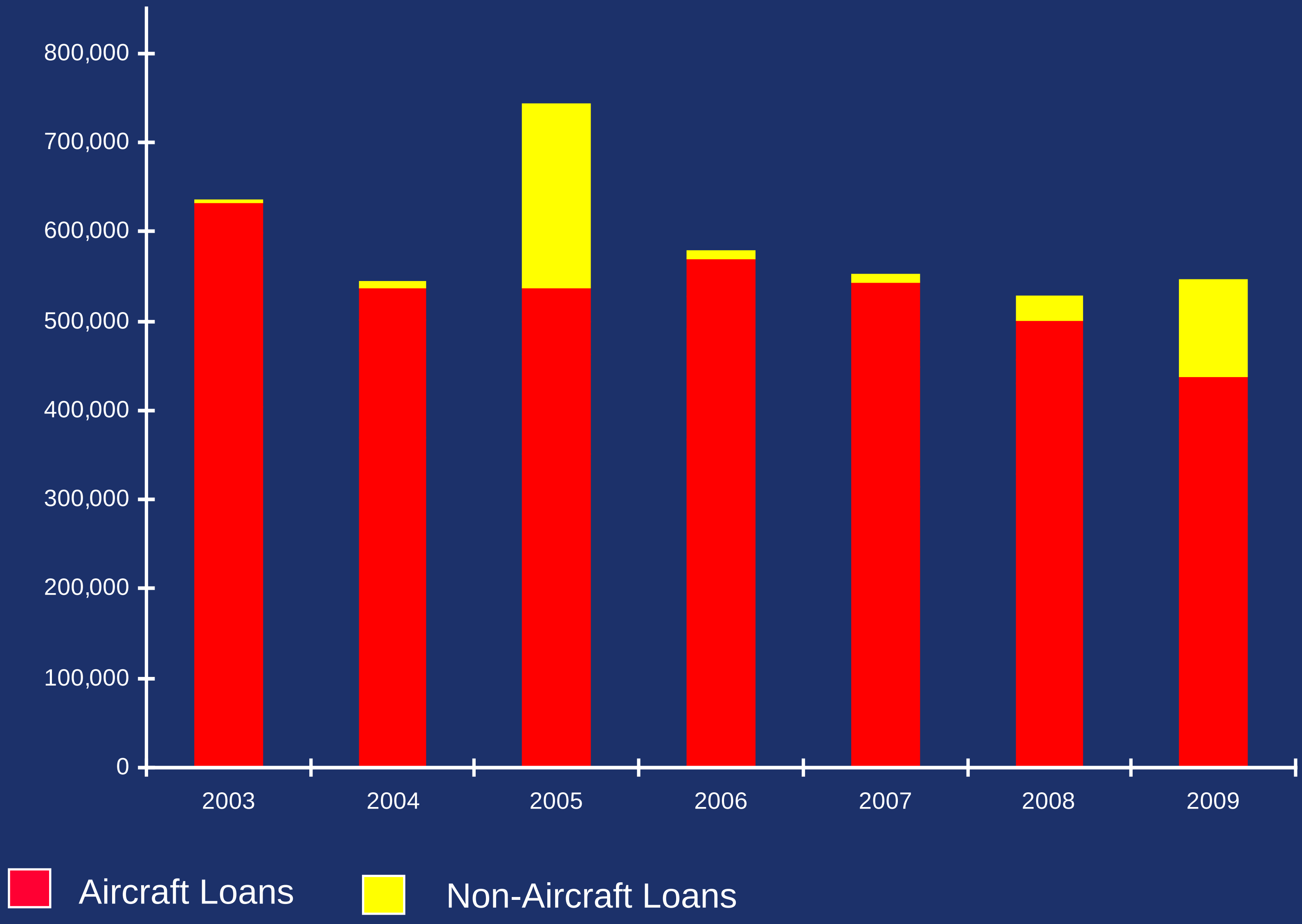
Liquidity

	£ bn
• Cash	1.2
• Committed facilities	0.6
• Investments	0.4
• Other assets	1.2
• TOTAL	£3.4 bn

Debt

- No financial covenants
- No repayment spikes
- Long term
- 89% aircraft/ property financing
- 11% unsecured
- Interest rates (approx 50% fixed, 50% floating)

Debt repayment profile as at 31 March 2002 (£000)



Aircraft

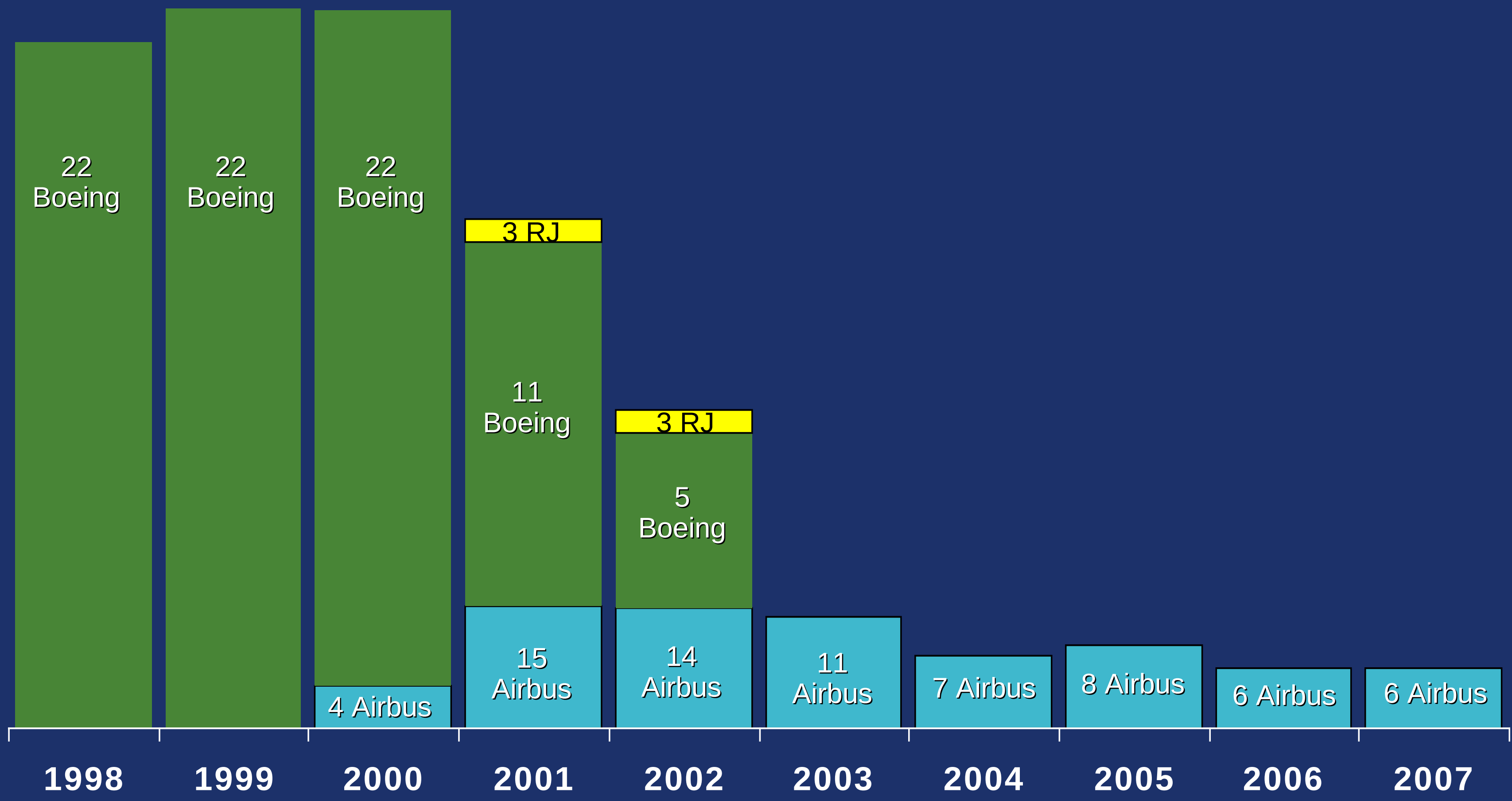
• Unencumbered	44 *
• Financed	183 **
• Extendible operating lease	42
• Operating lease	98
Total at 31/12/2001	367

* 22 are subject to finance facilities.

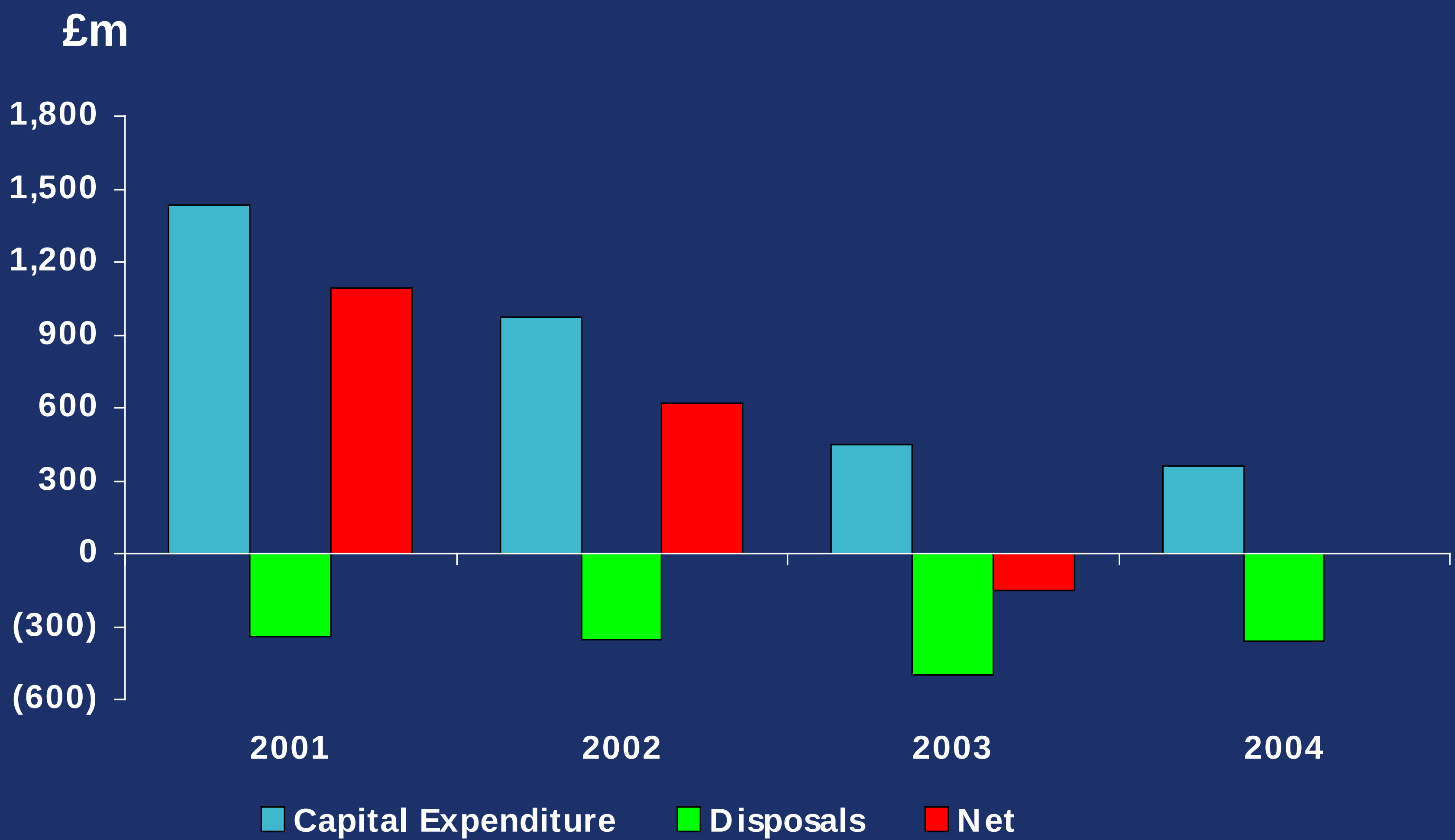
** 16 become unencumbered by 31/12/04

Operating commitments

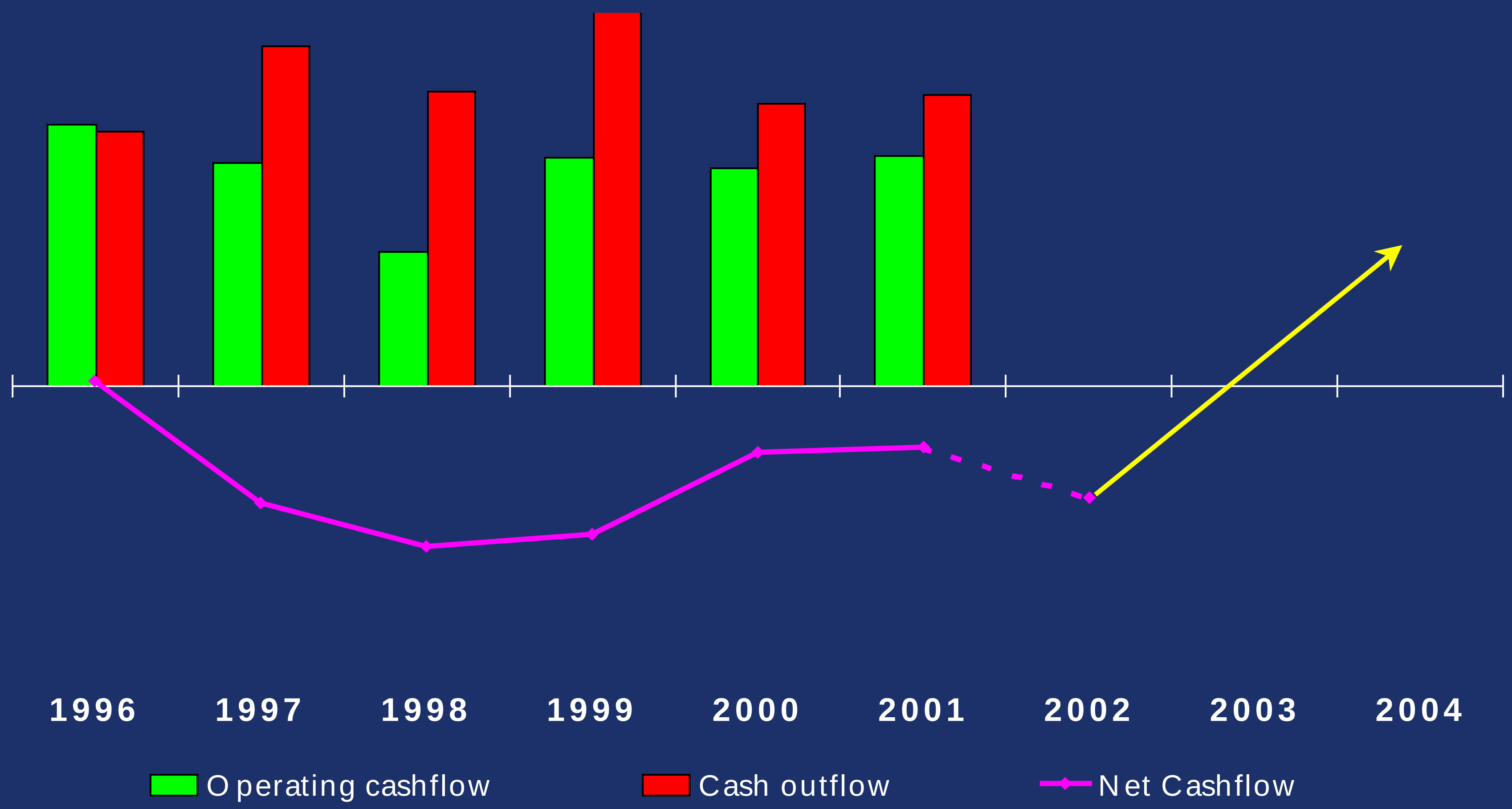
Aircraft spend 1998 - 2007



Net capital expenditure



Target positive cashflow



Q4 Outlook

- Revenue
- Capacity down
- Costs down
- Unit costs
- Restructuring
- Debt/equity

Summary

- Clear simple targets
  - Margin
  - Cash
  - Gearing
- Fast, decisive actions
- Tough, internal disciplines
- Leaner, less complex business
- Committed to deliver

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Q & A

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