



## Chief Executive's statement

Last year turned out to be a mixed one for British Airways. We celebrated some real triumphs – including achieving a 10 per cent operating margin for the first time ever, announcing exciting new services and placing important aircraft orders. But the opening of Terminal 5 went badly wrong. Despite this, I think we can feel confident about our future.

After the early problems with Terminal 5 and a lot of hard work by people right across British Airways, we believe this fantastic new facility will increasingly help us to transform the travelling experience of our customers. That's what they deserve, and that's what we are determined to give them.

## Key achievements in 2007/08

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### Financial success

For the first time ever we achieved an operating margin of 10 per cent in 2007/08.

Continuing tight control of our costs played a crucial role in hitting this important target and it puts us in a far stronger position than many of our competitors to cope with increasingly tough economic conditions in the year ahead.

Our profit before tax for the year was £883 million, up £272 million, on revenue of £8,753 million, an increase of 3.1 per cent.



### Environmental commitment

Our industry's most pressing corporate responsibility is to reduce the carbon emissions from its operations.

The recent agreement between the International Air Transport Association and the airlines to a joint commitment on this is an important step forward for our industry.

We continue to be leaders in this field. We are the only airline to have taken part in an emissions trading scheme. Since 1990 we have cut our emissions by 28 per cent and in 2007/08 set ourselves the new target of cutting our CO<sub>2</sub> by a further 25 per cent by 2025.



### Customer service developments

We have completed the fit out of our new award-winning Club World cabin on our Boeing 747 fleet and have started putting it on our Boeing 777 fleet.

It has already won design awards and set new benchmarks for comfort in the air.

On the ground we continue to improve our online booking engine ba.com and customers can now buy online, check-in online and email messages on ba.com in 11 languages.

We have placed an \$8 billion order for new aircraft and our design teams have begun work on defining the interiors of these aircraft.

## Chief Executive's statement continued

The next few years will be immensely challenging for the airline industry. Like our competitors we will have to respond to sharply rising infrastructure and fuel costs, changes in regulation, fierce competition, possible restructuring of our industry and significant environmental challenges. We must contend with these while striving to meet the relentlessly high expectations of our customers.

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**Thanks to a great deal of hard work in recent years the fundamentals of our business are vastly improved. So we will meet these challenges from a position of financial strength that few other carriers enjoy. Once Terminal 5 is fully running, as it can and should, we will have the tools to transform the travelling experience of our customers.**

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### **Terminal 5 – a new start**

I want to put on record again my deep regret for the inconvenience and frustrations we caused to customers in the days after Terminal 5 opened.

Our people have worked tirelessly to put things right and, thanks to this ongoing effort, customers will begin to see this tremendous new facility in its true light.

The first phase of the move of additional flights into Terminal 5 will take place on June 5. The services to be switched include flights to and from New York JFK. The other seven destinations are Abuja, Bangalore, Beijing, Cairo, Cape Town, Lagos and Phoenix. All these flights currently operate from Terminal 4 and combined they amount to about a quarter of the airline's Terminal 4 schedule.

We will switch further flights from Terminal 4 when we have full confidence that good standards of service will be maintained, with the terminal handling larger volumes of customers and bags.

### **BA038 incident**

Another incident which attracted intense media focus was the BA038 which landed short of the runway on its approach to Heathrow in January.

There were 136 customers on board, 13 members of cabin crew and three pilots. Thanks to the heroism and skill of the flight crew, the Boeing 777 aircraft landed safely and the excellent work of the cabin crew ensured that all our customers were evacuated on the Captain's command with only a few injuries sustained.

An incident of this kind is something we hope will never happen but this is why we place so much emphasis on safety. We focus a great deal of importance on the quality and standard of our training. Our flight and cabin crew have shown the value of their training and skills and were able to deal with the incident professionally, effectively and safely.

All the crew did a magnificent job supported by our frontline staff from engineering to call centre staff and volunteers to care for the passengers and keep our operations going.

I am very proud of them, and from the emails and letters that I received after this incident, I know many people around the world share this view. The Air Accident Investigation Board (AAIB) continues to investigate what caused the incident.

### **Customer development**

I fully understand why many will be tempted to view our performance this year through the prism of Terminal 5. But we have made great strides forward enhancing our service for customers on the ground and in the air.

We completed the installation of our new Club World cabin on our entire 57 Boeing 747 fleet, offering better sleep to our premium customers, and an improved Club kitchen. We have also striven to set new benchmarks for comfort in the air, and the awards it has attracted tell us that we are achieving that. We have started the fit out of the new Club World on our 42 Boeing 777 fleet.

On the ground we continue to develop our online booking service [ba.com](http://ba.com).

I referred earlier to our order of new aircraft. While the delivery of the Boeing 787 and Airbus A380 may be some years away, our design team has already begun the process of developing our unique next generation interior. In terms of CO<sub>2</sub> emissions per seat, the Airbus A380 will be 17 per cent cleaner than the Boeing 747-400 and the Boeing 787 will be 30 per cent cleaner than the Boeing 767.

12 Airbus A380 on order, with options on a further seven.



## New services

We are also investing in new services to prepare for new opportunities in our markets. We have ordered two Airbus A318s to operate our new business-only service from London City airport to New York – a service we think will prove popular and convenient for people working in these two financial centres.

**In longhaul we are expanding services to our two most important markets, the US and India. This summer we will fly 41 times a day to 18 US destinations. We will also launch a new daily service to Hyderabad in India.**

The alliances we have with other airlines remain very important to us and mean we can be much more responsive to our customers' needs. Our ties with Iberia, where we now have a 13.15 per cent stake, continue to get stronger and you can expect us to enter new code-sharing agreements with the Spanish carrier beyond those we already have.

As the Chairman notes, we have also announced plans to start flying from continental Europe to the US.

## Controlling costs

Of course our ability to invest in growth depends directly on us controlling our cost base. In the last seven years this has been an absolute priority. To that end we tackled our pension deficit and worked hard to reduce our debt levels from the peak of over £6 billion to £1.3 billion.

As a result of this concerted action, we have delivered a 10 per cent operating margin for the first time ever.

However, we expect to see our margins decrease in 2008/09, due mostly to sharp increases in fuel costs – which we now expect to rise by around a half to £3 billion (at current prices) this year – higher employee costs, economic slowdown and increased competition.

The expected reduction in margin in the current year only serves to underline how important our cost control efforts have been and must continue to be.

Another area of significant cost is airport charges which have been set by the CAA for the five years between April 2008 and March 2013. We continue to believe they were set at an

overly generous level at Heathrow that is far in excess of what is needed to upgrade facilities through investment in infrastructure and improved service quality levels.

We suffer from very poor regulation and the CAA's objective should be to ensure that BAA provides the infrastructure and services that customers want, but in a cost effective and efficient way that does not overcompensate the airport operator financially.

The focus of the Competition Commission's current review into the UK airports' market should be to ensure that the right conditions are put in place that best meet customers' needs.

## Environmental leadership

We have put corporate responsibility at the centre of our business priorities and our ambition is to be a leader in this field.

During the year we announced that Silla Maizey – formerly Head of Procurement – had been appointed as our first ever Head of Corporate Responsibility, reporting directly to me. We are determined to grow. But we are equally determined to grow responsibly, and I hope Silla's appointment will be seen as a statement of our serious intent.

Undoubtedly, climate change is our most significant challenge in this respect. Our industry gets pilloried by some environmentalists for its contribution to global warming. We don't agree with their analysis, but I want to be very clear that we do intend to be in the vanguard in tackling this issue.

The corporate responsibility report can be found on pages 38 to 50.

## Confidence

At the end of a testing year for British Airways, I'd like to thank everyone in the Company for their tremendous support and dedication – not least as we worked to overcome difficulties at Terminal 5 and restore the confidence of our customers. It's this spirit that, above all, gives me such a strong sense of confidence in the future of this airline.

**Willie Walsh**, Chief Executive