



Chief Executive's review

The airline industry is enduring the toughest times in its history and we expect more pain before things improve. We are taking the right short-term action to survive the downturn. We will not let this crisis compromise our long-term goal – to create a world-leading global premium airline with a reputation for being the very best at meeting its customers' needs.



We must and will take tough action this year to ensure we come through. However, mixed with the challenges we see opportunities ahead.

It is hard to exaggerate the severity of the current economic conditions.

During the year the credit crisis spread quickly from the US to the rest of the world provoking a global downturn that has left no single region and very few business sectors untouched.

Added to that, we saw the value of sterling plunge; a collapse in consumer confidence; the continuing suffocation of credit markets; record oil prices; and a rout among the businesses that are among our most important customers, most particularly financial services.

Airlines across the world are being battered by this storm. We have seen some 35 carriers go out of business or forced into rushed mergers.

Despite some fantastic progress in our business, our profits went into reverse falling to a pre-tax loss of £401 million.

Meanwhile, competition remains fierce, particularly at Heathrow and on important transatlantic routes. The need to deliver world-leading customer service and operational performance, to invest boldly and meet stringent environmental standards are, if anything, more acute than ever before.

But we went into this recession financially strong and we are absolutely convinced that we have the team, the talent, the short-term strategy and the long-term vision to overcome the current challenges and emerge as a better, leaner, more sustainable business.

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Service improvements

I am greatly encouraged by the operational progress we made during the year.

This time last year we were struggling to recover from the disastrous opening of Terminal 5 at Heathrow. I predicted then that, within a year, Terminal 5 would have proved itself to be a really magnificent facility. Sure enough it has.

During the year we saw satisfaction ratings across our network rise by eight percentage points to 72 per cent. Some 21 million passengers have passed through Terminal 5 in its first year. Satisfaction levels among them have risen steadily through the year to 76 per cent.

We continue to beat our targets on punctuality, achieving a 20 percentage point improvement over the year. At Terminal 5 some 82.5 per cent of flights departed within 15 minutes of their scheduled time and we also achieved 99.5 per cent regularity.

We have significantly reduced mislaid or misdirected bags during the year. By March we were running at fewer than 20 bags per 1,000 passengers at Heathrow, some 72 per cent better than a year earlier.

The successful transfer of 21 of our services to Terminal 3 at Heathrow in February and March, where premium check-in is consolidated with our **oneworld** partners, is also helping.

We have had a similar improvement in satisfaction with the new Club World cabin, now rolled out to all our Boeing 747s and over half of our Boeing 777 fleet. We expect our new two by two seat configuration in Club Europe to be equally well received.

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Chief Executive's review continued

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Statistics like these are the lifeblood of a successful premium carrier focused on delivering great service, and they put us in exactly the right place to achieve our long-term goal.

Global premium airline

We have set our sights on being the world's leading global premium airline.

We have five key goals. They are to:

- Be the airline of choice for longhaul premium customers;
- Deliver an outstanding service for customers at every touch point;
- Grow our presence in key global cities;
- Build on our leading position in London; and
- Meet our customers' needs and improve margins through new revenue streams.

On pages 26 to 28 we describe the steps we plan to take to meet these objectives and we describe what this will mean for our people.

This focus on premium markets may look strange at a time when premium traffic, according to IATA's latest figures, has declined by around 19 per cent in the first three months of 2009, and when we have been forced to cut back our premium capacity by parking aircraft and reducing flying.

We check our vision against our short-term actions regularly and are convinced it remains valid. For a start, it marks a continuation of the work we have already done to improve our products and services. We remain convinced that this is the part of the market where we need to be powerfully represented when conditions improve – as they inevitably will.

We are backing the vision with sharper leadership. During the year we created a Management Board focusing on strategy and the operational and financial health of the business, and a Customer and Operations Executive whose job is to ensure we continue to make big strides in improving customer service.

Getting the right balance

So our work right now is all about getting the right balance between necessary short-term action to weather the storm, and sensible long-term planning and investment for the future.

For instance, we believe we can cut costs and boost efficiency while continuing to improve customer service significantly.

Over the last year we reduced our manpower equivalents (MPE) by some 1,750, including 478 managers who elected to take voluntary severance. There will be further headcount reductions this coming year and we have said that there will be no increases in basic pay rates.

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These vital short-term changes are also part of a radical three-year change programme – Compete 2012. This programme is an excellent example of the long-term measures we are taking to make sure we perform at our peak.

Despite an increase in underlying non-fuel costs of some 3.7 per cent in the first half of 2008/09, our response to the economic decline in the second half resulted in a full year increase of only 0.3 per cent.

As a result of sensible advanced planning, we already have in place significant financing for the new Airbus A380 and the Boeing 787 aircraft that will join our fleet and transform our operations from 2012. We will also continue to invest in our lounges, a new in-flight entertainment system, cabin upgrades across our longhaul fleet and premium service training.

We are continuing to innovate. Our decision to buy two Airbus A318s and launch a 32-seat all-premium service from London City to New York is groundbreaking. Our OpenSkies subsidiary, flying premium services to New York from Paris and Amsterdam, is another example of great innovation, and customer feedback has been excellent.

We are continuing to build our network with new and important destinations, such as Hyderabad added last year and resuming flights to Riyadh and Jeddah starting in this summer's schedule.

These investments are the sort of carefully considered initiatives we must make, even in these challenging times, to sustain our business.

Environmental responsibility

Some companies might be tempted to use the current recession as an excuse to

backtrack on their social and environmental commitments. That is not our approach. We remain absolutely committed to being a responsible airline.

We believe we are in a strong position to answer the critics who say a third runway at Heathrow will be an environmental disaster. So it is vital that we keep providing rationally argued proof.

That is one reason why we have gone further than the rest of our industry in setting targets for reducing our emissions. We have committed to cutting our carbon emissions from 110 to 83 grammes per passenger kilometre between 2005 and 2025. Our longer-term goal is to halve our net CO₂ emissions by 2050.

Outlook

We anticipate a very difficult operating environment through the rest of this year. We have responded quickly, announcing a 2 per cent reduction in our schedule over the summer. This coming winter we expect to reduce shorthaul services at Gatwick by 10 per cent and we will reduce our fleet there from 32 to 24 aircraft. Our capacity at London City will also be further cut.

The next few months will be uncomfortable for everyone within our business. We need to make lasting changes in the way we work and serve our customers. If we do, we will be ready for recovery when it comes.

Our people within the business understand this. The remarkable improvement in our performance that they have achieved already is proof of that. I know I can count on our colleagues to support our efforts to see out the recession and firmly establish British Airways as the world's leading global premium airline.

Willie Walsh, Chief Executive

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