Our business

The global airline industry is fiercely competitive, heavily regulated and highly exposed to changes in customer behaviour and consumer confidence. The current economic environment presents a new challenge. We must concentrate our efforts to seize long-term opportunities for growth.
The markets we operate in

Market overview
The pace of economic slowdown during the year was faster than most had predicted. What had first been expected to be a downturn in key developed economies turned into a global recession in the autumn of 2008. With record oil and commodity prices, sterling collapse and an unprecedented financial crisis all striking at once, even those emerging economies that had been expected to go untouched by recession saw sharp declines in growth.

In the UK, growth began slowing in the first half of the year, whilst the US economy went into recession in the last quarter. In both economies, consumer and business confidence plummeted due to rising unemployment, uncertainty in the capital markets, a continuing squeeze on credit, the erosion of household budgets and falling house prices. Growth also slowed dramatically in many Asian economies.

Government attempts – nationally and internationally – to halt the financial crisis through bank bailouts and credit guarantees staved off what might have been an even more serious collapse. Subsequent efforts to stimulate economic activity are expected by most economists to take longer to take effect.

It is hoped that these steps will kick-start the US and UK economies which will provide some economic growth in 2010. This should, in turn, provide some basis for a recovery in our own business.

Impact on the industry
The airline industry acts as an economic barometer. Like our competitors, we feel the full force of falling confidence quickly and, on this occasion, dramatically.

During the first half of the year, oil prices hit a record high of $146 a barrel, forcing up the fuel costs of all carriers to unprecedented levels and putting margins under enormous pressure. Although fuel prices subsequently fell to about a third of that level, the onset of recession had already begun in earnest, forcing many airlines into financial loss.

Even at these lower levels, fuel remains a much bigger proportion of airline costs compared to a few years ago, and the prospect of renewed volatility in prices remains a long-term concern.

The most significant impact of the downturn has been on premium passengers, with businesses looking to cut back sharply on travel to save money. IATA’s latest figures show that global premium traffic fell in 2008 by 2.8 per cent. The rate of decline is increasing, and IATA has indicated that the year to date decline for the first three months of 2009 was around 19 per cent. The rate of decline varied across the world, with trans-Pacific traffic and routes within Asia most severely hit.

The impact on business travel is likely to continue for some time. A recent survey suggested that 47 per cent of businesses will take fewer trips in the year ahead.

Individual customers are also looking to make savings on travel, increasingly seen as an item of discretionary spend. Consumer confidence the world over has tumbled. Though many customers continue to see a first holiday as an essential rather than a luxury, most are cutting back on second and third holidays and short breaks.

For both business travellers and individuals, airline brands that are trusted to be robust and reliable are more sought after in tough economic times. Customers seek assurance that their journeys will go smoothly. If they travel less, each trip they do make is all the more important.

The downturn is also making customers much more price sensitive. They are looking for value for money, demanding excellent levels of service and high-quality standards at lower costs. Less loyal to brands than in the past, they are now willing to try out new ones which offer real value. This presents agile operators with an opportunity to attract new customers, but...
The markets we operate in continued

“Some 35 passenger and cargo carriers have either gone out of business or been absorbed into other airlines.”

makes it vital that they keep offering value for money, reliability and superior service. Customers are also making more informed choices. They have become more self-reliant, thanks to the proliferation of new information channels such as the internet and mobile phones. They are using price comparison sites and seeking out personal recommendations on service and quality before booking their trips. We expect this trend to increase during the downturn.

Metrotwin, our new online community, is an example of how we are responding to this social media trend. The new website ‘twins’ London and New York and publishes recommendations of the best places to visit in both cities. Metrotwin is successfully attracting a young, affluent and influential audience.

Corporate responsibility
While recession is the overriding concern for most customers, the environment and corporate responsibility remain very important issues to them. It is clear from research that those companies with a clear and open commitment to behave responsibly and to manage their environmental impact have a far greater chance of building a trusted relationship with their customers.

Taxation
Governments are increasingly looking at aviation for additional tax revenues under the auspices of making airlines pay for environmental costs. By March 2011, APD in the UK will have increased by up to 210 per cent from current levels and the EU will be looking to introduce a system of payment for carbon emissions.

Competition
In response to the worsening economic conditions, the airline industry is in the process of change in a number of areas.

Consolidation
Weaker customer demand coupled with record fuel prices, has sped up consolidation in the airline industry. Some 35 passenger and cargo carriers have either gone out of business or been absorbed into other airlines. In Europe, five independent airlines have been, or are in the process of being, taken over by competitors.

In an effort to protect their airline industry from the effects of the financial crisis and global recession, some governments have resorted to bailout programmes. This has been particularly true in a number of major emerging markets, most notably China, India and Russia.
Increased competition
Most of the markets in which we operate are highly competitive. Levels of competition vary, route by route. On a few international routes competition is restricted to national airlines and fares are regulated. At the other extreme there is a free market for internal flights within Europe allowing any European airline to operate any route and set its own fares.

Shorthaul market
On shorthaul routes, we face competition in the air and on the ground. Train operators in the UK are taking a bigger share of the air/rail travel markets, now that infrastructure improvements have cut journey times on key lines such as the West Coast mainline. Eurostar overcame disruption caused by the tunnel fire and carried 10 per cent more passengers in 2008, at a time when demand for flights from London to Brussels and to Paris fell by 20 and 13 per cent, respectively.

Budget airlines are continuing to grow, but have switched their priorities to growth at continental airports. There has been little organic growth in their London operations. At the same time, full service airlines have reduced their presence in London, cutting seat capacity by 5 per cent in 2008, although little of this reduction has been focused on the airports from which we operate.

Longhaul market
Deregulation has had a significant impact on our longhaul business. The first phase of the EU-US Open Skies agreement has altered the competitive landscape on transatlantic routes. While seat capacity in the summer of 2008 rose by just 3 per cent, the new regime has provoked a sharp transfer of capacity from Gatwick (down 39 per cent) to Heathrow (up 19 per cent).

Four new US airlines have now won slots at Heathrow. There have also been new entrants from Africa and India. Air France temporarily established a US service from Heathrow, at a time when our own OpenSkies subsidiary launched direct services to the US from Paris and Amsterdam.

Three airlines have introduced the new Airbus A380 at Heathrow in 2008, with a total of 24 departures a week. The aircraft offers them the chance to enhance their products.

For both business travellers and individuals, airline brands that are trusted to be robust and reliable are more sought after in tough economic times. Customers seek assurance that their journeys will go smoothly. If they travel less, each trip they do make is all the more important.
The markets we operate in continued

BAA is being forced by the Competition Commission to dispose of Gatwick, Stansted and either Glasgow or Edinburgh airports. Such a move could be beneficial to Heathrow, ensuring that it has the right resources and focused management.

Regulatory controls
Almost every aspect of running an airline is governed or influenced by a web of tight regulatory controls. These cover everything from the routes we fly, to the business partners we cooperate with, the airport slots we use, the fares we set and the infrastructure costs we pay. Strict rules also govern safety and security and the management of our environmental impact.

There were a number of important regulatory developments during the year which will have a major impact on the industry in general and on our own long-term strategy.

Liberalisation
In April 2009 we completed our third application to EU and US competition authorities to operate a joint business on north Atlantic routes with our oneworld alliance partners, American Airlines and Iberia.

We are seeking the same anti-trust immunity to run this business as is already enjoyed by our major competitors. Their respective alliances, Star and Skyteam, are already allowed to coordinate schedules and offer customers a range of benefits and valuable services. Other recent regulatory changes have made these routes, and Heathrow in particular, far more competitive than in the past and we have argued that the move would bring real benefits and choice to customers. We expect a decision in the autumn of this year.

The second phase of Open Skies is at a critical stage too. This would give European carriers reciprocal rights of access to US airports of the sort that US carriers now enjoy in Europe. The latest negotiations are moving slower than we had hoped. The EU retains the right to revoke phase one if satisfactory progress is not made. European airlines are generally keen to avoid this however, believing that further liberalisation will provide a long-term boost for the industry and extend choice for customers.

UK airports
The UK Department of Transport is reviewing the way the CAA regulates airport charges. There is strong pressure for a review of the way BAA is regulated and for the introduction of cost-effective charges that ensure airports are managed efficiently.
BAA is also being forced by the Competition Commission to dispose of Gatwick, Stansted and either Glasgow or Edinburgh airports. Such a move could be beneficial to Heathrow, ensuring that it has the right resources and focused management.

The UK Government announced during the year that it was in favour of developing a third, short runway at Heathrow, subject to tight environmental conditions being met in terms of noise, emissions and air quality. Capacity constraints at the airport have led Heathrow to fall behind competing European airports in recent years, threatening its position as one of the world’s leading airports. While expansion would help Heathrow compete more strongly, the debate over the future of the airport remains politically divisive and is likely to stay that way up to the UK general election and beyond.

Environment
All airlines have to meet a comprehensive range of local, national and international environmental regulations. Our approach to these is to comply with all regulations as an absolute minimum, and to exceed them in a number of key areas. For example, our commitment to halve our 2005 net CO₂ emissions by 2050 goes much further than current industry-wide commitments to stabilise emissions at 2005 levels by 2020.

Safety and security
Safety is a key priority for us. We have a formal safety management system in place which ensures that we meet all relevant regulations and we operate a comprehensive monitoring system to ensure all incidents are reported and necessary action taken. From the start of 2009, all IATA member airlines have been required to pass an International Operational Safety Audit (IOSA). We have held IOSA accreditation since October 2007.

Governments across the world have introduced a range of security measures to try to combat the threat of terrorism and illegal immigration. Airlines continue to engage with the European Commission, the UK and other governments to make sure that these measures are effective while causing the minimal inconvenience to customers.

Our security department works within the wider international security framework to ensure that any threats to our business are minimised and to protect our customers, worldwide assets, operations and staff.

“Landing fees and en route charges cost us £603 million, up 14.2 per cent. This was mainly due to the fact that we had to pay much higher charges to BAA for using Heathrow and Gatwick.”
Our strategy and objectives

In an incredibly tough trading environment we have to focus hard on pulling ourselves through the immediate crisis, while preparing the business for better economic times. This year we have mapped out a long-term vision for our business. It is to be the world’s leading global premium airline.
Progress against our Business Plan

BP11

The rolling three-year business plan, BP11, set out our agenda for 2008/09. Our main aims were to build on Terminal 5’s strengths to upgrade the customer experience, continue to make the business more cost effective, grow our operations and make corporate responsibility a prominent part of our business. Record fuel prices and the global downturn meant we needed to revise our plans and reset priorities. Nevertheless, we have still made significant progress against our original goals, laying the foundations for future success.

An upgraded customer experience

Terminal 5 has transformed our operational performance and customer service. We have exceeded punctuality and baggage targets across the network, achieving record customer satisfaction scores. Service for premium customers has been upgraded with the new Club World product, now fitted to all Boeing 747 aircraft and over half of our Boeing 777 aircraft, and this year we will launch our new First cabin. The Galleries lounges at Terminal 5 and Terminal 3 have had a fantastic reception and we are using the same concept at other key airports such as Milan, Johannesburg and Vancouver.

Competitive cost base

With record fuel prices to contend with during the year we redoubled efforts to control costs. Terminal 5 has allowed us to cut the cost of our Heathrow operations by more than expected. By the end of March 2009, our overall Heathrow manpower levels had reduced by 1,074 MPE, 14 per cent lower than the peak resource level during the first month of Terminal 5 operations. A significant management voluntary severance programme also reduced the number of managers by a third. Capacity was realigned to meet weaker demand and, where possible, exploit our most fuel efficient aircraft.

A plan for growth

Despite the downturn, we have continued to grow where it makes economic sense and meets the needs of our customers. We launched new routes from London to Hyderabad and St Kitts; we launched OpenSkies, our subsidiary flying from continental Europe to North America in June 2008, and subsequently purchased L’Avion in July 2008; and we have announced the launch of the first London City to New York JFK service to start later this year.

Investing in efficient and flexible new aircraft makes sense, even in these tough times. With the arrival of our new Boeing 787s delayed, we contracted six Boeing 777-300ER aircraft (two acquired, four leased), with options for a further four.

Corporate responsibility

Our vision is to become the world’s most responsible airline, and we have brought all our corporate responsibility activities together under the banner ‘One Destination’. We have set challenging goals for further reductions in our carbon emissions, reducing and recycling waste and minimising air and noise pollution. We have continued to invest significantly in our community relations programme and are proud of our record of raising money for charities, both as a business and through the incredible energy and commitment of our people.

“We have exceeded punctuality and baggage targets across the network, achieving record customer satisfaction scores.”
As discussed in the Chief Executive's review on page 10, we have set our sights on being the world's leading global premium airline.

The decisions we are taking now will determine how strongly we emerge from the downturn. The airline industry is in a period of unprecedented change and we have developed a clear vision for our business.

This vision is guiding us in how we deal with current market conditions and in how we go about building a sustainable future for our business.

Five Key Goals – the steps we will take to achieve our vision:

**Global**

What we offer will appeal to customers across the globe. Wherever we operate, individuals and business travellers alike will want to fly with us whenever they can.

**Premium**

We will make sure all our customers enjoy a unique premium service whenever and wherever they come into contact with us. Our customers will recognise that the service we offer is worth paying that little bit more for.

**Airline**

We will remain focused on aviation, moving people and cargo is our core business. We will develop new products and services to complement this.

---

**Be the airline of choice for longhaul premium customers...**

...so that people will want to fly with us whenever they can. We will continue to introduce great products such as the new business class seat on longhaul and a restyled First cabin. To complement our Heathrow home – Terminal 5 – we will redevelop premium facilities in New York JFK and continue to invest in lounges in other key cities.

**Deliver an outstanding service for customers at every touch point...**

...by training our colleagues, on the ground and in the air, in world-class hospitality and customer service. Customers can already check-in from their mobile or PDA, and we will continue to enhance ba.com. A new in-flight entertainment system will be launched later this year.

**Grow our presence in key global cities...**

...to provide the best global connectivity for our customers. In addition to our new longhaul service from London City to New York JFK, our network depth will be strengthened with more flights to Dubai and Johannesburg and a return to Saudi Arabia.

**Build on our leading position in London...**

...the world's biggest aviation market. Ensuring Heathrow remains a world-class hub is vital to give us a strong London base to serve the largest international longhaul markets. We will acquire new slots, support plans for a third runway and work with BAA to improve baggage and terminal facilities at Heathrow.

**Meet our customers' needs and improve margins through new revenue streams...**

...by building profitable ancillary services that offer customers great value and re-enforce our brand. Our aim is to grow our mileage business and boost revenues from third-party engineering, in-flight sales and a new online retail website. On ba.com we have now launched a range of great value hotel and car hire options packaged with our flights.
In order to become the leading global premium airline, we need to look at the way we work as well as what we are doing as a business.

For that reason, along with our five key goals, we have launched a three-year change programme – Compete 2012 – linked to our sponsorship of the London 2012 Olympics. This programme is being progressively rolled out across our business to refresh our culture and will revolutionise the way we work.
Our strategy and objectives continued

Compete 2012
Our Compete 2012 programme aims to instil the drive and competition of the Olympic spirit into the way we work and perform as a team, and it puts our customers at the heart of our culture.

Customer
We think customer
Our people will set the standard and through them we will deliver world-leading customer service.

To continue our success, we need to be clear about what sets us apart.

- We keep promises – always doing what we say we will do;
- We look the part – our style is contemporary and understated;
- We do things properly – doing the right things for the right reasons and to a high standard;
- We find solutions – solving any problems inventively and working flexibly within a framework; and
- We treat everyone as an individual – respecting differences and adding a personal touch to make everyone feel valued.

We are using a comprehensive communications and training programme to help put these principles into practice in everything we do.

Performance
We make it happen
To be the world’s leading global premium airline, we need to sustain our improving operational performance and be financially fit. That way we can both invest in our future and deliver a healthy return to our shareholders.

To achieve these goals we need to be able to measure our performance across the business and to make our managers accountable for delivery of our targets.

Excellence
We set standards that others aspire to
We developed a number of key operational processes ahead of our move into Terminal 5 which have helped us to become more efficient. Building on these we are now rolling out what we call the ‘Lean’ Continuous Improvement approach across our business.

Partners
We win together
The modern airline business is highly interconnected. We rely on a network of both airline and non-airline partnerships to deliver a complete service to our customers.

So to be the world’s leading global premium airline, we also need our partners to see us as a great company to do business with. We are working hard to develop better and more sustainable relationships with our partners, particularly some 500 key businesses to whom we have given formal preferred supplier status.
Our Key Performance Indicators

Our performance through the year is reflected in our Key Performance Indicators. We failed to meet our financial target because of the unprecedented downturn in trading conditions. However, the move to Terminal 5 saw a step-change in our operational performance and we achieved record-breaking punctuality and customer recommendation scores.
Our Key Performance Indicators continued

<table>
<thead>
<tr>
<th>KPI</th>
<th>How is it measured?</th>
<th>What does this mean and why is it key to our strategy?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Operating margin</td>
<td>We must achieve a consistently strong financial performance if we are to continue investing in the future success of the business and provide adequate shareholder returns. Operating margin is the main way we measure our financial performance. In 2002 we set ourselves the goal of achieving a 10 per cent operating margin through the economic cycle and in 2007/08 we delivered this for the first time in our history.</td>
</tr>
<tr>
<td>Customers</td>
<td>Customer recommendation</td>
<td>Customer recommendation is a key measure of our success. Our Global Performance Monitor (GPM) survey, an onboard customer survey, together with a follow-up online survey on the arrivals process, provides monthly insights into customers’ views. The survey is carried out by an independent market research company and involves more than 57,000 customers each month. The customer recommendation measure is based on the percentage of customers who, when surveyed, were very, or extremely likely to recommend British Airways to friends, family or colleagues. Apart from being extremely important in its own right, we believe that this measure indicates how the customer experience will affect future profitability.</td>
</tr>
<tr>
<td>Operations</td>
<td>Punctuality – ‘Ready to Go’</td>
<td>Running a robust operation is key to both meeting our customers’ expectations and to creating a cost-effective business. We monitor our operational performance via a broad range of measures at a variety of levels. Departure punctuality is our primary operational performance measure, requires other operational processes to run smoothly and is a key factor in whether customers would recommend British Airways to other travellers. ‘Ready to Go’ measures how many of our flights are prepared for departure at three minutes before the scheduled or planned departure time and focuses on the aspects of the departure process within our control.</td>
</tr>
<tr>
<td>Colleagues</td>
<td>Colleague involvement</td>
<td>Progressive, high-performing organisations are increasingly recognising that engaged employees are more committed to organisational goals and values and more willing to embrace change and improve customer service. For three years we have tracked opinions via an all-employee confidential Speak Up! survey, conducted and hosted by the independent research organisation, Ipsos MORI to measure our colleague involvement. Last year we indicated we would review our headline measure in this area. We have now defined an Employee Engagement Index, based on a basket of more detailed measures from the Speak Up! surveys, and have built employee responses into the way we measure and manage individual performance.</td>
</tr>
</tbody>
</table>
Overview

Achievements in 2008/09

2008/09 was expected to be a tough year financially, given record fuel prices, and we expected a reduction in operating margin. The rapid decline in the global economic situation led us to revise our forecasts through the year. The economic recession that has followed has been severe, far more so than most had predicted. It has hit demand for air travel significantly, particularly premium business. That, coupled with record fuel prices in the early part of the year, has meant that we posted an operating loss of £220 million for the year, down £1,098 million from the previous year.

The move to Terminal 5 has delivered record-breaking levels of operational performance. Terminal 5 Ready to Go performance for 2008/09 averaged 46 per cent with a record high in March 2009 of 64 per cent. As good performance at Heathrow drives good performance across the network, we delivered our highest ever network-wide Ready to Go performance of 53 per cent. This translated into record levels of flights departing on time and within 15 minutes, as well as record levels of customer satisfaction with punctuality, as recorded by our GPM survey.

For 2008/09 we targeted a level of customer recommendation (the proportion of customers very or extremely likely to recommend British Airways) of 62 per cent. The move to Terminal 5 and the brilliant operational performance that we have delivered across our network as a result of this, drove a recommendation score of 65 per cent. This is the result of an increasing trend through the year and in March 2009 we achieved our highest monthly recommendation score (70 per cent) since we began tracking this in April 2002.

Performance over time

<table>
<thead>
<tr>
<th>Year</th>
<th>Customer Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>65%</td>
</tr>
<tr>
<td>2007/08</td>
<td>59%</td>
</tr>
<tr>
<td>2006/07</td>
<td>61%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Terminal 5 Ready to Go Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>53%</td>
</tr>
<tr>
<td>2007/08</td>
<td>34%</td>
</tr>
<tr>
<td>2006/07</td>
<td>36%</td>
</tr>
</tbody>
</table>

*Restated for the adoption of IFRS.
**Restated for the adoption of IFRIC 13 and 14.

The autumn Speak Up! survey saw scores for pride, service and product advocacy, and satisfaction with basic conditions all improve significantly. This is a reflection of the improved operational performance over the summer and the impacts of moving to Terminal 5.
Principal risks and uncertainties

The operational complexities inherent in our business, together with the highly regulated and commercially competitive environment of the airline industry, leave us exposed to a number of risks. Many of these risks – for example changes in governmental regulation, acts of terrorism, pandemics and the availability of funding from the financial markets – can be mitigated to a certain degree but remain outside of our control.

The directors of the Group believe that the risks and uncertainties described below are the ones that could have the most significant impact on the long-term value of British Airways. The list (presented in alphabetical order) is not intended to be exhaustive.

The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible. A more detailed summary of risk management and internal control corporate governance processes are included on pages 58 and 59. Clear plans for mitigating many of our principal risks and uncertainties that we face are included in the section on ‘Our strategy and objectives’ and ‘The way we run our business’ on pages 24 to 28 and pages 34 to 52 respectively.

Brand reputation
Our brand is of significant commercial value. Erosion of the brand, through either a single event, or series of events, could adversely impact our leadership position with customers and ultimately affect our future revenue and profitability.

Competition
The markets in which we operate are highly competitive. We face direct competition from other airlines on our routes, as well as from indirect flights, charter services and from other modes of transport. Some competitors have cost structures that are lower than ours or have other competitive advantages such as being supported by government intervention.

Fare discounting by competitors has historically had a negative effect on our results because we are generally required to respond to competitors’ fares to maintain passenger traffic. A particular threat in the current economic environment is cash rich competitors growing market share and acting irrationally to force other airlines out of the market.

Consolidation/deregulation
As noted above, the airline industry is fiercely competitive and will need to rationalise to meet current market conditions. This will involve further airline failures and consolidation. As in all consolidations, a merger with Iberia, and the joint ATI application with Iberia and American Airlines, would introduce integration risks such as a failure to realise planned benefits, brand erosion and other execution risks.

Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue. Certain markets in which we operate remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for us, may have a negative impact on our margins.

Debt funding
We carry substantial debt which will need to be repaid or refinanced. Our ability to finance ongoing operations, committed aircraft orders and future fleet growth plans may be affected by various factors including financial market conditions. Although most of our future capital requirements are currently asset-related and already financed, there can be no assurance that aircraft will continue to provide attractive security for lenders in the future.

Employee relations
We have a large unionised workforce. Collective bargaining takes place on a
regular basis and a breakdown in the bargaining process could disrupt operations and adversely affect business performance. Our continued effort to reduce employment costs, through increased productivity and competitive wage awards, increases the risk in this area.

Environment
Failure to adopt an integrated environmental strategy could lead to deterioration in our reputation and a consequential loss of revenue. An increased focus on corporate responsibility and a published emissions reduction target will help deliver the refocused strategy.

Fuel price and currency fluctuation
We use approximately six million tonnes of jet fuel a year. Volatility in the price of oil and petroleum products can have a material impact on our operating results. This price risk is partially hedged through the purchase of oil and petroleum derivatives in forward markets which can generate a profit or a loss.

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and selling the surplus or buying the shortfall of its currency obligations.

Fuel supply
The infrastructure that provides jet fuel to Heathrow is critical to the operation. Any breakdown in this infrastructure and/or contamination of the fuel supply will have a significant operational impact.

Global economic slowdown/credit crunch
Our revenue is highly sensitive to economic conditions in the markets in which we operate. Further deterioration in the global economy may have a material impact on our financial position. The financial services sector is one of our key customer segments and continued difficulties in the banking industry represent a significant risk to our revenue.

Government intervention
The airline industry is becoming increasingly regulated. The scope of such regulation ranges from infrastructure issues relating to slot capacity and route flying rights, through to new environmental and security requirements. Our ability to both comply with, and influence any changes in, these regulations is key to maintaining our operational and financial performance.

UK Government plans to double APD from 2010, and the European Union Emissions Trading Scheme, may have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit our competitors by reducing the relative cost of doing business from their hubs.

Heathrow operational constraints
Heathrow has no spare runway capacity and operates on the same two runways it had when it opened 60 years ago. As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate this. In February 2008, public consultation on the UK Government’s conclusion that its environmental conditions could be met to allow full use of these two runways and the construction of a third, short runway, ended. This expansion of the airport would create extra capacity and reduce delays, enabling Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt.

Key supplier risk
We are dependent on suppliers for some principal business processes. In the current economic environment our suppliers are at increased risk of business failure. The failure of a key supplier may cause significant disruption to our operation. We describe the supplier risk in more detail on page 46.

Pensions
If the financial markets deteriorate further, our pension deficit may increase, impacting balance sheet liabilities, which may in turn affect our ability to raise additional funds.

Safety/security incident
The safety and security of our customers and employees are fundamental values for us. Failure to prevent or respond to a major safety or security incident could adversely impact our operations and financial performance.
To create a really high-performing business we need to build an inspiring and rewarding workplace where talented people can work to the best of their ability to meet our customers’ needs and our wider social responsibility.
The way we run our business

The workplace

We are re-inventing the way we work at British Airways. We are creating a leaner organisation with a distinctive, high-performing culture through our flagship change programme, Compete 2012.

Over the next three years this programme, described in detail on page 28, will help us to achieve our vision of becoming the world’s leading global premium airline.

It will affect the way we interact with each other, how we measure individual performance and how we promote, develop and reward talent. Coupled with our commitment to be a responsible airline, it will also help us achieve our ambitious environmental targets, put our relationship with key suppliers on a new footing and continue our tradition of supporting communities in useful and imaginative ways.

Restructuring management

While Compete 2012 is a long-term change programme, current market conditions have made it imperative to move fast to create a leaner, more agile structure starting at the very top of our business.

In December 2008, a third of our managers left the business under a voluntary severance scheme. At the same time we redesigned the organisation to promote greater customer focus and better governance and leadership.

This restructuring effort has made us more efficient. It has also helped us identify and draw on new talent in the business, helped by the fact that we are now encouraging more people to move between functions to gain wider experience and find new outlets for their skills. To support greater
The way we run our business
The workplace continued

“Change must start at the top and during the year we reorganised our top management team, comprising nine directorate heads, led by the Chief Executive.”

mobility, we have clarified individual and collective roles and responsibilities and now publish accountabilities for all of our top managers on our intranet.

Leadership development
We need great leaders to help us contend with current trading conditions and achieve our long-term vision. A leading global premium airline must be bold and highly effective in developing present and potential leaders.

This is why we introduced our High Performance Leadership (HPL) system during the year. This is an integrated system, linking business strategy, objective setting, performance assessment, development and reward. Focused initially on the senior leaders, HPL has rigorous assessment mechanisms to identify talented leaders and to provide them with the right tools and support to continue developing.

We have also defined, communicated and begun to measure individual performance against three capabilities we think we need in our leaders, in addition to operational excellence:

- Communicating a common vision;
- Agreeing accountabilities; and
- Motivating and inspiring others.

For each capability, specific behaviours have been developed so that leaders understand exactly what is expected of them and we are supporting them with a range of development programmes, including executive coaching, networks, forums and external courses. We are also using new techniques to measure performance. These will allow us to monitor individual progress and track our own overall success at managing talent.

Among the other leadership initiatives we launched were:

- **Behaviours for Success** – a leadership development programme for the HPL community, focusing on understanding and developing personal leadership performance;
- **Leadership Matters** – a scheme to identify and develop leaders who have pivotal roles in the Customer and Operations areas of our business; and
- **A Leadership Development Portfolio** that will be introduced this year with the aim of supporting current and potential leaders at every level of the business, including emerging leaders, those on a fast track to senior positions and those with strategic roles at the very top of our organisation.

The management of our business
Change must start at the top and during the year we reorganised our top management team, comprising nine directorate heads, led by the Chief Executive. It is now split into two groups – the Management Board and the Customer and Operations Executive.

The Management Board, which meets weekly, is responsible for the vision and strategic direction of the Company.

The Customer and Operations Executive is accountable for day-to-day customer service, operational performance and ensuring the highest standards of safety. This group also meets weekly.

Legal, director of safety and security and director of investments also report to the Chief Executive.
Our restructuring effort has made us more efficient. It has also helped us identify and draw on new talent in the business, helped by the fact that we are now encouraging more people to move between functions to gain wider experience and find new outlets for their skills. To support greater mobility, we have clarified individual and collective roles and responsibilities and now publish accountabilities for all of our top managers on our intranet.
The way we run our business
The workplace continued

People and organisational effectiveness

In transforming the way we work, we remain focused on creating a diverse, challenging and rewarding workplace which people across the airline can feel proud to be a part of, despite our expectation that the number of people employed will need to reduce as we seek to streamline our business.

Headcount

As at March 31, 2009, we employed 40,627 MPE.

Average attrition remains low at 7 per cent, with the exception of management grades where a voluntary redundancy programme contributed to a significant increase in attrition for this group.

Reward

We operate two principal funded defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). Both are closed to new members. From April 1, 2003, new employees were entitled to join the British Airways Retirement Plan (BARP).

SmartPension arrangements, which allow our UK-based employees to make their pension contributions in a more tax-efficient way, were introduced in early 2008. Around 90 per cent of those eligible are now benefiting from this arrangement.

Since 2005 our Employee Reward Plan (ERP) has allowed non-management employees to share in the success of the business based on the achievement of corporate measures and targets. However, due to our losses in the year, the scheme did not operate in 2008/09.

Instead we used local incentive plans to offer rewards for improved performance, assessed against a range of operational, customer and financial measures. The first plan was introduced in Terminal 5 and has led to significant improvements in performance, with targets being exceeded frequently. This approach is now being considered in other areas to drive continuous improvement in our performance across the business.

Management bonus schemes, using a mix of financial and non-financial performance metrics, are designed to improve overall performance and to reward individual effort. Given the deterioration in trading conditions during the year, no bonuses will be paid.

However, we have replaced our grade-based reward scheme for managers with a new broad band system which links rewards more closely to individual performance and capability. Separately, our Bravo recognition scheme allows us to recognise people across our business for their efforts and achievements.

Diversity

We are proud to be a business that welcomes and nurtures difference. Diversity and inclusion are a way of life for us.

Our diversity initiatives are all about dignity and respect. They are designed to promote good relationships between colleagues, irrespective of their background, religion or culture. As part of our annual diversity week, a series of events was held to raise awareness and promote a more
We are proud to be a business that welcomes and nurtures difference. Diversity and inclusion are a way of life for us.

Our diversity initiatives are all about dignity and respect. They are designed to promote good relationships between colleagues, irrespective of their background, religion or culture. As part of our annual diversity week, a series of events were held to raise awareness and promote a more positive and productive work environment.
positive and productive work environment. These included an inter-faith panel discussion focusing on five key religions and a presentation from a member of the Board of the British Paralympic Association.

The focus this year has been on developing our Dignity at Work strategy to reduce harassment and bullying in the workplace. We have appointed and trained Harassment Advisors, drawn from across the business, in response to colleagues’ requests for people they can approach confidentially about any issues they may have. The advisors act as a listening ear and provide practical advice and guidance. Our intention is to adopt a more informal approach to resolving potential conflicts using internal mediators.

As a responsible company, we take disability very seriously. We welcome applications from people with disabilities as we aim to employ the most talented people and we support individuals with disabilities in reaching their full potential by making reasonable adjustments for them in the workplace.

We consult with our disabled employee group to identify disability issues and they help us to ensure that we are making all our products, services and training fully inclusive and accessible. All frontline employees are trained in disability awareness to increase their knowledge about disabled customers and employees.

We introduced a Building Ability strategy to identify and promote the needs of disabled customers and colleagues. We constantly look at how we can improve the journey experience for disabled customers and for the first time we conducted specific customer research to identify areas for development. In July 2008, 522 members of the British Paralympics Association travelled to Beijing for the Paralympic Games, providing us with important lessons we can translate into day-to-day practice.

Overall, our Dignity at Work strategy involves training, communications and workshops across the business. All departments have targets to achieve and all employees must now complete the online ‘Expect Respect’ training course, introduced during the year.

Absence
We saw a modest improvement in attendance throughout the year. The headline annual absence level has improved by one day per person. At December 2008 it stood at 10.8 average days per person per annum, with some areas of the business meeting top quartile absence levels. While there has been a modest improvement overall this year, we still compare unfavourably with similar sized businesses in the UK. To remedy this we are creating a new programme to help managers deal with attendance issues.

Absences – days per person per annum

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2008</td>
<td>10.8</td>
</tr>
<tr>
<td>January 2008</td>
<td>11.7</td>
</tr>
<tr>
<td>2003 baseline</td>
<td>16.7</td>
</tr>
</tbody>
</table>

Employee relations
We negotiate with a total of three trade unions representing colleagues across the business. We seek to work constructively with colleagues and their representatives to improve productivity and performance.

Despite the challenges we faced in the early days of Terminal 5, we went on during the year to achieve significant improvements in our operational performance. This was partly down to the agreements we reached for new working practices at the terminal. A major feature of these agreements was direct colleague engagement with the involvement of our recognised trade unions. Another key aspect was the introduction of local incentive plans for many terminal-based jobs as discussed above.

We continue to work hard to foster good relations with the representatives of our flying community. These relationships will remain key as we tackle the challenges ahead.
We carried out consultations with a number of groups within the business to see where we could improve efficiency and this has led to some beneficial changes in work practices and roles. The areas affected by restructuring included:

• Customer relations;
• Gatwick ramp and customer services;
• British Airways World Cargo;
• Glasgow cabin crew base; and
• Manchester engineering base.

During the year we fundamentally changed the way we organise our human resources (HR) management. We introduced HR Business Partners who now focus on good people management and employee relations and are responsible for day-to-day industrial relations matters. The central industrial relations team was consequently scaled back and given a more strategic role. To support this change we ran a number of bespoke industrial relations training courses to improve understanding and practice.

Engaging our colleagues

We ensure that colleagues are kept well informed about our Company, customers and industry by using comprehensive internal communications. Face-to-face communication is our priority and we run regular briefings across the Company so that as many people as possible can meet, question and share ideas with senior and line managers. We run workshops to support managers in communicating key announcements and also online forums and an online Ideas Exchange to encourage wider dialogue. Other communication channels include a personalised intranet, mobile SMS messaging, video and a range of Company-wide and local newsletters.

In 2008/09 we saw a sea change in the way people within our business think about working here. Our Speak Up! attitude survey in the autumn of 2008 recorded significant improvements in scores for pride, service and product advocacy, and satisfaction with basic conditions.

The results reflect the positive way colleagues feel about our move to Terminal 5 and our improved performance. Encouragingly, the number of people responding to the survey rose too, indicating that more employees regard this as an important means of expressing their opinions.

To make the survey more effective, we want to ensure that changes are implemented as a result. All managers are now being given a clear responsibility to plan actions based on survey findings in an open and transparent way. Next year we will run the survey more frequently during the year, so that managers get regular feedback on changes in colleague opinion.

2009/10 will also see the launch of an Engagement Index. Building on Speak Up! results, this will help identify how managers can increase levels of engagement within their teams.

Employment tribunals

During 2008/09, the Group was served with 74 new proceedings in employment tribunals. British Airways Plc was the respondent in all but three of the proceedings. The other three are against BA Avionic Engineering, CityFlyer and BA Maintenance Cardiff. This remains a low figure given our relative size. Of the 74 proceedings:

• We lost no tribunal claims in the year;
• We did lose a preliminary hearing, currently being appealed, concerning the rights of staff employed and resident in Hong Kong to pursue discrimination claims in the UK;
• Six claims involved multiple claimants, including two, on how holiday pay should be calculated under Civil Aviation (Working Time) Regulations, brought on behalf of some 13,000 pilots and cabin crew members;
• Claims including a discrimination element outnumbered those for unfair dismissal for the second year. There were 19 unfair dismissal claims, about the same as in 2007/08; and
• A total of 47 claims for discrimination or discrimination and other matters were lodged, a 60 per cent increase on the year before. Of these, 31 are ongoing, 12 were settled and four withdrawn, won by British Airways or struck out.

“We negotiate with a total of three trade unions representing colleagues across the business. We seek to work constructively with colleagues and their representatives to improve productivity and performance.”
The way we run our business

The marketplace

Customers
Our customers are at the heart of everything we do. Our overriding aim is to make sure we offer an upgraded service to everyone who chooses to fly with us.

We talk constantly to large numbers of customers to get a real understanding of their needs, each month surveying around 57,000 of them through our global performance feedback survey.

By doing this we get a close and accurate reading of how our customers’ needs are changing and we are able to constantly improve their travelling experience. This is vital for us to secure our position as the world’s leading global premium airline.

Service and training
Our people play a crucial role in providing the upgraded travel experience. We are committed to excellent service and are investing heavily in training customer-facing colleagues. Putting the customer at the heart of everything we do is also a key priority of our Compete 2012 change programme, described in detail on page 28.

These training programmes will continue in 2009, supplemented by service style training for our ground team at Heathrow and coaching for people in our contact centres in how to provide a more attentive and personal service.

Following the introduction of new corporate values last year, all training programmes have been redesigned. The behaviours are woven into all our courses to ensure colleagues, particularly those in customer-facing roles, meet our high standards.

During the year we delivered over 215,000 days of training. This included training days for cabin crew to enable them to deliver the highest level of premium service to our customers, and for ground staff to support the continued phased moves to Terminals 5 and 3 at Heathrow.

Ground experience
Terminal 5 continues to impress our customers. They are enjoying improved punctuality, shorter check-in times and an altogether smoother travelling experience.

Around 21 million customers used the terminal during the year and customer satisfaction has increased noticeably since opening. In direct response to customer feedback, we have further improved the experience since opening, for instance by introducing a dedicated premium check-in zone.

The luxurious lounge complex at Terminal 5 has also been exceptionally well received, with an increase of over 20 percentage points in customer satisfaction. The new lounges offer greatly improved facilities, including wine bars, spa treatments, delicious food and upgraded communication links.

We are now introducing similarly themed lounges across our network.

Onboard experience
The new Club World cabin layout was introduced on our Boeing 747 aircraft in 2007/08 and the roll-out was completed last year. Combining new levels of comfort, greater privacy and choice, the layout has achieved an increase in customer satisfaction, of over 20 percentage points. We are now rolling out the new cabin on our Boeing 777 aircraft.

Later this year we will introduce a new First cabin and the new aircraft we have on order will allow us to introduce further innovations including new seating in World Traveller Plus and World Traveller.
Terminal 5 continues to impress our customers. They are enjoying improved punctuality, shorter check-in times and an altogether smoother travelling experience.

Around 21 million customers used the terminal during the year and customer satisfaction has increased noticeably since opening. In direct response to customer feedback, we have further improved the experience since opening, for instance by introducing a dedicated premium check-in zone.
The way we run our business
The marketplace continued

“During a recent survey, two thirds of respondents rated ba.com as Excellent or Very Good – proof that our creative development of the website is providing real value to our customers.”

Average payment performance

91%
of payments were on time in the UK.

and privacy by keeping the middle seat free. Also, we have not forgotten our youngest passengers who can now enjoy an entertainment pack on longhaul flights featuring that much-loved character, Paddington Bear.

ba.com

ba.com – our online portal – is not only becoming more popular with customers, it is also helping us to drive down costs and increase revenues.

Almost a third of all our bookings are now made on ba.com, with almost half of all European leisure fares sold via the UK site. This year we introduced a new feature allowing customers to upgrade their booking at any time between buying a ticket and checking-in online.

A large number of our passengers now check-in online. They clearly enjoy the convenience of this service. For that reason we have now launched a popular new service, allowing customers to check-in or access real time arrivals and departures information through their mobiles.

During a recent survey, two thirds of respondents rated ba.com as Excellent or Very Good – proof that our creative development of the website is providing real value to our customers.

Cargo

BA World Cargo continues to focus on providing premium products. We have improved the ‘Prioritise’ (express) service through advancements in the new ‘cool chain’ technology. New services such as scanning for airmail and direct airport-to-door deliveries are just some of the improved solutions we are now offering shippers.

BA World Cargo also continues to play a leading role in simplifying the international supply chain. We are fully committed to the IATA coordinated e-freight initiative. Not only have we played an important role in formulating guidance for participating airlines, we were also the first European carrier to use e-freight between Heathrow and New York.

Overseas branches

We fly to a number of destinations around the world (see inside front cover). In addition to the overseas branches we have established in many of these countries, we have branches in countries to which we do not fly.

Suppliers, partners and alliances

Suppliers

Overall supplier costs, excluding fuel, were up nearly 7 per cent year on year, reflecting significant inflationary pressures on suppliers’ own costs. In continuing to control our costs, we have decided to prioritise those projects that really add value to the customer proposition.

Goods and services are procured through a strategic sourcing process. We use benchmarking principles to make sure we derive the maximum value from them, both at the point of purchase and over the life of the supply contract.

During the year we signed major in-flight catering agreements with three suppliers, all of which will come into effect from April 1, 2010. We believe these agreements will set a new benchmark for high-quality airline catering. Using three suppliers will also help us to minimise our exposure to supplier failure.

We continued to reduce our carbon footprint with the delivery of the first of our new Boeing 777 aircraft during the year. Lower fuel burn and reduced environmental impact were key factors in our choice of aircraft.

In addition, we have selected the Thales in-flight entertainment system for all new aircraft delivered from 2010. With bigger screens, the multimedia system will give customers access to over 100 movies, 300 programmes and 400 CDs as well as a range of radio programmes and podcasts.
Almost a third of all our bookings are now made on ba.com, with almost half of all European leisure fares sold via the UK site. This year we introduced a new feature allowing customers to upgrade their booking at any time between buying a ticket and checking-in online.

A large number of our passengers now check-in online. They clearly enjoy the convenience of this service. For that reason we have now launched a new popular service, allowing customers to check-in or access real time arrivals and departures information through their mobiles.
whenever they want. The system is lighter so will also help us reduce aircraft weight and use less fuel.

**Supplier risk**
Mitigating supplier risk is a key priority, particularly in the current economic climate. Our procurement team records and measures risk across our most important suppliers. We have currently identified a number of suppliers who, if they ceased trading or experienced severe difficulties, would have a serious impact on our ability to operate. For these suppliers, risk is measured across five dimensions, updated each month and we take mitigating action when any supplier is deemed to be in trouble.

In addition to managing supplier risks, we also routinely monitor the financial health of critical suppliers using monthly Dun & Bradstreet company reports as an early warning system.

We use business continuity plans to cover the risk of supply failures and regularly review their effectiveness with the suppliers themselves. Equally, we make sure effective contingency plans are in place to respond to any supply interruption.

**Payment performance**
We have again made good progress on paying suppliers in accordance with our agreed terms. On average, 91 per cent of payments were on time in the UK for the year ended March 31, 2009. This compares with 88 per cent in the preceding year and exceeds our 90 per cent target. Next year we expect to improve further through increased use of e-invoicing and purchasing cards.

We are a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and are committed to paying our suppliers on agreed terms. The number of days’ purchases in creditors at March 31, 2009, is calculated in accordance with the provisions of the Companies Act 1985 and was 32 days (2008: 33 days).

**Corporate responsibility in the supplier base**
We are committed to making responsible purchasing decisions, and during 2008/09 started to refine our purchasing process and train our procurement team to make sure this happens. We will continue to survey potential suppliers to assess their corporate responsibility credentials, using independently-held, self-certification data when deciding with which suppliers to work.

**Procurement delivery**
Using preferred suppliers helps us to control costs. In December 2008, 96 per cent of our external spend was with 500 suppliers who have all been awarded formal preferred supplier status. Increasingly we are also making sure our spend goes through our approved order-based process. In December 2008, 99 per cent of spend was approved this way.

**Partners and alliances**
We maintain commercial arrangements with other airlines covering scheduled passenger and cargo services on a small number of our international routes. Commercial arrangements can govern, among other things, capacity offered by each airline, how revenue is shared between the airlines and how schedules are coordinated. In very few cases, some commercial arrangements between ourselves and other airlines are required under the relevant air services agreements.
We have improved the onboard experience for our premium shorthaul customers, offering them greater space and privacy by keeping the middle seat free. And we have not forgotten our youngest passengers who can now enjoy an entertainment pack on longhaul flights featuring that much-loved character, Paddington Bear.
We have a long history of investing in the communities in which we operate. This work continues and in 2008/09 we supported over 120 community and conservation organisations in a variety of ways, including donating travel awards, cargo and excess baggage space.

We work closely with the communities around Heathrow and the UK regions. Our main priorities include education and youth development, supporting volunteering by our colleagues and promoting sustainable tourism, heritage and the environment.

We continue to be a member of both the London Benchmarking Group (LBG) and the Business in the Community (BITC) 15 Percent Club.

**Education and youth development**

Our Community Learning Centre – close to our Waterside headquarters at Heathrow – has welcomed nearly 50,000 young people and adult learners on a range of education programmes since its opening in 1999. Programmes relevant to the school curriculum are run in partnership with the United Nations International Children’s Emergency Fund (UNICEF) focusing on places we fly to, using workshops on customer service, information and communication technology and the environment.

**Languages**

The British Airways language flag award, offered to schools across the UK, has been recognised by the Foreign and Commonwealth Office and in 2008 won the Business Language Champion Partnership of the Year Award. We are seeking official accreditation for the programme which will allow the test to earn university points. Over 1,500 young people have gained a flag award in languages ranging from French to Urdu.

**Partnerships**

In partnership with the Natural History Museum, we have developed programmes allowing pupils from Heathrow schools to visit the museum, meet scientists and experience the work of the Darwin Centre.

**Change for Good**


In August 2008 our Chief Executive visited Tanzania to see the work of Change for Good at first hand, particularly how funds are being used to support and treat mothers and babies affected by HIV/AIDS. We have also invested significantly in China to support literacy programmes and in Nigeria our donations have been used to buy malaria nets.

**Employee fundraising**

Over 3,500 retired and current employees donated over £630,000 directly from their payroll to their chosen charities through our Giving Scheme during the year. In addition, we supported Children in Need and Red Nose Day across the airline raising over £13,000 for charities in the UK and overseas.

Last year’s BA Fun Run raised in excess of £55,000 for Cancer Research UK. During 2008/09 our World Cargo team collected and delivered over 95 tonnes of high-quality gifts, donated by employees from across the airline.

**Charitable donations**

BITC reported our total direct and in-kind donations for 2008/09 at £5.4 million (2008: £5.7 million). Of these, direct charitable donations amounted to £444,000 (2008: £398,000).
Our Community Learning Centre – close to our Waterside headquarters at Heathrow – has welcomed nearly 50,000 young people and adult learners on a range of education programmes since its opening in 1999. Programmes relevant to the school curriculum are run in partnership with the United Nations International Children’s Emergency Fund (UNICEF) focusing on places we fly to, using workshops on customer service, information, communication technology and the environment.
The way we run our business

Environment

"In March 2009 our carbon offset scheme became the first airline offset product to meet the requirements of the UK Government’s Quality Assurance Scheme."

Climate change
Climate change is an issue of huge importance to us and we have a long-term commitment to address it. Our climate change programme covers four main areas: policy measures to curb emissions growth; voluntary carbon offsetting; fuel efficiency; and support for scientific research.

Our target is to reduce our net CO₂ emissions by 50 per cent by 2050, relative to 2005. Meeting this target will require investment in new technology, sustainable biojet fuels and in cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets.

Governments will come together in December 2009 to discuss a future global agreement on climate change. International aviation emissions were not included in the Kyoto Protocol, but we believe that they must be incorporated into this new agreement. We are playing a leading role in aviation groups to develop a global policy approach for the sector.

In December 2008 the European Union finalised the conditions for including aviation in its Emissions Trading System (ETS). With our experience of emissions trading since 2002 we are well placed to meet the EU ETS requirements.

Our offsetting scheme allows passengers to add a carbon offset when they book a flight through ba.com. During 2008, some 150,000 customers offset over 55,000 tonnes of CO₂ in this way and their contributions have helped fund UN-certified carbon cutting initiatives in China and Brazil. In March 2009 our scheme became the first airline offset product to meet the requirements of the UK Government’s Quality Assurance Scheme for Carbon Offsetting – a guarantee that we are achieving genuine, additional and measurable carbon reductions.

We continue to look for ways to improve fuel efficiency and over 600 projects have so far been assessed. Of these, 55 have been implemented, delivering over 65,000 tonnes of CO₂ savings, equivalent to nearly 21,000 tonnes of fuel. In addition, we have reduced CO₂ emissions associated with our UK property portfolio by nearly 11 per cent.

In 2008 our carbon efficiency, expressed in grammes of CO₂ per passenger kilometre (gCO₂/pkm), was just over 107 grammes. Our target is to improve that figure to 83 gCO₂/pkm by 2025. Our carbon footprint was 17.6 million tonnes of CO₂ in 2008.

We are also supporting a number of scientific research projects. These include the European Commission’s IAGOS project which is investigating whether aircraft can be used to collect atmospheric data in-flight and a partnership to develop new policies on preventing deforestation.

Waste
We aim to minimise waste, reduce disposal to landfill and increase reuse and recycling. Where we cannot prevent waste disposal, we aim to manage our waste responsibly.

In 2008 we recycled 35 per cent of dry waste at Heathrow and Gatwick (up from 30 per cent the year before). We have set ourselves the target of recycling 50 per cent by 2010. We will achieve this through the provision of more recycling centres, handling a wider range of materials and by encouraging better segregation of waste.

The amount of waste at Heathrow and Gatwick sent to landfill fell by 7.2 per cent to 3,424 tonnes, during the year. Our non-recyclable waste at Heathrow and Gatwick will be processed through a waste to energy plant before the end of 2009, helping us to meet our target of zero waste to landfill by 2010.

Noise
We are investing in quieter aircraft and technology and aim to change the way we fly to reduce the noise of our activities. We have set a target to reduce our average noise per flight by 15 per cent by 2015.

Night noise is a particular concern for people living near Heathrow and is one of the key issues we want to address. During 2008, we contravened the noise limits at...
We are investing in quieter aircraft and technology and aim to change the way we fly to reduce the noise of our activities. We have set a target to reduce our average noise per flight by 15 per cent by 2015.

We also aim to reduce our CO$_2$ emissions by 50 per cent by 2050, relative to 2005. Meeting this target will require investment in new technology, sustainable biojet fuels and in cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets.
The way we run our business
Environment continued

Heathrow 36 times, a reduction of 23 per cent compared with 2007. This year, these were principally a result of Boeing 747-400 departures being delayed.

At Heathrow, we use a Continuous Descent Approach on landing to save fuel and cut noise. During 2008, 95 per cent of all day and night flights operated this way, compared with an airport average of 82 per cent for daytime and 88 per cent for night time flights.

**Air quality**
We have a number of operating initiatives to improve our air quality performance. We have already achieved a reduction in NO\textsubscript{x} emissions (nitrogen oxide – a greenhouse gas) through the modification of Boeing 747 (RB211) engines and Boeing 777 (GE90) engines. We plan to further modify our Boeing 737 engines to deliver a 20 per cent reduction in NO\textsubscript{x}.

At Terminal 5 and other airports worldwide, we are able to use aircraft stands with fixed ground power and pre-conditioned air which means we will rely less on aircraft auxiliary power units. We have developed procedures for aircraft to taxi on one less engine after landing, and are now developing similar procedures to taxi out to the runway. These measures will cumulatively reduce CO\textsubscript{2} and NO\textsubscript{x} emissions, fuel consumption and noise.

**Fleet modernisation**
In response to delivery delays for our new efficient Boeing 787 aircraft, we have contracted for six Boeing 777-300ER aircraft (two acquired, four leased) due to start arriving in 2010, with options on a further four. We have ordered two Airbus A318 aircraft for our transatlantic services from London City Airport. Additionally, we have ordered six Embraer E190SR and five E170 aircraft to replace the RJ85 and RJ100 aircraft currently operated from London City Airport.

We are also improving our performance on the ground. At Terminal 5, we have invested in buses specified to the future Euro 5 exhaust emission standard and a fleet of electric baggage tugs. Remote monitoring by telematics technology is being used to manage fleet efficiency and an automatic fuel management system has been fitted to refuelling equipment at Heathrow. We continue to be a member of the Heathrow Clean Vehicles Programme.

### Summary of environmental achievements and targets

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon efficiency gCO\textsubscript{2}/pkm\textsuperscript{b}</td>
<td>83 by 2025</td>
<td>107</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td>CO\textsubscript{2} emissions (million tonnes)</td>
<td>17.6</td>
<td>17.7</td>
<td>16.6</td>
<td></td>
</tr>
<tr>
<td>Heathrow departure noise violations – day</td>
<td>4</td>
<td>1</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Heathrow departure noise violations – night</td>
<td>32</td>
<td>46</td>
<td>56</td>
<td></td>
</tr>
<tr>
<td>Continuous Descent Approach (Heathrow) % – day</td>
<td>95</td>
<td>95</td>
<td>95</td>
<td>84</td>
</tr>
<tr>
<td>Continuous Descent Approach (Heathrow) % – night</td>
<td>95</td>
<td>95</td>
<td>94</td>
<td>88</td>
</tr>
<tr>
<td>Total waste at Heathrow and Gatwick – including our catering companies (metric tonnes)</td>
<td>26,184</td>
<td>27,121\textsuperscript{c}</td>
<td>26,920</td>
<td></td>
</tr>
<tr>
<td>% recycling (Heathrow and Gatwick)</td>
<td>50 per cent by 2010</td>
<td>35.1</td>
<td>30.1</td>
<td>28.9</td>
</tr>
<tr>
<td>Waste to landfill ( tonnes) (Heathrow and Gatwick)</td>
<td>Zero by 2010</td>
<td>3,424</td>
<td>3,688</td>
<td>4,063</td>
</tr>
<tr>
<td>Waste per passenger (kg) (Heathrow and Gatwick)</td>
<td>reduce by 2 per cent per annum</td>
<td>0.78</td>
<td>0.79\textsuperscript{c}</td>
<td>0.78</td>
</tr>
<tr>
<td>Heathrow air quality/NO\textsubscript{x} emissions to 1,000ft (metric tonnes)</td>
<td>1,081</td>
<td>1,107</td>
<td>1,096</td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a} Calendar year.

\textsuperscript{b} With effect from 2008, traffic statistics now include data related to customers who have flown on ‘frequent flyer’ mileage redemption tickets. This change brings the Group into line with industry standards, and also into line with all major scheduled carriers.

\textsuperscript{c} Increased due to revised data on catering waste.