The longest and deepest recession in living memory has meant we have had to move quickly to match our capacity to a rapid decline in demand. In February 2010 we saw the first upturn in demand for premium travel in 18 months. With recovery likely to be slow, we will continue to match our flying schedule to demand and to general economic activity as it picks up.
The markets we operate in

Whilst a number of major developed economies started to emerge from recession during the first half of our financial year, the UK lagged behind. It eventually endured six consecutive quarters of negative growth, amounting to the longest and deepest recession in living memory, before finally emerging from recession in the final three months of 2009. Momentum appears to have been maintained in early 2010, discounting the impact of the severe winter weather we suffered in January.
Global premium air travel demand in key markets, calendar year 2009

<table>
<thead>
<tr>
<th>Premium demand</th>
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<tbody>
<tr>
<td>North Atlantic</td>
<td>-12.2%</td>
</tr>
<tr>
<td>Within Europe</td>
<td>-25.1%</td>
</tr>
<tr>
<td>Within Far East</td>
<td>-19.8%</td>
</tr>
<tr>
<td>Europe – Far East</td>
<td>-15.6%</td>
</tr>
<tr>
<td>Europe – Middle East</td>
<td>-5.9%</td>
</tr>
<tr>
<td>Total market</td>
<td>-15.8%</td>
</tr>
</tbody>
</table>

Source: IATA

The economic landscape

Whilst there are now clear causes for optimism for the UK economy, a number of persistent concerns remain and these may still delay a rebound in consumer confidence. Recovery in 2010 is, therefore, likely to be slow, although momentum may build in 2011.

The US returned to positive growth one quarter earlier than the UK, and we saw economic activity grow at an unprecedented rate in the final three months of 2009 — far faster and stronger than the rebound seen after the downturns of 1991 and 2001.

Emerging economies, and particularly those in East Asia, have also bounced back strongly on the back of a recovery in world trade, and massive government support for the Chinese economy. Improving domestic demand in these countries, driven by both consumer spending and business investment, should ensure the strong growth witnessed in China in recent years continues.

Rising sovereign debt levels, however, pose a new threat to global economic security. There are risks that the global financial crisis, from which we are now emerging, will evolve into a global fiscal crisis and that national deficits, which have ballooned during recession, may curtail future growth.

We are already seeing the start of the fiscal claw back in the UK, and growth has become sufficiently strong in a number of economies for monetary policy to begin returning to normal. But worries about national debt have been exacerbated by recent developments in Dubai and Greece. The latter’s problems have exposed the fiscal frailties of some other European countries, depressing the outlook for the Eurozone despite its encouraging exit from recession in the second half of 2009.

Impact on our industry

Demand for global premium travel finally returned to year on year growth in December 2009, some three months behind an upturn in general global economic activity. It was the first such increase in 18 months.

Regionally, demand is picking up at very different rates, however, reflecting the differing pace of economic recovery in major economies. Emerging markets have seen the strongest rebound in growth. The Far East and Middle East markets are now performing well, whilst the North Atlantic market has come very close to recording growth. But premium demand within Europe remains depressed, thanks both to recession and significant structural changes in the airline sector.

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.

Competition

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

Consolidation

The global economic and financial crisis coupled with continued high fuel prices, has accelerated consolidation in the airline industry. Many passenger and cargo carriers have either gone bust or have been absorbed into other airlines and, overall, the global aviation market remains weak.

2009 saw the collapse of SkyEurope, Flyglobespan and the merger of Alitalia with Air One, for example. In Asia, JAL filed for bankruptcy protection.

In Europe, we have announced plans to merge with Iberia. Austrian Airlines, Brussels Airlines and bmi have all been taken over by Lufthansa. In the US, Northwest has merged with Delta and United Airlines and Continental Airlines have announced a merger to create the world’s largest airline.

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 remains limited, with restrictions placed on the number of flights that can be operated and regulations governing the fares that can be charged. At the other extreme there is a free market for flights within Europe, allowing any European airline to operate any route it chooses and to set its own fares.

In an effort to protect their airlines from the effects of the financial crisis and global recession, some governments have regrettably resorted to bailout programmes. This has been particularly true in a number of major emerging markets, most notably in China and India.

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, despite being severely disrupted by snow and freezing weather in January, continues to grow and carried 1.2 per cent more passengers in 2009, at a time when demand for flights from London to Brussels and to Paris fell by 14 per cent and 3 per cent, respectively.

‘No frills’ airlines are continuing to grow, but have switched their priorities to growth at continental airports. While seat capacity in London fell by 8 per cent for full service airlines during 2009, the ‘no frills’ carriers cut their seats on London routes by just 3 per cent. Competition among these ‘no frills’ carriers at Gatwick is also expected to intensify.

Longhaul market
Deregulation has had a significant impact on our longhaul business. The first phase of the EU-US Open Skies agreement, which took effect in summer 2008, has altered the competitive landscape on transatlantic routes, especially at Heathrow.

US carriers Delta, Continental and US Airways have all commenced new services from Heathrow and in 2009 offered a total of 102 services per week. New entrants and existing carriers from the Middle East, Africa and India have also added capacity at Heathrow. Our own OpenSkies subsidiary now operates direct services to the US from Paris.

Other important markets are also being liberalised. The EU recently signed an ‘open skies’ deal with Canada. Similar agreements are expected to follow with other like-minded countries such...
as Australia, New Zealand and Brazil in the coming years.

A new generation of wide-body aircraft is also changing the competitive landscape. The Airbus A380 is now well established at Heathrow, with three airlines offering a total of 28 departures a week during 2009 and additional services confirmed for 2010.

Regulatory controls

The airline industry is highly regulated. Almost everything we do – from the routes we fly, to the business partners we cooperate with, the airport slots we use, the fares we set, the infrastructure costs we pay, safety, security and the way we manage our environmental impact – governed or influenced by a web of tight regulations.

There were a number of important regulatory developments during the year that 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 wide 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 received tentative approval for our Joint Business Agreement from the US Department of Transportation (DOT) in February 2010 and we hope to receive final approval shortly. We have tabled commitments to the European Commission to address competition concerns expressed in its Statement of Objections of September 2009. The commitments include making daily take-off and landing slot pairs available at Heathrow, Gatwick and/or New York JFK to allow other operators to compete with us on transatlantic routes.

On 10 March 2010, the European Commission invited comments from interested parties on these proposals. If they confirm that these provide a suitable remedy for any competition concerns, the European Commission is expected to make the commitments legally binding on the parties and close its investigation into the alliance.

EU-US second stage talks

The EU and US reached agreement in Brussels in March on a draft second stage Air Transport Agreement. This will be taken to the EU Council of Ministers in June for final agreement. No progress was made on any immediate lifting of ownership and control restrictions (O&C) by the US. Instead, both sides have committed to continued negotiations aimed at removing market access barriers in the future. Both sides will be incentivised to change their laws in respect of Noise (in the case of the EU) and on O&C (in the case of the US), and will be granted additional rights when they do so. The suspension clause or ‘clawback’ that was due to trigger in November 2010 if there was no progress on O&C, has been replaced by a ‘freeze’ provision that will allow the EU to freeze growth if there is insufficient progress on O&C in the future. Some progress was made on ‘Fly America’, with the US agreeing to give EU carriers access to US government ‘contractor’ traffic, excluding defence/military traffic.

UK airports

The UK DOT and the Civil Aviation Authority (CAA) are conducting
consultations on a revised framework for the regulation of UK airports. It is too early to know what the ultimate shape of the new framework will be or the impact it will have on our business. We are contributing actively to the consultations, arguing that regulation should prevent abuse by monopoly airport service providers and offer incentives to airport operators that improve their performance and efficiency.

In October 2009, BAA sold Gatwick airport to Global Infrastructure Partners. The sale of Stansted airport is on hold, awaiting legal challenges to the Competition Commission’s report that called for the airport to be sold.

Capacity constraints at Heathrow mean it has fallen behind competing European airports in recent years, threatening its position as one of the world’s leading airports. The UK Government announced in 2009 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.

As expected, the new Conservative/Liberal Democrat coalition Government has confirmed that it will not support a planning application for a third Heathrow runway and has also ruled out approval of new runways at Gatwick or Stansted.

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 target to halve our 2005 net CO₂ emissions by 2050 leads the industry in commitment to reducing our carbon emissions.

Safety and security
Safety and security are key priorities for us. We have a formal safety management system in place to ensure that we comply with all relevant regulations. 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 combat the threat of terrorism and control illegal immigration. We continue to engage with the European Commission, the UK and other governments to make sure that these measures are effective while causing the minimum possible inconvenience to our 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.
FOCUSED ON OUTSTANDING CUSTOMER SERVICE

Meeting the rising expectations of our customers remains central to our strategy of transforming British Airways into the world’s leading global premium airline. Our investment in our staff, our fleet and our facilities are all about making sure we provide the very best in customer service. We want all of our customers to enjoy a premium service at every point of their journey, whenever and wherever they travel with us.
Our strategy and objectives

We have lived through unprecedented market conditions over the last 18 months. Throughout this we have remained focused on our strategy to become the world’s leading global premium airline. The actions we are taking now to make our cost base more efficient and our unstinting focus on outstanding customer service are critical parts of this long-term vision. They will determine how strongly we emerge from the current downturn and will help us to create a sustainable and profitable future for the business, benefiting our customers, colleagues and shareholders.

In this section, we explain the strategy in detail and describe the actions we’re taking to pursue it.

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.
## OUR FIVE STRATEGIC GOALS

<table>
<thead>
<tr>
<th>Goal</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Be the airline of choice for longhaul premium customers</strong></td>
<td>Longhaul premium customers are key to our profitability. We will use our deep understanding of what is required to be their airline of choice to drive our design choices on product, network and service. We will also maintain a strong presence in the cargo, economy and shorthaul segments, which play a critical supporting role.</td>
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<tr>
<td><strong>Deliver an outstanding service for customers at every touch point</strong></td>
<td>Our customer-facing staff have long been passionate about delivering outstanding customer service. We want to build on this through a revolution in the way we lead, train and reward, so that all our customers, on all routes and classes, enjoy a premium experience. We will invest both in improvements targeted at our premium customers, such as service style training, and in those benefiting all customers, such as Terminal 5 and ba.com.</td>
</tr>
<tr>
<td><strong>Grow our presence in key global cities</strong></td>
<td>We aim to provide the best global connectivity for our customers. We will build our presence in the top tier global cities, either directly or through our expanding network of airline partnerships. Whilst the established global cities such as London and New York remain critical, we will place a special emphasis on developing our position in the global cities of tomorrow.</td>
</tr>
<tr>
<td><strong>Build on our leading position in London</strong></td>
<td>London is our home city, the emotional and financial heart of our business. It is also the world’s biggest and most competitive international air market. Ensuring Heathrow remains a world-class hub is vital to give us a strong London base to serve the largest international longhaul markets. To support this, we will look to influence government policy decisions, and work with the airport owners on the continued development of the infrastructure.</td>
</tr>
<tr>
<td><strong>Meet our customers’ needs and improve margins through new revenue streams</strong></td>
<td>Airline revenue streams will always be the core of our business. However, we will look to augment this by building profitable ancillary services that offer customers great value and re-enforce our brand. We will explore how we can develop new products and services which exploit our assets and capabilities, and meet the needs of our core customers and enhance loyalty.</td>
</tr>
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</table>
Our business plan

Our business plan is built around our Global Premium Airline strategy, and defines in detail both what we need to achieve as a business, and how we need to work together. It encompasses our Compete 2012 change programme. This is linked to our sponsorship of the London 2012 Olympics and Paralympic Games, and is tasked with refreshing our culture. The plan is structured around five key themes – Colleagues, Customer, Performance, Excellence and Partnerships:

**BUSINESS PLAN THEME** | **OUR FOCUS FOR 2010/11**
---|---
Colleagues | Despite the tough economic environment, and challenging industrial relations, we saw huge commitment to the success of British Airways right across the Company, including high levels of volunteering to support the operation through disruption. In 2010/11 we will look to build on this in a number of ways. We will work to boost the engagement right across the Company, rallying our colleagues with a drive towards ever greater customer service. We will continue to make targeted investments to improve the way we manage our talent, with the focus this year on the development of our front-line leaders. And we will embed our customer-centric outlook into our reward framework, and increasingly use performance-related pay.
Customer | We will continue to evolve our products, for instance through the roll-out of the restyled First cabin, and through the development of products fit for the Boeing 787s and Airbus 380s we have on order. We will refine the Terminal 5 experience for premium passengers, as well as making targeted investments in overseas lounges. A new in-flight entertainment system is being introduced on our new longhaul aircraft, starting with our Boeing 777-300ERs in 2010. We will continue the targeted development of ba.com that has made it such an important part of the way customers interact with us. We will work to reaffirm our brand in a changing and fiercely competitive marketplace.
Performance | We will carefully monitor opportunities to adjust capacity as economic conditions allow, and we anticipate less need to reduce flying outside the peak periods. We will ensure structural changes in the cost base are maintained by keeping controllable costs flat even as business conditions improve. We will continue to compete for new slots. We intend to grow our mileage and holiday businesses, and boost revenues from third-party engineering, retailing and the development of non-air partnerships. Our new Boeing 777-300ERs, with their improved fuel efficiency and environmental performance, will begin to arrive in 2010.
Excellence | We will build on record-breaking levels of operational performance through continuous improvement of the way we plan and control the operation, including laying the foundations for improvements to a number of our operational systems. We will extend the brilliant Terminal 5 experience to more of our services through the development of the second satellite Terminal 5C (opening in 2011), as well as working with the new owners of Gatwick to improve the customer service offering in the North Terminal. We will roll out our Airmanship Programme across our ramp and baggage service community raising ground safety. And we will continue to develop the skills and environment that encourage Lean Continuous Improvement across the business.
Partnerships | Subject to regulatory approval, we will implement a Joint Business Agreement with American Airlines and Iberia, delivering a range of customer benefits. The agreement will significantly extend the connections we offer, improve flight schedules, and deliver enhanced frequent flyer benefits, improved customer service and better disruption management. We will continue to develop partnerships, such as those announced this year with India’s Kingfisher Airlines and the Russian carrier S7, that will improve our position in the global cities of today and tomorrow.
ACHIEVEMENTS 2009/10

The start of the year saw us move to a new, leaner organisation, with a third fewer managers, and clearer accountabilities linked to overall Company goals. This is underpinned by a new approach to performance management, backed up by leadership training that has achieved great feedback from our managers.

Despite the downturn, we continued the tradition of innovating to meet the needs of our premium customers, through the highly successful launch of our new longhaul service from London City to New York JFK, and through the start of the embodiment programme for our new First cabin. We have completed the roll-out of our award-winning Club World product to all our Boeing 777s and 747s, and continued our investment in premium service training. We've carried out comprehensive brand positioning and proposition development work over the last 18 months to ensure we remain a relevant and compelling offer for our global customers in the future. In response to customer feedback, we also enhanced the Club Europe seat configuration. We've continued to invest in ba.com, including in this year's developments the ability to claim refunds online in disruption situations.

We've built on last year's strong operational performance, with Terminal 5 delivering excellent punctuality and a far greater resilience to disruption such as the adverse weather seen this winter. Taken together with the ongoing strong performance of Gatwick and the regions, we've exceeded our targets and delivered record-breaking performance. We've continued to seek continuous improvement through the application of Lean processes, delivering significant productivity gains across the business.

We've continued to take a leading role in the development of the oneworld alliance, not only through sponsoring the membership of the Russian carrier S7, and Kingfisher Airlines of India, but also through active participation in the negotiations to retain JAL's membership. We've worked closely with our key suppliers to adjust contracts to see us through the downturn. We see our One Destination programme (see section on 'Running a responsible business') and the development of our role in the wider community as a key part of this theme.
Key Performance Indicators

We track progress against the business plan for the five key themes using a wide range of metrics. Only three of these themes are used to set targets for the basis of remuneration. The three are: customer recommendation, operating margin and network punctuality. Progress against all five themes are detailed below.

MEASURING PROGRESS

Colleagues
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. We track opinions via an all-employee confidential Speak Up! survey, conducted and hosted by the independent research organisation Ipsos MORI. This includes a Colleague Engagement Index, which summarises a basket of more detailed measures. We have also built employee responses into the way we measure and manage individual performance.

Customer
We monitor our customers’ views through our Think Customer Survey. This is independent market research involving more than 36,000 customers each month. Our headline measure is customer recommendation. Apart from being extremely important in its own right, we believe that this measure indicates how the customer experience will affect future profitability. We also track customer views on our performance relative to our competitors, as well as general airline customers’ opinions of our brand. These views help us steer our product investment decisions.

<table>
<thead>
<tr>
<th>KPI: Customer recommendation %</th>
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<tr>
<td>2009/10</td>
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<tr>
<td>2008/09</td>
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<td>2007/08</td>
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<td>2006/07</td>
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For 2009/10 we set a target level of customer recommendation of 65 per cent. Our underlying performance was strong, but we failed to reach the target due to a small reduction in levels of satisfaction in response to the onboard catering changes, and also through some significant operational disruption. Our score was also slightly depressed by our move in April 2009 to an onboard survey for shorthaul flights.

Performance
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.

<table>
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<th>KPI: Operating margin %</th>
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<tr>
<td>2009/10</td>
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<td>2008/09</td>
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<td>2006/07</td>
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For 2009/10 we set ourselves a target operating result flat with 2008/09 before any restructuring costs. Despite the £1 billion drop in revenue during the year, our operating loss was flat against last year excluding restructuring of E85 million, our operating loss was £146 million compared to £142 million (excluding £78 million restructuring in the prior year).

Excellence
Running a robust operation is key to both meeting our customers’ expectations, and to delivering 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 measure, as high performance here requires other operational processes to run smoothly, and also because it is a key driver of customer satisfaction. Our headline measure of punctuality is ‘Ready to Go’, which focuses on the aspects of the departure process within our control.

<table>
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<th>KPI: Network punctuality %</th>
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<tr>
<td>2009/10</td>
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<td>2008/09</td>
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<td>2007/08</td>
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<td>2006/07</td>
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For 2009/10 we targeted a score of 52 per cent. Despite some disruption caused by the severe UK and worldwide winter weather, we significantly exceeded this, demonstrating the step change in operational performance at Heathrow that has been delivered by Terminal 5.

Partnerships
We monitor the performance of our partnerships through a variety of success criteria. We have set challenging goals for our One Destination programme, which include increases in the proportion of waste we recycle, an improvement in building energy efficiency, as well as a 25 per cent reduction (from 2005 levels) in carbon emissions per RPK by 2025. We also track achievement of implementation milestones for our Joint Business Agreement with American Airlines and Iberia.
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 significant risks. We have maintained a focus on mitigating those risks although many remain outside of our control – for example changes in governmental regulation, acts of terrorism, adverse weather, pandemics and the availability of funding from the financial markets.

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

The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible. You can find a more detailed summary of our internal control and risk management processes on pages 48 and 49. The sections on ‘Our strategy and objectives’ and ‘Running a responsible business’ also include additional information on how we manage and mitigate risk.

**Brand reputation**

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

The management team regularly monitors customer satisfaction though the global monthly Think Customer Survey alongside ongoing research and development of the BA product to mitigate this risk.

**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.

Our strong global market positioning, our network and alliances and diverse customer base continue to address this risk.

**Consolidation/deregulation**

As noted above, the airline market is fiercely competitive and will need to rationalise given current market conditions. This will involve further airline failures and consolidation.

Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue.

The merger with Iberia and the Joint Business Agreement with American Airlines and Iberia for transatlantic routes, may introduce planning risks such as sub-optimal design and set-up processes and delivery risks such as realising planned benefits. The management team have a robust integration and Joint Business Agreement programme which addresses these risks.

Some of the 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 that will need to be repaid or refinanced. Our ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions. Although most of our future capital commitments 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.

The Company’s Treasury Committee regularly reviews the Group’s financial position. The results of these reviews are discussed with management and the appropriate action taken.

**Economic conditions**

Our revenue is highly sensitive to economic conditions in the markets in which we operate. Deterioration in the global economy may have a material impact on our financial position.
Principal risks and uncertainties continued

The Revenue Projection Group regularly reviews the Group’s revenue forecast. The results of these reviews are discussed with management and the appropriate action taken.

**Employee relations**
We have a large unionised workforce. Collective bargaining takes place on a regular basis and a breakdown in the bargaining process may disrupt operations and adversely affect business performance. Our continued effort to manage employment costs increases the risk in this area.

**Event causing long-term network disruption**
Several possible events may cause a long-term network disruption. Example scenarios include a significant failure of the public transport system, the complete or partial loss of the use of terminals at Heathrow, adverse weather conditions (such as snow, fog or volcanic ash), war, civil unrest or terrorism. A long-term network disruption may result in significant lost revenue and additional cost. The management has robust business continuity plans to mitigate these risks to the extent feasible.

**Failure of a critical IT system**
We are dependent on IT systems for most of our principal business processes. The failure of a key system may cause significant disruption to our operation and/or lost revenue. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

**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.

The Group is exposed to risk to the extent of non-performance to financial contract by counterparties for activities such as fuel and currency hedging. Failure of counterparties may result in financial loss.

The Company’s Treasury Committee regularly reviews the Group’s fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken.

**Fuel supply**
The Heathrow jet fuel supply is critical to the operation. Biofuel and jet fuel use the same pipeline infrastructure and with increased use of biofuel, the risk of contamination is increased. Any contamination of the fuel supply will have a significant operational impact. The fuel supply is not released to Heathrow until significant testing is completed.

**Government intervention**
Regulation of the airline industry is increasing and covers many of our activities, including route flying rights, airport slot access, security and environmental controls. The airline industry is becoming increasingly regulated. Our ability to both comply with and influence any changes in these regulations is key to maintaining our operational and financial performance.

Government plans to significantly increase environmental taxes with the introduction of a per flight tax, the European Union Emissions Trading Scheme and the potential for other environmental taxes 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 main runways since it opened over 60 years ago. As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate this. The 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. The failure of a key supplier to deliver contractual obligations may cause significant disruption to our operation. We describe the supplier risk in more detail on page 42.

**Pandemic**
If there is a significant outbreak of Swine Flu or other infectious disease, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. As part of the recent outbreak of Swine Flu we fully rehearsed our contingency plans.

**Pensions**
Negative movements in pension asset values and financial returns from these assets may increase the size of the pension deficit. Management regularly review the status of the pension funds and remain committed to appropriate action. Discussions are ongoing with the Trustees, the Pensions Regulator and other stakeholders to determine a strategy for funding the existing deficit in line with business objectives.

**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. Our Operations Control Incident Centre responds in a structured way, in the event of an incident.
Running a responsible business

Our plans to transform British Airways into the leading global premium airline are about securing our future in a sustainable way. That’s not just about becoming financially stronger. It’s also about acting as a socially and environmentally responsible business in every aspect of our operation. We have created a new Corporate Responsibility (CR) framework for the business to make sure we achieve that goal.
Running a responsible business

Our aim is to become the World’s Most Responsible Airline. To do this we have created our ‘One Destination’ programme, a wide-ranging initiative that brings together every element of our corporate responsibility activity under one banner.

Our Corporate Responsibility programme

Our One Destination programme is organised under four streams. These are the Environment, Community Investment, Workplace and Marketplace.

We believe this is a practical way to make sure that responsibility underpins every aspect of our day-to-day working lives. As such, it covers the way we operate our network, how we manage our workplace, how we go about providing outstanding service to our customers, how we tackle the environmental challenges we face, how we deal with our suppliers and how we interact with the many local communities we support around the world.

The Corporate Responsibility Board, chaired by our Chief Executive, Willie Walsh, oversees our One Destination programme and ensures that people across the business understand and are fully engaged with this programme. Each Directorate in the business has a senior Corporate Responsibility Sponsor and, overall, we have more than 100 Corporate Responsibility Champions. We also have a significant network of Diversity Champions.

Our full Corporate Responsibility Report is published online at www.ba.com
Environment

We recognise that by providing air transport services we have an impact on the environment. We are committed to reducing our environmental footprint, including playing our full part in reducing global greenhouse gas emissions.

We believe the airline sector should be included in a global sectoral approach with emissions reductions targets of carbon neutral growth from 2020 and a 50 per cent reduction in net emissions by 2050.

We are also focusing on reducing our absolute carbon emissions. A key element of this strategy is the adoption of sustainable alternative fuels, which is why in February 2009 we established a partnership with Solena to build Europe’s first biomass to liquid plant to supply us with biofuel from 2014.

We have also taken steps to improve air quality and noise conditions through investment in improved technology. This shows our ongoing commitment to meet the targets set by the Government linked to the construction of the third runway.

Climate change

Climate change is an issue of huge importance to us and we have a long-term commitment to reduce our emissions.

Our climate change programme is focused in five main areas:

• Securing a global sectoral policy regime with ambitious long-term CO₂ reduction targets;
• Improving our carbon efficiency;
• Developing the potential of low-carbon fuels;
• Promoting our voluntary carbon offset scheme; and
• Supporting scientific research into aviation’s climate change impacts.

We continue to play a leading role in the development of a global framework for regulating aviation’s carbon emissions. We are working closely with the International Air Transport Association (IATA), in promoting the target to reduce net CO₂ emissions by 50 per cent by 2050, relative to 2005. Meeting this target will require investment in new technology, sustainable biofuels and cost-effective emissions reductions in other sectors of the economy through the creation of effective global carbon trading markets.

Indeed, we recognise that biofuels will play a critical role in helping the airline sector reduce its carbon emissions. We are working on a number of projects to help accelerate the implementation of biofuels into the airline industry.

From January 2010, monitoring of emissions and traffic data began in preparation for the start of aviation’s entry into the EU Emissions Trading System in 2012.

Our carbon efficiency is expressed in grammes of CO₂ per passenger kilometre (gCO₂/pkm). Our target is to improve our fuel efficiency to 83 gCO₂/pkm by 2025.

In 2009, this was 106.1 gCO₂/km. As a comparison, the average for a car is 109 gCO₂/pkm. This represents an improvement on last year reflecting better aircraft utilisation, higher load factors and savings delivered through our carbon efficiency programme.

Our carbon footprint was 16.67 million tonnes of CO₂ in 2009, a reduction of 5.2 per cent over the previous year. This is due both to fuel efficiency improvements and capacity reductions during 2009.

During 2009, more than 126,000 passengers offset their emissions. We are the first airline to meet the UK Government’s quality assurance scheme for offsetting. We continue to improve our carbon offset product by offering passengers to offset according to their cabin of travel. The scheme helps to support vital renewable energy projects in China and Brazil.

We are also the only airline and, indeed, one of the first UK companies to complete a Forest Footprint Disclosure (FFD). This is an audit of the impacts of our business on global deforestation.

Noise

We are investing in quieter aircraft and changing the way we fly to reduce noise impact. 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 airports and is one of the key areas where we want to improve. During 2009 at Heathrow, we reduced the number of departure noise infringements by over 30 per cent compared with 2008.

Air quality

We have a number of operating initiatives to improve our air quality performance. We are modifying our Boeing 737 (CFM56-3) engines to deliver a 20 per cent reduction in Nitrogen Oxide (NOₓ) emissions. The recently introduced Airbus 318 (CFM56-5B) is a lower NOₓ engine.

We use aircraft stands with fixed power and pre-conditioned air so we rely less on using aircraft auxiliary power units and have also developed procedures
for aircraft to taxi on one less engine after landing. We operate a large fleet of electric vehicles and continue to be a member of the Heathrow Clean Vehicle Programme to further improve the environmental performance of our ground fleet.

**Waste**

We aim to improve resource efficiency through waste minimisation, increased reuse and recycling and reduced disposal to landfill.

We are on track to achieve our target of recycling 50 per cent at our main bases of Heathrow and Gatwick by the end 2010. We achieved 39 per cent recycling throughout 2009. We are also on track to meet our target of zero waste to landfill by the end of 2010 for our main activities. Over the last year, the amount of waste managed through our contracts at Heathrow and Gatwick disposed to landfill on an annual basis reduced by 36 per cent from 3,424 tonnes to 2,187 tonnes. We have also begun processing our non-recyclable waste at Heathrow and Gatwick through a waste to energy plant which will enable us to meet our zero waste to landfill target.

**Community Investment**

We are committed to supporting communities in countries where we operate through our community investment programme. At present we work with over 120 community and conservation organisations worldwide. We also have an extensive education programme for children and young people at our Community Learning Centre at Heathrow, which has welcomed over 58,000 learners since it opened in 1999.

Our 16 year partnership with UNICEF came to a close in March 2010. We raised more than £27 million through the generous support of our customers and colleagues through the Change for Good programme. Since the partnership began we have funded projects in over 58 countries and all of the projects we have supported leave a valuable legacy for vulnerable children in the communities where both British Airways and UNICEF operate.

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### Summary of environmental data and targets

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>2009*</th>
<th>2008*</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carbon efficiency gCO₂/pkm**</td>
<td>83 by 2025</td>
<td>106</td>
<td>107</td>
<td>110</td>
</tr>
<tr>
<td>CO₂ emission (million tonnes)</td>
<td>16.67</td>
<td>17.60</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>Average noise per flight</td>
<td>15% reduction by 2015</td>
<td>On track***</td>
<td>On track***</td>
<td>On track***</td>
</tr>
<tr>
<td>% Recycling (LHR and LGW)</td>
<td>50% by end 2010</td>
<td>39.0</td>
<td>35.1</td>
<td>30.1</td>
</tr>
<tr>
<td>Waste to landfill (tonnes LHR and LGW)</td>
<td>zero to landfill by end of 2010</td>
<td>2,187</td>
<td>3,424</td>
<td>3,688</td>
</tr>
</tbody>
</table>

* Calendar years.

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

*** Our fleet replacement programme is on track to deliver this target.
London 2012 Olympics and Paralympic Games

During the year, we continued to build on our sponsorship strategy for London 2012. Olympic hero Sir Chris Hoy launched our Great Britons Programme which offers free flights to help British talent realise their potential. We flew the British and Irish Lions to South Africa for the Lions Rugby Tour and we are proud to be backing the bid to stage the FIFA World Cup in England in 2018.

The workplace

We are continuing to make big changes to the way we run our business so that we can achieve our strategy of becoming the leading global premium airline.

Our main aim is to develop a customer focused, high performing culture that offers rewards for great individual performance but also recognises different people in the business have different needs in terms of benefits, training and development.

At the year end our manpower equivalent was a total of 36,832 across our operations. This is a reduction of some 3,800 since March 2009, all on voluntary terms.

We completed the restructuring of our management staff at the beginning of 2009. We now have a leaner, more agile organisation, but we have also improved governance and accountability in the business.

Having the right leaders with the right support and motivation is essential if we are to create a high performance culture. High performance leadership means that our managers can engage with and involve their people in achieving world-class levels of productivity.

We are now exploring new ways to boost efficiency and achieve greater value for customers across the rest of the business, with a particular focus on further improving employee engagement. Colleague surveys will now run quarterly and include an engagement index that managers are expected to track and take action on.

The latest survey showed that 60 per cent of our people feel generally well informed about the Company, with more than 90 per cent aware of the financial situation. Face-to-face communication has been more important than ever this year; we run regular briefings across the Company so that as many people as possible can meet, question and share ideas.

Measuring our community investment

We continue to be a member of both the London Benchmarking Group (LBG) and Business in the Community (BitC). The LBG’s model is used to assess our total contribution to the community.

Our partnership with UNICEF, Change for Good, raised £1.3 million from on-board donations in the year to 31 March 2010.

Some 3,330 retired and current employees donated over £600,000 directly from their payroll to their chosen charities through our Giving Scheme during the year.

BitC reported our total direct and in-kind donations for 2009/10 at £5 million (2008/09: £5.4 million). Of these, direct charitable donations amounted to £190,000 (2008/09: £444,000).

London 2012 Olympics and Paralympic Games

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We are delighted to announce that our new global charity partner will be Comic Relief. We believe this move will strengthen our long tradition of raising money to support disadvantaged people in acute need, both at home in the UK and across the world’s poorest countries.

1 At Heathrow we use hybrid Linde super electric tugs. We operate a large fleet of electric vehicles and continue to be a member of the Heathrow Clean Vehicle Programme to further improve the environmental performance of our ground fleet.

2 We have an extensive education programme for children and young people at our Community Learning Centre at Heathrow, which has welcomed over 58,000 learners since it opened in 1999.
Running a responsible business continued

with senior and line managers. Live online forums have also played their part in encouraging wider dialogue and understanding. Other communication channels include a personalised intranet, mobile SMS messaging, video and a range of Company-wide and local newsletters.

Employee relations
The challenging financial and operating environment we faced during the year meant we had to make some fundamental changes to the way we work to manage our way through recession. Many thousands of colleagues responded fantastically to this challenge, including working temporarily for no pay, working part-time or taking unpaid leave.

We continue to work towards resolving the cabin crew dispute and, longer term, we want to work with the unions to create a new and modern framework for industrial relations within British Airways.

We tabled proposed changes to some of our key employment policies during the year. We will continue to work with our colleagues and their representatives to introduce these changes as soon as possible.

Reward
We recognise how important reward is in making British Airways a great business to work for. We are committed to creating an environment where our colleagues feel valued and are recognised fairly for the individual contribution they make.

One of our key aims is to provide total reward packages which encourage high performance and outstanding customer service throughout the business. To support this aim, we continually look for better ways to communicate with colleagues about the rewards we offer. We want to offer them real flexibility and the ability to choose benefits that suit them, including in their pension arrangements.

Training and development
We carried out 173,000 days of training during the year. This included some 9,000 days of training for cabin crew – twice as many as in 2008/09 – designed to make sure they have the skills to offer our customers the very highest levels of service.

Our training team also put huge resources into training volunteer cabin crew to CAA standards during the year as we prepared for the threat of industrial action. The large number of courses we ran meant we were able to keep a high proportion of our customers flying during the cabin crew strike, a remarkable achievement.

Our Leadership and Talent strategy is a critical part of our efforts to become the leading global premium airline. Leadership development continues and is being rolled out more widely in the airline to make sure we embed cultural change and put a real emphasis on the importance of our managers listening and acting on feedback.

There is no ‘one-size-fits-all’ where training and development is concerned. Different people have different needs. During the year we therefore began developing a new approach. Our aim is to create a learning culture where individuals have the right support, resources and motivation to take responsibility for their own personal development.

We continue to attract and develop talent at all levels. Last year this included taking 100 people on to new Engineering Apprenticeship programmes and hiring 20 graduates to our Graduate Recruitment programme which now totals 50 in the business.
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.

We continue to focus 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 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.

All frontline employees are trained in disability awareness to increase their knowledge about disabled customers and employees.

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

The marketplace
Customer
We listen carefully to our customers because it is our best guarantee that we will invest in the products and services they value most. Their feedback and opinions have a huge bearing on our strategy to become the leading global premium airline with a sustainable future.

But it’s also vital that we listen to their wider concerns. They expect us to be a highly responsible business with an active CR programme. For that reason, we are embedding our One Destination programme into every aspect of our products in a visible and high profile way.

Premium service
We aim to provide a premium service to all our customers at every touch point, providing comfort, convenience and reliability. Our people play a crucial role in delivering the upgraded customer experience we want everyone who travels with us to enjoy.

In keeping with the best companies in the hospitality sector, we are investing in an extensive training programme for our customer-facing colleagues to support this.

The service we provide on the ground at our main hub, Heathrow, is highly valued by our customers. In 2009 we consolidated our Heathrow operations by completing the final moves out of Terminal 4 into Terminal 3 and Terminal 5, thereby offering a smoother travel experience, extensive facilities and consistently high levels of punctuality.

Our new premium lounges at Terminal 3, which we share with our oneworld partners, are proving as popular as those in Terminal 5.

On-board experience
Our long-term commitment to offering premium products valued by our customers saw two important launches
During the year we continued to build on our sponsorship strategy for London 2012.

During the year. The innovative, all-business class service from London City to New York was launched in September and was an instant success with customers.

We also introduced our stylish new First cabin, offering our customers a sophisticated environment in which to work, sleep, eat and be entertained.

ba.com
Our website has become a significant and integrated part of the British Airways travel experience. We are constantly improving our online offering to make it easier for customers to find the best offers, make the right travel choices and purchase more extensive travel packages in one seamless booking.

Nearly one-third of our bookings are made through ba.com, accounting for 20 per cent of our revenue. ba.com has also become an invaluable medium for communication with our customers, becoming their first point of call for up-to-date information especially during periods of disruption.

In 2009, improvements included the introduction of the value calculator, allowing customers to see the extra value they receive when they choose to fly with British Airways rather than with one of our competitors.

Cargo
BAWC has a reputation for tremendous innovation. During the year we once again led the field by introducing the next generation of cool chain airfreight logistics products, under the brand name Constant Climate. We have also started developing our express airfreight proposition, Prioritise, which will be relaunched during 2010.

Our Boeing 747 freighter programme, operating cargo-only flights to 16 destinations on key global trade lanes, continues to be successful and we have now reaffirmed our strategic commitment to this market.

Our loyalty programme, offering small and medium sized businesses the opportunity to earn loyalty points to use on flights and hotels, has proven its worth in the downturn, winning continued support from this important and valuable customer segment.

Overseas branches
We fly to a number of destinations around the world (see pages 2 and 3). 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
Each year we spend some £5.2 billion purchasing goods and services from our suppliers. We are determined to build strong and trusted relationships with our supply partners but also to boost the efficiency of our procurement process.

Efficient procurement
We procure goods and services through a strategic sourcing process, using benchmarking to make sure we achieve maximum value both at the point of purchase and over the life of a supply contract.

During the year, our procurement team reviewed our spending with our top 500 suppliers who account for some 94 per cent of total annual external spend. The structure of our commercial deals and the specification of the goods and services being bought were fully investigated, resulting in considerable savings over the year.

Corporate responsibility in the supplier base
As we describe in more detail in our annual CR report we have taken a fresh look at our supplier CR strategy. Called ‘Responsible Procurement’, the new multi-faceted approach allows us to understand much more clearly if the CR credentials of our suppliers match up with our own ‘One Destination’ corporate goals.

Supplier risk
We have overhauled our supplier risk assessment and monitoring process in favour of a less subjective approach, using external company data and analytics.

Payment performance
We continue to maintain supplier payment performance around our target of 90 per cent of suppliers paid in accordance with mutually agreed terms. The number of days’ purchases in creditors at 31 March 2010 is calculated in accordance with the provisions of the Companies Act 2006 and was 33 days (2009: 32 days).