# *BRITISH AIRWAYS*

# *INVESTOR DAY 2009*

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**George Stinnes** [Introduction and Housekeeping] It is a long agenda today and we have taken away the tour because there are many things to talk to you about. I think we have just about managed to cover all areas of the business and we thank many of you for your input into this agenda, because don't think that we do it in absence. We certainly try to answer the questions you would like to ask of us. With that, I would like to welcome Martin to the stage to formally introduce the day to you.

**Martin Broughton (Chairman):** Thanks, George, and I liked your bit about becoming older and wiser but I have learned it is easier to become older than it is to become wiser. Welcome everyone and I would like to introduce to you four of our non-executive Directors who are here with us today. On the table here we have Alison Reed who is Chair of the Audit Committee, Ken Smart who is Chair of the Safety Committee, we have Denise Kingsmill and somewhere we have Jim Lawrence over the back there.

At the AGM last year, I spoke about the aviation industry facing the gravest crisis in history. I was referring to the fuel crisis. It is symptomatic of the speed at which things change that that today is the least of our problems. The reason it is the least of our problems is the economy in general. If you look at the last six months, each successive month our Premium business deteriorated and in each successive month the GDP forecast deteriorated. What you have seen in the last quarter of 2008 is IATA said just the other day that the industry lost $4 billion in the fourth quarter, I think the first quarter of this year will be worse than that, so you can see the way the entire aviation industry is going.

If you look at the economy, all of us have been surprised at the speed with which it has turned down and there is a kind of pro-cyclical effect: if each company and each individual does the logical thing, which is to hunker down for the difficult times, save cash, cut back on discretionary expenditure, cut back on capex, we get a much more serious economic recession or downturn than we would otherwise have. It becomes a self-fulfilling effect. We are certainly suffering from the fact that everybody else is seeing the travel budget as part of their discretionary spend. We also are taking similar action across the front.

When does this cycle turn? Obviously, nobody knows but it is fair to say that the actions being taken from the macro-economic level are the right kind of actions. The fiscal stimulus, the low interest rates, the low inflation rate, the sterling impact – all of these are absolutely the right sort of thing. However, we cannot expect things to turn around straight away. Sometimes you see the media expectation that the last things the Government did three weeks ago, nothing has happened as a result, it is not working, what are you going to do next? The Government are not helping that by being hyperactive in trying to come out with a new policy almost every week. If you look at what they are doing, we would like to see more done than spoken about, we would like to see more being implemented on the credit crunch for example. The words are alright, the intentions are correct, they will take the actions but are just being a little slow in doing them.

It is fair to say that the macro-economic stance being taken is the right one. In the normal course of events, one would say that should start to take effect towards the end of this year, the beginning of next year. For our planning purposes, we making it a two-year scenario rather than a one-year scenario and, as you will hear today, we are working on the assumption that things do not get better for two years. The macro-economics suggest one year to me but I believe it is wiser to be cautious on this front.

Today, as you saw, the agenda is a very full one. My understanding is that you have asked through the feedback system to see more of the full management board team. Willie will introduce that management team which has been restructured recently, and later in the day he will talk a little about Iberia and the environment which is on everybody else's schedule. At this stage, I shall hand over.

**Willie Walsh (Chief Executive Officer):** At this time last year, I stood on this stage and I counted down to the opening of T5. For those who listened to me carefully, I said that I would not celebrate on the opening day of T5 and, as things turned out, I could not have even if I had wanted to, but that I would one year on look back at our performance in T5 and, at that stage, declare it a success. That is what I believe I can do today. We are not quite one year on, today is day 344 of the operation in T5: I used to count down to the opening, now I count away from it.

If I look at 343 days of operation in T5, I can honestly stand here and tell you that we have transformed customer service at Heathrow, and we have transformed our operational performance at Heathrow, and our operational performance across the network. Silla Maizey, our Director of Customer, will talk to you in a short while and tell you what our customers are telling us about T5. Then Andy Lord, Director of Operations, will show you what we are measuring in terms of our operational performance, what it is we are delivering compared to what it is we used to deliver at Heathrow, and I believe the figures will speak for themselves.

Drew Crawley, Director of Sales & Marketing, will talk to you about the opportunity that T5 represents going forward and particularly the opportunity it represents in what the Chairman has described as an incredibly difficult external environment. Keith, as you would expect, will take you through the finances, and show what we are seeing at this stage in terms of T5's delivery against the original business plan that we have from Terminal 5. So you will get a lot of information about T5 as we go through the day.

Much was written about how we failed to deliver and I think it was fair criticism of our performance around the opening day. Less was written, however, about the way we picked ourselves up and showed real determination to correct the mistakes that we had made, fix the problems that existed in T5 and deliver what we had promised. I say that because there is clear evidence of people in British Airways being able to face up to challenges. We have faced many challenges in the past, as George has said, and I believe we have the people within the organisation, we have the teams throughout the business who can deliver in these challenging times ahead. I shall take you through some of the management team in a moment but I do want to reflect on the performance of everybody in British Airways, because I believe that everybody in British Airways deserves great credit for the performance following the very bitterly disappointing days around the opening. It is great to see that we were able to pull together as a team and to deliver on what we promised.

**To be the leading global premium airline**

As we became confident around our performance in T5, we felt it was important to articulate our vision for British Airways, and this was particularly true internally. Our vision should not surprise you: we want to be the leading global premium airline. This is a vision rooted in what we do best. To deliver on that, we need an uncompromising focus on five strategic imperatives, and you will see this chart a lot today. By the time you leave here today, you will be very familiar with everything that is on that chart.

**Core themes of our business plan**

I shall not take you through it in detail because Robert Boyle, after I have finished, will take you through each one of these and explain the initiative in more detail. We believe we can deliver. We believe that we have the ability and the focus to be the leading global premium airline. In simple terms, we believe that if we can deliver customer service on a consistent basis, we can become the airline of choice. To deliver that, we must have a high performing market-focused culture. We have embarked on a significant culture change programme within the business, and Tony McCarthy, our Director of People, will talk to you later on about what it is we are doing there. The combination of that airline of choice, delivered by a business that is clearly high performing with that market focus, can deliver financial results that make us financially fit and return to you, our shareholders, the rewards that you expect.

**Dual focus**

In simple terms, we have to focus in this environment on our short-term imperative of financial survival. We are in very difficult circumstances. I have been in this business for 30 years, I have seen a lot in those 30 years, I have gone through 9/11 but this is unlike 9/11. 9/11 was a lot easier than the environment we are seeing today. This is not like the first Gulf War, which was tough. This is much tougher, so there is no model, there is no plan we can look back on to say this is what we need to do.

What helps for us is to have that vision in place around what we want to be for the future, and having a very clear on our short-term survival, and balancing the need to survive in the short term, while being clearly focused on what it is we have to do for long-term competitiveness. We may have to compromise on some of these issues but the one thing we will not do is take actions today that will prejudice our long-term competitiveness. Therefore, you will see us talk about balancing the need to deliver improved customer service while, at the same time, reducing costs. I do not believe there is any contradiction in that. I honestly believe that we can continue to reduce our costs while, at the same time, improve customer service, and T5 is evidence of that.

We shall be able to show you how we have improved customer service in T5. We shall be able to show you how we have transformed customer service in T5 while, at the same time, reducing our costs and while, at the same time, having the opportunity to reduce further our costs in Terminal 5. We have to talk about balancing the need to conserve cash, to do everything we can to ensure that we have liquidity while, at the same time, making brave decisions around investment in the future. You will see one of those investments here on the stage. This is the new First product, we recognise that we have to continue to invest in this business if we are to have a long-term future, if we are to be successful when things improve, and things will improve. Therefore, we shall continue to invest where investment makes sense. We shall continue to have an absolute focus on retaining as much cash as we possibly can to ensure that we are not one of the airlines that will risk survival as we go through this. Getting the balance between those issues is something I believe we can do.

**Management structure**

We always intended to restructure and to reduce the management following a successful transition in Terminal 5. Again, as we grew in confidence around the performance of T5 and as we developed our strategies, it became clear to us that we could go further, we could do more. As we developed our plans around culture, we recognised that we had to do more and when we overlaid that against an ever-deteriorating external environment, it clearly said to us that we needed to act much faster than we had planned. In late summer, we announced, not without risk, a plan significantly to reduce and restructure the management at British Airways.

We offered voluntary redundancy terms to every manager in the business and made it clear that anyone who applied would be allowed to leave. That was a risky thing to do but we felt that the circumstances dictated a need to show urgency and to show that we were prepared to take risky decisions, balancing them against the needs of running the business, against the needs of maintaining a safe and secure operation.

The advantage of doing that is that it caused every manager in British Airways to give very careful consideration to whether they wanted to stay in what was going to be a changing environment in a changing culture, or to take the opportunity to leave. It also gave us the opportunity to conduct this restructuring in a very short time frame. All people who applied to leave were to leave by the end of December, and it enabled us to do this quickly and to transition to a new management structure and a new management team quickly. It avoided the creation of any distraction from what was going to be an important focus on customer service, on cost control, on restructuring the business.

About a third of our managers – 480 managers – elected to leave, and I am very pleased to say that the restructuring has gone extremely well. We have streamlined the structures within the business. We are changing the culture within the business and I had to reflect that in my direct team. The culture in British Airways when I joined, and this is not a criticism, could typically be described as one that depended on consensus: everybody had a view, everybody believed they had a say, everybody believed they had a veto. It was often said that the debate only started after the decisions were taken, and that is not a safe way of operating. That is not an efficient way of operating and we had to change that.

**Management Board**

In restructuring my team, we have split it into two, to ensure there is a clear focus on the future and the strategic imperative. That is done by what we call the Management Board which has responsibility for overseeing the financial performance of the business, overseeing the organisational health of the business and clearly focusing on the strategic development of the business.

**Customer & Operations Executive**

The other side of the team, what we are calling the Customer and Operations Executive, does exactly what it says. This is a team of people who have collective and individual responsibility for delivery consistent high standards of customer service and consistent high standards of operational performance. That team spends a lot of time looking backwards at what we have done, how we have performed, measuring what we delivered and looking at ways of improving that. They have the responsibility and the accountability to address savings in our performance be it to the customer or within the operation, to correct them and move on. This is about continuous improvement to ensure that we can deliver the highest standard and consistent standard of customer service and operational performance, and I believe we are seeing the benefit of that in the performance that we have today.

**Today's presentations**

I shall hand over to Robert but, before I do so, I want to talk you briefly through the people you will see presenting today. Robert will talk to you about the strategy and the strategic imperatives. Silla Maizey will talk to you about what it is we are doing for the customer, what the customer is telling us we are doing for them. Andy Lord, Director of Operations, will show you how we are performing at an operational level, he will show you how we have transformed the performance at Heathrow and across the network. Drew Crawley, who is Head of Sales & Marketing, will focus on the opportunities that T5 presents, he will talk about the revenue environment and the sales environment. Then Tony McCarthy will talk to you about the culture change programme, he will talk about the IR change programme that we have in the business. We shall talk to you about the challenges we face and ensuring that we engage much more effectively with our people, and bring them with us as we go through this period of significant change in what is a challenging environment.

Then Keith will show you the financial performance and give you some outlook in terms of the year ahead. George does not report directly to me, he reports to Keith but George will do his usual presentation in terms of the balance sheet financing, which will follow on from Keith's presentation. Then I shall come back and talk to you about the environment, consolidation, Iberia and what it is we are doing on that, and then we shall have an opportunity for questions and answers. As the Chairman said, it is a detailed agenda. I think you will enjoy the presentations, you should have a much better insight in terms of what our strategy is and what we are doing, what we have done in terms of customer standards, what we are intending to do going forward, and the performance of the business both operationally and financially. Thank you.

## STRATEGY
## Robert Boyle
## Director of Strategy & Business Units

I shall start with the industry context and none of this will be news to anyone in this room. We clearly face a really difficult economic situation on a global scale and the pace of deterioration in the last few months has taken everyone by surprise.

**Outlook for 2009 sharply downgraded**

The deterioration has been swift and across the board. All of the major economies to which we have exposure have seen a big deterioration, and it is interesting when you look at this slide to see that the rate of deterioration has been faster in the Asian economies, which were the ones that were holding up better. So it is pretty much across the board from a geographic perspective.

**Downturn affecting broad range of sectors**

It is also a particular hit for the banking sector and you, of all people, will feel that very keenly, but it has spread to the broader economy and pretty much every sector of the economy is seeing job losses and the UK economy has been affected.

**Consumer confidence at an all time low**

It is not just the corporate sector but also consumer, with consumer confidence levels falling to all-time lows. I could probably put up another 10 charts after this with business and consumer confidence in various economies across the world and give a similar picture.

**Global air travel hit hard**

That has had a similar impact in terms of aviation demand. We have always been a cyclical industry. It has hit Premium demand particularly heavily with double digit decline. This is the IATA global traffic stats, and it has also hit Economy demand, coming down from previous levels of 5% growth to a similar decline, with the inevitable result in terms of the industry profitability - Martin quoted some industry profit figures - and also a number of airline failures. It is probably fair to say that more of these failures were linked to the high fuel price environment than the current economic environment. In some ways, high fuel prices were a better mechanism for flushing out weak business models and taking capacity out of the system. So, doom and gloom. I shall offer you a few crumbs of comfort, a few reasons perhaps to buy British Airways shares rather than others in our industry. I shall start with the traffic performance, bringing it back closer to home to the airports from which we operate.

**Heathrow faring relatively well**

The good news is that Heathrow traffic is holding up remarkably well on a global context. You can see that those three gold bars are the three main London airports – Heathrow, Gatwick and Stanstead – and Heathrow within that is one of the best performing airports on a global scale, with only the likes of Dubai with what I am sure what feels to them a very catastrophic 5% growth rate in passenger numbers at Hong Kong, which was about flat in the most recent month's figures that we have actually beating it.

Part of that is due to some of the expense of Gatwick in terms of Open Skies move, but I believe that is not all of it. If you aggregate the figures, it is still holding up rather well and we shall talk later in the presentation about some of the reasons for that as far as the role of Heathrow as a global hub.

**London LCC penetration closer to maturity**

The second thing I would point out in thinking about how this down cycle will play out, and how different players will perform in this downturn, is that one of the things we know happens when we have an industry downturn is that the low cost carriers see it as an opportunity to grow their share, taking advantage of businesses trading down to the cheaper discount alternatives, but also taking advantage of gaps left in the market, slots that become available as a result of the traditional carriers pulling back on capacity.

I am sure this will be a feature of this downturn as well. The one point I would make is that the industry maturity in terms of low cost carrier penetration into London has gone way beyond where it has across the rest of Europe; only the Irish market is more mature. I think you can see that if you look at the actions that local carriers have taken this winter: they have been decreasing capacity into London while continuing to grow – in some cases quite aggressively – their capacity in other continental European markets.

**US expected to lead recovery during 2009-2010**

The other thing I would say is that British Airways is known, I think rightly, for being particularly strong on the North Atlantic, and I shall say more about that in a minute. Although none of us can be exactly sure about how and when the recovery will come, most people would agree that we would expect the US to be at the leading end of that recovery, which I would say is a relative plus point for British Airways and its profile of business relative to others.

**Long-term strategy – to be the leading global premium airline**

That is enough on the external environment. I shall turn now to the strategy side and start with a slide that Willie showed you earlier: the vision to be the leading global premium airline. These are the five key enabling strategies that we believe we have to focus on and get right over the long term. I shall talk about most of those here this morning. I shall not talk about the differentiated service, because Silla will cover that in the next session, and I shall only cover half of the first topic about airline of choice for longhaul premium customers. I shall talk about what we are doing on the network side of that, and Silla will pick up on the product side.

**Slide**

I am not going to let her have all the colourful slides, though, so I shall put one up to say that the products we offer are a big part of being the airline of choice for longhaul premium customers, and we have a fantastic portfolio of products to do that with. The other half of it is having flights to the places people want to go, the breadth and depth of schedule, and in terms of being a successful longhaul player, it is all about hubs as a key supportive part of that.

**Heathrow as a global hub**

I want to talk about Heathrow as a hub. Historically, Heathrow has pretty big downsides in terms of a hub. Its position as a major European gateway and hub has been in relative decline for many years, which has been driven by the constraints here of runway and terminal capacity has been a huge issue for us, to which anyone trying to fly through Heathrow a year or two ago would attest.

The first thing I would say is that in a downturn, these strengths become less of a competitive disadvantage in an era where all the hubs are looking to try to hang onto and maintain network rather than grow it, with the possible exception of the Middle-Eastern hubs, and where you are trying to manage a capacity reduction while still preserving the integrity of the network. Starting from the standpoint where you are in a sense under-exploiting the potential for a period of many years of constraint is, I would argue, a competitive strength of this environment rather than a competitive weakness which is over the long term. I shall come back in a moment to talk about the third runway.

The other point I would make is that a couple of things have changed in the last year. The first thing is that we have new infrastructure which is both improving the connecting experience, the customer experience, it is giving us the capacity to cope with transfer volumes and, thirdly and importantly, it is giving us the opportunity of putting the vast majority of our Heathrow services into one terminal rather than being split between two terminals, which is a real impediment to offering connections across that network. That is the first thing that has changed.

**Sterling decline brings opportunities**

The second thing that has changed is what has happened to sterling. We do not know whether this will be a permanent feature or whether it is a feature for the next period. However, what is certainly true at the moment is that what has happened to sterling is significantly increasing the attractiveness to us of the yields that we can get out of our transfer market, selling in euros or dollars the traffic that will flow over London. That is particularly important at the time when the point-to-point markets are depressed.

Another way of looking at the sterling change is to push it around and think about what has happened to our relative cost position vis-à-vis our main competitors in Europe and in the US. As Keith presents our numbers, you will see that currency looks like a cost problem for us as we are reporting in sterling. If you put everything into a common currency – say dollars or euros – it is the same as an exporting manufacturer: a decline in your currency of production improves your relative cost position with the competition. With airlines although there are many costs that we all pay in the same currency, for example fuel in dollars, there is a big slug of the costs, most of the employee costs, which are incurred in the currency of your home base. We would estimate, although it varies from competitor to competitor, itinerary to itinerary, that it would give us a shift due to these currency movements of between 5-10% in our total cost of production relative to the competition. In an industry with margins which, at the best of times, are single digit, that is significant. Clearly, it is not decisive but it is significant, which is another reason why you will see one of the themes throughout today is that we believe we are in a good position – both with infrastructure and relative cost – to look to grow our share of the broader non-point-to-point market.

**Heathrow well-placed geographically**

Our Middle Eastern competitors will usually put up a slide a little like this in their investor presentations, pointing out that you can fly non-stop to anywhere in the world from their hub in the Middle East. I just want to remind everyone that you can do exactly the same thing from London. The only place you cannot do that is Australia – apologies to any Australians here – but with that exception, from London you can fly non-stop to pretty much anywhere in the world, and you can do it with aeroplanes that are not special variants with ultra long range and extra weight on board. It is a very well-placed geographical hub to serve the longhaul market. It is particularly well-positioned geographically for North Atlantic, and we are a relatively North Atlantic-focused airline, but we still have a much broader portfolio. The North Atlantic represents around a half of our longhaul capacity, and we have a broader network to places like Africa, India, Asia, Middle East and Latin America, and I shall talk more about those markets in a minute.

**Well-placed to serve largest longhaul flows**

As well as infrastructure and the right geographical location, the third thing you need to build a sustained longhaul hub is local market. London is peerless in this regard in terms of the longhaul international market. Of the 20 biggest longhaul O&D flows, London sits at one end of half of them. This map shows those 20 largest markets and graphically illustrates why we believe that the mission of being the leading global premium airline, is one that an airline with the strength we have in London, if we can get the right infrastructure which we are increasingly getting, we are in a good position to deliver on.

**Also well-placed in an alliance context**

Competition is nowadays increasingly fought out in an alliance remit, and you will probably have seen a variant of this slide in the Lufthansa presentation, explaining why their strategy of buying up lots of hubs and smaller airlines in Europe as being a necessity from their point of view to be able to aggregate all of those smaller home markets in order to sustain a globally-competitive longhaul network out of Europe. That kind of makes sense for them. Our approach is, we believe, slightly more straightforward. We have one very big market and we would like to add another more significant market with a complementary strength of the South Atlantic. OneWorld has fewer members, we are aware of that, so it has set itself the strategy of quantity rather than quality. We believe that the benefits to our customers and shareholders are better met by putting together fewer, bigger, higher quality pieces to get an alliance that is much easier to manage.

**North Atlantic network strength**

Coming back to the North Atlantic, I have said that Heathrow is particularly well-placed for serving the North Atlantic. This chart shows a plot of what I would call breadth, the number of North Atlantic destinations served, and depth which is the average frequency with which we operate to those destinations. While you have the likes of Lufthansa at Frankfurt who can match us in terms of the number of destinations, nobody can match us on the combination of breadth and depth. One of the reasons why I have put this chart up is that when you think about which hubs will survive and prosper during the downturn, which are the weak hubs that might fall out of the system, when it comes to trying to preserve an overall network proposition while looking to rationalise capacity, it is much easier if you start with an average frequency of two to cut that back, while still maintaining a competitive level of schedule and taking out capacity. It is much harder if you already have an average of one flight a day to think how you cut that back without becoming uncompetitive.

The two blue dots are Air France and KLM, they have two hubs, and if you could add them on top of each other, you would get a blob that was pretty similar to the Heathrow position. However, their challenge when they think about rationalising is which hub do you take the flights out of. It is interesting to see how they manage that, whether they decide to preserve CDG and downsize capacity out of Amsterdam, I guess possibly vice-versa, or take perhaps the more politically acceptable approach of balancing the capacity reductions across the two hubs, unfortunately weakening both of them in the process. Therefore, we have a more straightforward challenge as far as hanging onto our network and competitive proposition through a difficult period than some of our competitors will have.

I said I would not cover differentiated service for our customers, Silla will pick that up next, and complete the rest of the picture on the airline of choice for the longhaul premium customer. I shall move now away from London and Heathrow as a hub to talk about the other end of the route, the other key cities across the world.

**OneWorld presence in key global cities**

I need to move again to an alliance context for this. The reason why airlines club together in alliances is to combine the strength of their hubs and their market presence across different geographical markets and work together. What are the key global cities? There are a number of these lists, I have chosen one here that is done by Mastercard, a Worldwide Centres of Commerce Index, which gives a score for cities worldwide as to how important they are on a global commercial basis. London comes out as the biggest and most important, and I guess it will be interesting to see how this looks in five years' time: my bet will be that it will not have changed much but you would probably know more than I how that is likely to pan out.

The point I want to make is that OneWorld through its members has the leading position, or at least a very close No.2 position, in nine of the 15 biggest cities worldwide. The coloured bars are biased towards the left where areas where we tend not to be a strong player tend to be the smaller markets.

The one thing that is missing from this chart as far as OneWorld strengths and competitiveness versus the others is the issue of anti-trust immunity. To really get the value of putting together this fantastic global network that we can collectively operate and offer that in a seamless way to our customers is impeded by the fact that we do not have anti-trust immunity between a number of the key players. That is the subject of the next section.

**Transatlantic joint business agreement**

There are other issues we need to come back to in due course but the key piece standing in our way is on the transatlantic. As far as the transatlantic gap, and I hope most of you are frequent flyers with us, you will know you cannot earn pier point benefits and burn your miles on the transatlantic with American, and vice-versa advantaged members of BA. This is one of the more tangible gaps in our overall proposition. To fix that we need anti-trust immunity with American and structured agreements to work together. We have reach such an agreement with American and it is a three-way agreement including Iberia, so it reflects the shifting nature of the market nowadays which is increasingly an EU/US market, in particular post-Open Skies.

**Joint business overview**

My first chart acts as a reminder for those who have seen this before, or provides a quick overview to those who have not seen it. What is this joint business agreement all about, what is in it? First, as far as scope, it covers routes between North America – Americans define North America slightly more broadly than perhaps the Canadians or Mexicans might like – it covers a fairly broad definition of North America, and likewise at the European end it is the EU, Switzerland and Norway. It is not a joint venture in terms of the traditional joint venture that you would see in other industries where you have a pooling of assets, people and a legal entity where you merge the operations and so forth. It is a structured corporation, a financial sharing, economic pooling of interests. We shall still retain three brands and we are looking to exploit their unique strengths.

Generally speaking, it is about coordination of operations rather than integration, so we shall still retain a sales force in the States, American will still retain one in Europe, we shall still employ our own crew, they will employ their own crew. The Frequent Flyer programme will remain separate but we shall be operating seamlessly together and looking to exploit opportunities for synergies, which might give opportunities for some integration in certain areas but nothing that would threaten particularly the uniqueness of the brand of the three companies.

The key benefit areas for customers and for our shareholders are in these five areas. The first one is around coordinating network and schedules. Particularly at times of dislocation, the ability to work together to take capacity out of the system, for example, while maintaining the highest quality proposition for the customer, it would be extremely useful to have that immunity right now, or in better times to be able to work together to put new routes in and to plan growth that perhaps we could not do by acting alone but can when combining the strength of the various companies. Equally, aligning timings and so forth to try to get a better proposition for the customer without adding costs.

Around improving customer service and products that we offer: we generally believe that the other immunised alliances have not done that great a job on delivering that seamless customer service proposition that we all talk about. However, we are determined as a group to do that. I have talked about the Frequent Flyer loyalty benefits, the transatlantic gap being the biggest of those, and working together in terms of selling and pricing, being able to offer a comprehensive deal for customers who want to work that way, that covers all the operations of the three airlines. At times like these, we shall be looking hard for cost savings where we can get them through working together.

**Regulatory approval – the world has changed**

Regulatory approval is where we have fallen down. We have tried to do a version of this deal with American flights before and failed on the regulatory hurdle. None of us can totally predict what the regulators will say but our view is that the world has changed immeasurably since the last time we tried to do this. First, transatlantic competition has changed dramatically. US-EU Open Skies is now a reality, we are approaching the first anniversary. Heathrow is the most competitive of all the European hubs, I believe that is true generally but it is certainly true on the North Atlantic, and new entrants who claimed several years ago who claimed that there was no way they could possibly get any slots at Heathrow have somehow miraculously managed to do so over the last year, proving the point that we argued in our previous case. It is also important to note that since then the EU has changed its position on slot trading and now recognise that it is a legitimate and valuable pro-competitive part of the landscape.

The other thing that has happened is that all the other competitors now have their anti-trust immunity across the Atlantic, so the competitive landscape against which OneWorld is trying to compete has changed immeasurably. In terms of passengers on overlap markets, which tend to be the concern of the regulators, the vast majority of those passengers have non-stop choice in the case of our deal, something which is absolutely not the case with some of our competitors. Therefore, we believe that the facts speak for themselves, the world has changed, we cannot conceive how they can say no while simultaneously endorsing either new approvals in terms of Continental joining Star or a continuation of the existing arrangements. We shall have to see what the regulators say.

**Expected timing**

The timetable as we see it is we put our filing in back in August. It has gone more slowly than other applications have gone for competing alliances. We have had other interested parties raising a slew of issues on which the regulators have correctly seen they have needed to get additional information to ensure that they have properly taken into account those views. However, we hope that phase of information-gathering and so forth is very close to completion now, and from that point there is a six-month fixed timetable in the US, which we believe is the critical item for this. Therefore, we would expect to get an outcome of this some time in September/October.

We have got going with American and Iberia, large teams are now working on planning implementation. There are some things we cannot talk about at the moment because we do not have anti-trust immunity. There is a great deal that we can get put in place such that, when we get our approval through in September/October, as we hope we shall, we are in a position to move really fast on beginning to get benefits out of this both for customers and for our shareholders. We believe that with things like the Frequent Flyer gap on the transatlantic being a big ticket item, it can be turned on very quickly once we get immunity and we should start to get a significant portion of the benefits of this cooperation from early 2010.

**Open Skies**

Just a little reorientation – we are still on building presence in key global cities. We launched Open Skies back in June and strategically that is trying to strengthen our position in key global cities, in particular New York, linking New York where we have a lot of strength through our position through to London, with other major European cities. We have commenced services to Paris and to Amsterdam. The timing of this from an economic environment point of view has been very challenging and, as a consequence, we originally planned to have nine aeroplanes by later this year but we have paused it at four aeroplanes, including the two that we have acquired as part of the L'Avion acquisition, an existing player in the New York-Paris market. We shall wait for Open Skies to become more established and for the market to clarify when that is going to improve before we go for that.

The good news is that the customer feedback on this has been absolutely fantastic, and we are building market share. There will always be stories of odd flights that are empty, the launch phase is a challenging period, but we have some quite significant market shares now of the relevant segments of the New York-Paris market. If you look at it just in terms of passengers on board, you will get a smaller number because many of the competitors have hubs that are flowing not really Paris-New York traffic – hubs at either end of the route – and our proposition is an all premium one. However, if you switch to measures of point-to-point share, premium share, revenue share, you get double digit market share positions on those markets and they are growing every month.

**Continuing focus on emerging markets**

I have talked a lot about the big cities of the world. The other focus is around some of the key emerging markets, of which I would pick out four as being particular focus areas for us and, as you see, they are at the bottom of the slide for OneWorld. We serve all of these markets both in our own right, our own networks, and I have shown there the number of daily services that we operate to those regions, but also through our alliance partners. The American position in OneWorld is extremely strong both with our own services but, crucially, also Iberia, LAN and the American network. We are looking as OneWorld potentially at further members there in terms of Brazil.

Russia and India are strong markets for BA, particularly India, with over six daily flights. We have just started flights to Hyderabad but there OneWorld does not have a partnership member and, again, we signalled at the OneWorld 10-year anniversary that is an area of focus going forward. Likewise with China, this number here includes Hong Kong, greater China number, and the OneWorld member with the strongest presence in China there is Cathay Pacific who are very well positioned. Again, a mainland Chinese partner is something that we and OneWorld are keen to add.

**Sustain and build on our leadership position in London**

Coming back to London, a key part of our strategy is to make sure we both sustain and build on that very important position in London.

**Well-positioned in London**

We serve London from three airports – Heathrow, Gatwick and London City – and I felt it was probably a useful orientation exercise for you just to show you where we now are in terms of numbers of flights and deployment of capacity across those three airports.

The first thing I would point out is the dominance in terms of Heathrow, where around 90% of our capacity is located at Heathrow. In terms of what moves the dial on capacity numbers, and on other financial numbers, Heathrow is hugely important for us, hugely important for our proposition to the London market. However, in terms of spilling out that proposition, London is still constrained, Heathrow is still constrained, and we cannot operate the full breadth of network that we would wish to do for our customers out of Heathrow. Therefore, we supplement that with a presence at Gatwick with 80 daily flights largely to shorthaul but also a number of longhaul more leisure point-to-point-oriented markets. London City is a strategic play to grow our presence on the faster-developing side of London Docklands area. We fly 30 daily departures and, while in capacity terms it is not huge for us, I hope you will agree that it is an important part of our overall proposition for some of our key customers.

**Heathrow R3 – longer term opportunity**

Heathrow long-term position: our position here in London depends heavily in the long term on what happens with runway 3. We are very pleased to have received Government support now for a third runway. There are still a number of hurdles to overcome as far as planning and some of the environmental tests that have been set by the Government as hurdles that the airline community needs to overcome before that capacity can be used. This is probably some way beyond the horizon for most of your models but I thought you would be interested to see the context as to how significant it is when the capacity comes on stream as far as the overall Heathrow movements.

Today, the airport flies completely full at 480,000 movements a year. The new runway would come on in two phases. The first phase would take it to 605,000 movements, and there would then be a review which is today's estimate of what can be done by that point in terms of overcoming the environmental hurdles. There will then be assessment as to when we would expect to be in a position to allow full use of the runway which will take it up to 702,000. The timing for the second phase is a little more uncertain.

The other thing I would say is we have drawn ramps here and these are probably a little too sharp. The reality when new runways come on stream is that the capacity is released in stages. There are many changes to air space and so forth that are required, so it would be a smoother progression than this for the airport. To put that into context, this would deliver over a 20-year period between 2-3% per annum increase in movements at Heathrow. We believe that is both extremely useful and valuable for ensuring that Heathrow remains one of the premier global hubs, but it is not scary as far as the lumps of capacity coming on stream at any one time and the financial strain that might place on airports and airline operators. It is important for the long-term future, it will come on in stages over a lengthy period of time, and I believe it is a very sensible amount of capacity to come on stream.

**Heathrow new longhaul aircraft**

There are a number of environmental tests that have been set for using that capacity by the Government. We believe the one that is likely to be the limiting factor at any one point is the noise constraint, which is measured in these wonderful things called QC points here at Heathrow. Different aircraft are rated at different QC ratings, so for example a 747 is 4 on departure, 2 on arrival. The A380 which replaces it – some A380s will replace 747s – is half or a quarter of the noise. Likewise, in terms of the other aircraft that we have replacing, they all deliver significant reductions in noise. Therefore, the fleet plans that we have are a big part of us doing our bit to meet the environmental tests for Heathrow and, as the biggest operator here, what we do will have the biggest single influence on whether these tests can be met.

**Heathrow infrastructure improvements**

I have talked about the infrastructure improvements we have already had at Heathrow, there are some more still to come. Those of you who use Terminal 5 will know that probably the one part that is less than completely perfect is that there is still quite a bit of bussing in the peak, which is really because we do not yet have this building finished. We have the use of concrete and we have to bus our passengers, and when our building opens we shall have on-pier service from the second satellite building. That will come on stream in 2011.

We are also in the final stages of consolidating all the OneWorld services into Terminal 3, together with the BA services which are operated jointly with those or Australian-Spanish services and a few others bits of overspill that we cannot get through the stand capacity of Terminal 5. So we are pretty much there now, we just have our own remaining people services to Australia and to move in October this year.

Once T5C is open, that unlocks the ability to extend the automated baggage links through from Terminal 5 into Terminal 3 area, which will significantly increase our ability to manage faster connections, more efficient connections between OneWorld operations in Terminal 3 and Terminal 5, which are geographically next to each other. That will come about a year later.

**Gatwick**

We have adjusted our capacity for winter and we are going to reduce the number of shorthaul aircraft we have operating there from the current 32 aircraft down to 24. We are keeping longhaul at 8 aircraft, that is an operation that is still performing well. However, the long-term plans, as we work our way through this economic crisis, remain under review as to what we do longer term there.

Part of the reason why we are keeping our options open here is that there is about to be a change of ownership of the airport, and some of you might be involved in one or more of those bids, and we certainly see that as an opportunity for us to engage with the new owners to see whether there is a different type of deal that might be done which may suit both parties better.

**London City**

Finally, London City which we view as complementing Heathrow well. We have grown a network of generally business-focused destinations: 56 flights, that is out and back.

We have announced recently a reinvestment in the fleet, replacing the beloved RJ100 with a very comfortable and more efficient, slightly smaller Embraer 170-190s, and those start to be delivered from September this year.  While we remain committed to London City as a strategic part of our network portfolio, in the current environment we have taken a look at our growth plans which have been significant there, and cut back 17% from what we previously planned to do for next summer.  However, within that we are trying to make sure that we hang onto the business network and the key business frequencies.

**London City – New York**

The other piece of our London City plans is the New York service A318s, and we are still planning to launch that in September, which is six months away so anything can change in that time.  We could fly the aircraft out of another airport, out of Heathrow, on something if, for whatever reason, we decided to delay it.  However, at the moment our plan is to launch as planned in September.  We have received a lot of positive feedback from customers who still tell us that, even in the current environment, they will use the service which will be a real competitive differentiator for us in this environment.

**Summer capacity plans**

What does all that add up to in terms of capacity plans for the summer?  Previously, we have given you guidance of a 1% reduction for the summer, and we have been going back round all our numbers, looking at the projected loads on the flights, and we shall take another per cent out of our summer plans, which has pretty much entirely come out of longhaul plans.  We are taking flights out of multi-frequency routes where we feel comfortable that we are offering the right proposition to the customer, consolidating loads and saving some money.

In terms of the mix by airport longhaul/shorthaul, you have the figures here.  We have some extra slots at Heathrow this summer from deals that we have done over the last couple of years that are coming on stream this summer.  We were going to use those to grow our longhaul network using 777 deliveries but we have revised those plans and we are parking 747s and 767s instead and using 777s to replace them, and the slots we are now using for shorthaul at Heathrow, which is pretty useful given what I was saying earlier about the need for feed at Heathrow in this environment.

Gatwick takes the biggest reduction with a 10% reduction in Gatwick capacity this summer versus last year, and London City the summer version versus last year, the versus plan number I told you earlier is about an 8% reduction versus last year at London City, giving in total just over 2% reduction in capacity for the London network.

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

The final piece of the pie is around other revenue streams. While this is mainly talking about new revenue streams, new opportunities that we can generate, I have taken the opportunity with the business units part of my job title to talk a little about cargo.

**Cargo industry outlook**

The cargo industry has been in worse shape than the passenger industry with 25% type falls in cargo. The London numbers have not been as bad as the overall cargo numbers but it is a pretty difficult market. We would expect that downtrend to continue during 2009. Asia Pacific is the area that is most hit, which is the main reason why our numbers look better than those for the industry as a whole as we have a lower Asia mix than most other major cargo operators. We see significant declines in yields from fuel surcharges coming off and general pressure in the market capacity continuing. At this point, we are starting to see a recovery towards the end of 2009 in the cargo cycle. The UK export industry, such as it is, will benefit from what has happened to sterling, albeit import demand will be very subdued.

**BA world cargo outlook**

How are we doing in this environment? We are holding share – we are probably doing better than that. There was a big focus on operational performance improvement last year, which has worked extremely well, and we are doing extremely well in terms of rebuilding our positions with some of the major customers, and we have market share gains in a number of our key markets. As I said before, we are less exposed to the Asia market which is the one that has been particularly hard hit.

In terms of the commercial focus for cargo, there is a continuation of our previous strategy in focusing on driving the premium mix through products such as controlled temperature, we have new facilities and so forth that have just come on line. Also from a customer mix point of view, we have been very focused on the most important global freight forwarders. We believe there is an opportunity to gain share and target some of the smaller regional businesses that we have not really focused on before.

**Cargo capacity and cost actions**

From a cost point of view, we are looking at capacity. We are not a big freighter operator, most of our major European and Asian competitors have large dedicated cargo fleets. We have three aeroplanes which are on wet-lease arrangements, and we also buy in space on other people's freighters on a block space type arrangement. That way of doing things gives us quite a lot of flexibility at times like this to go back and renegotiate what capacity we want to buy and the terms under which we buy it.

We are also driving productivity performance across the whole operation doing things which Andy will talk about later, and we expect to see significant improvement in unit costs across the cargo business.

**Mileage**

The other business unit that reports to me, which I just want to touch on specifically in this area, is around mileage. I shall not talk about our loyalty proposition, what we are doing for our most frequent flyers, which Drew will talk about. This is about the business of running a currency scheme, and the likes of Nectar run these schemes. We have two currencies: in BA we have BA Miles, which is the one you will be familiar with as the currency in which we reward loyalty. We also have another currency called Air Miles, which is a UK-only currency, and we use that to run schemes for other companies, or as a redemption option for programmes such as Tesco Clubcard where one of the options for their points is Air Miles. This is an asset that we have somewhat neglected over the years and it is an asset that is particularly good for the environment we are in. While credit card spend is down, which is one of the collection opportunities and, therefore, puts some pressure on the business, what is certainly true is that people consolidate down their spend onto fewer cards and they are looking for ways to get free stuff in this environment. Loyalty programmes, Air Miles in particular, are well placed to help that.

We have had a real push over the last few months on trying to drive and exploit this asset. We have made a number of changes to the proposition to make it more attractive, simpler. You can now pay taxes, fees and charges with Air Miles. We have simplified the redemption proposition and those of you who are based in the UK may have seen a big campaign we have been running, and are still running, to raise awareness and getting in the front of people's minds the benefit of getting free stuff which resonates in today's environment. That has been extremely successful in driving up registrations and engagement.

The other thing in terms of unexploited asset is that Air Miles have some really good skills in converting redemption bookings into ancillary revenue, and we have moved the management of that activity of BA Miles into the Air Miles business so that we can get the benefit of their skills in driving that for the BA Miles side.

Finally, at times like these, many companies are looking for cost-effective ways in which they can drive share, drive loyalty, reduce churn and generate revenue. We have been approached by many people who are interested in working with us in this environment:

the loyalty and such schemes are a key weapon that they can use to deliver measurable, tangible benefits to them.

**Other ancillary revenue opportunities**

I am not going to talk about any of the other ancillary revenue areas. We shall cover a number of them later in the presentation. Drew will pick up on the first two. I shall say one word on baggage income because I do not think we are going to deal with it later. The difficult baggage performance that we had last year in the immediate aftermath of Terminal 5 made it very difficult to collect excess baggage. As we now have the operation working properly, we are focused on the collection coming through now. We have also introduced the heavy bag charge back in the autumn which is delivering well, so we should get some good full year effects coming through next year as that rolls through.

The other partnership opportunities piece I shall not talk more about, mainly because I am not in a position to share that with you. However, we are exploring in this environment co-marketing, what other kind of deals we can do outside of the traditional airline alliance space to drive revenue, to drive loyalty for us and for the bottom line. That is all I am going to cover and I shall hand over now to Silla, who will talk more about the customer.

## CUSTOMER
**Silla Maizey**
**Director of Customer**

I want to talk about our customers. Our people are our business and this whole business is about people, so we make it our business to understand how our customers think about us, what they do and how they perform in terms of what they want from us.

**We understand our customers**

We understand our customers, and how we do that is through a range of different things. We have customer forums, for our corporates we have something called the Global Travel Advisory Board, where we listen, talk and discuss the things that our customers want and expect from us. One of the most important parts of that dialogue is something called the Global Performance Monitor, and I am sure a number of you if you have flown with us have had the chance to complete one of these for us. We have 50,000 of these every month that go through our aircraft cabins, across all cabins, and we use this to listen to our customers, to gain feedback and then to see what more things we need to do.

We have had this running for many years but the thing I am most pleased about is the performance we have had over the last year has put this customer satisfaction survey up at 74%, which means that our customers have marked us in this form on the extremely satisfied and very satisfied categories. We are very proud of what that performance has done for us over this year.

**We engage with our people**

The other part of our people business is our own people, and in my Customer Directorate we have 20,000 people who deliver customer service for us, day in and day out. That is our cabin crew, it is our contact centre staff in our call centres, and it is our people here at Heathrow who deliver customer service every day. We invest in our people and the most important part of that, just in times like this when we are facing turbulent times, difficult times, is to commit and connect with our people. With this new organisation, I have been able to put in place a number of people in my leadership team, who have been specifically recruited for their capabilities and their attitude. A key part of that is their ability to communicate with our 20,000 people who deliver customer service. So communicating our message and communicating authentically and in a meaningful way with our staff is one of our major priorities at this time, so that they understand the current realities, they engage with us and we are having a proper meaningful dialogue.

We talk to our communities through their trade unions but we also talk to them directly, and Tony, our People Director, will talk to you about how, at this moment in time, we are engaging in transformational change, structural change with this community of people, but we also talk through mechanisms like this when we equip our managers, and you have this in your little shopping bag. This is the sort of dialogue and engagement process that we have with our teams so that they can be convincing and compelling, and be confident when they talk to our community. We are focusing on our people, a very important part of what they do.

**We focus on premium service training**

We are also investing in training and investing in training in our premium products. We embarked last year with Four Seasons Hotel Group and some other leading industry hospitality companies to look at how we can invest with our people in premium training. You can see some of our colleagues around the business, across the 18 airports in the US we have delivered premium service training. We have also had some programmes with our cabin crew, so we have programmes right now with premium service training going on with our cabin crew where 1200 of our crew who perform a premium service every day for us have undergone that training. That is building on the strength that we have with our staff, and leading the training programme coming forward – it is very powerful for us.

**We focus on service style training**

The other things we are doing around our service style are on the ground. We have right now a programme in place that we started in January for some of our ground staff, and over 50% of our duty managers at Heathrow have undergone that training. It is a one day training course and we are able to talk about how the training comes together, and how that helps them to deliver on the day customer service through our terminals.

**We focus on choice for our customers**

We have a series of other mechanisms that we use to communicate. We use our training endpoint and we also have forums called In Touch Days with our cabin crew. They come in and spend a day with us here with leaders from around the business, and we talk to our crew about what is happening in the business so that they can wrap their service style and be knowledgeable and aware when they are meeting our customers.

We also have daily business forums with our customer contact staff here on the ground, which enables them to wrap around their daily jobs delivering service alongside understanding what is happening in the current realities with our business. So they are aware and they are informed, and we are investing this time in them so that they can engage with our customers in a meaningful and authentic way. We are getting very good feedback from our people about this investment we are making in them, we are very proud of that.

Another part of programme of staff who work in our Customer Directorate is those in our contact centres. We know from our customers what is important is that they have the choice of how they connect with British Airways. An important part of that is ba.com which is an award-winning website, which we use not only as an important and powerful selling engine that Drew will talk you through, but it is a very important part of how we connect with our customers in terms of service. Thirty per cent of our customers are now checking in on line on ba.com. We have a Manage My Booking engine within ba.com that enables our customers to manage things like ordering meals, to look at upgrades and so on – it is a very powerful piece of technology for us. Those people are some of the staff in my team.

You also see here some of our colleagues who work in our contact centres. This new organisation has enabled us to bring our global contact centres together. We have facilities that represent the diverse network that we have, we have facilities in India, in Johannesburg, in America, a very important part here in Newcastle in the UK, and we have just been able to consolidate our Customer Relations Team into Newcastle. That is on the back of our really improved performance in our business so that we have been able to right-size the service that we give, and to consolidate it into Newcastle. We also have in Manchester a very direct facility, our Manchester group where we have specialist trained contact centre staff who work with our Exec Club holders. We have consolidated that into Manchester, so that you have a one-stop-shop for those who want to speak to someone and to have a concierge type service particularly for our Gold Card holders and our Gold Guest List. That is proving to be very powerful and engaging. We have about seven million customer calls each year into our contact centres, which is a very important part of our customer proposition.

**We focus on ground experience**

Turning to our ground experience, as you have heard Terminal 5 has given us in this last year – and we have our anniversary on 27 March – already 19 million passengers who have gone through. What you see there is that, against our Global Performance Monitor, we have an improvement in our customer satisfaction of nine points year on year. Our passengers love going through Terminal 5, it is an awesome experience for them and enables our people to deliver customer service that is second to none in that terminal. It is absolutely awesome and we are really proud of what that is doing for us.

There are some issues that we still need to work on, and we are working with the BAA on the fact that our customers tell us they are not satisfied with how they move through security. Also Robert mentioned some of our off-pier services, because the completed buildings are not there. We are working with the BAA on how to make the off-pier services a different customer proposition. So that is listening to our customers and listening to our premium passengers who are saying to us this is what we want you to do. We are working on some improvements there in our ground experience.

**We focus on premium check-in**

This is Terminal 3 and we are very proud of what has already happened in Terminal 3. Last week, we moved 21 of our services into Terminal 3 and it was a very smooth, excellent combined cross-functional move into that terminal. Twenty-one services have gone together, with our OneWorld partners consolidated into Terminal 3. We are continuing to do that so that in the autumn our longhaul services will come into Terminal 3, joined with Qantas we shall have a premium segregated customer service proposition. Again, it is listening to what our customers want and we are delivering for them. Terminal 3 will complete our suite of ground products here at Heathrow Airport, so that is an illustration of what that will look like when you travel through Terminal 3.

**We focus on lounges**

We are very proud of our lounges. Our lounges in Terminal 5, it is called a Galleries Project, and you can see that I am showing you an improvement year on year in our customer satisfaction where our customers are telling us what they like. In Heathrow Airport, our lounges have the capacity to hold 2,500 people at any one moment in time. In a day, we could have as many as 20,000 people going through our lounges. It is an amazing facility and the feedback shows that the investment that we have made in those products has really paid off for us.

It is called a Galleries Concept and we have eight other of our focus lounges in our focus cities around the world, and we have three more coming on line during this year, one of which is in Terminal 3. So in a couple of months, we shall have a new lounge proposition in Terminal 3 to complement the services we have moved into there and our longhaul service that will go in later in the year. We are very proud of what we have been able to achieve in our lounges and, again, it is what our customers tell us that they want to see.

**We focus on onboard experience**

We thought we would show you this sneak preview of our investment in our new First Class product, which will come on line and start rolling out from September. Our new aircraft have given us the chance to look at what we do in First Class, and we have been able to start our roll-out from September. During the break, please come and have a look at what we have here, which is a mock-up, a little sneak preview because you are very special to us and we thought we would let you have a look first.

On our onboard experience we also have contracted with a supplier for our new inflight entertainment, which will come on line with our new aircraft, it is with a company called Thales. We have also started in Club Europe a two-by-two configuration. Again, we are listening to what our customers want us to do. Onboard the aircraft, a targeted and important investment is planned into our capital programme, and you can see it there today.

**We focus on Club World**

The other part is to complete our Club World. We have already rolled out 747s, and again I am showing you the performance improvement in our customer satisfaction survey: that is extremely satisfied and very satisfied with our new Club World seat compared to the old Club World seat.

We are currently going through a programme of rolling out our 777, we are about half way through that right now and we shall continue on that Club World roll-out. There are some examples of products there. When you put together the combination of focusing on our premium people who deliver service for us and premium products, you get a return on investment squared.

**We focus on our supplier partners**

The other part of our partnership that we have in the Customer Directorate is our suppliers, and we have a number of them here today whom I have seen in the audience whom I met this morning. This is a very important part of what we do. We deliver with our own people, we deliver also through our partners and our suppliers, and the sorts of innovation that we look for right now you can see here where we are able to bring products to market quicker and more effectively. We look to our supplier partners to bring those innovations and when you look at some of the things we have been able to put here in First, we are able to bring products like this that will come on line from next month, so we are going to do some soft refurbs of our First. The reason why we can do that is because working with our partners, we can improve the products that the customers see and take costs out of the supply chain. When we can start to see efficiencies like that, those are important anyway but when we are doing it in times like this, there is a real value-add in how we work with the partnerships and with our suppliers. So our relationships are founded on cost performance and they are about how our relationships are formed.

We are looking at our partners, our caterers, the people who supply our films, our magazines, our ground handlers – as you can see, it is not only British Airways but it is British Airways' suppliers who are also delivering these things for us. It is about understanding our vision of being a leading global premium airline, and delivering that with us and through us, and giving us cost performance is where we are working and focusing. You will see some of the soft products that will go on our aircraft in April just outside there.

**We focus on our future**

You will have heard Robert talk this morning, and you will hear later on, about the investments that we have planned for new aircraft. That gives us an incredible opportunity so through our business planning period, we have new aircraft coming on line. Those new aircraft give us the opportunity to innovate.

**We focus on an upgraded experience for all**

We have been working with our airframe manufacturers and some of our OEMs to think about how we can deliver and take the opportunity to give an upgraded experience for all our passengers. Here we are looking at how we can put in some new seating for our World Traveller Plus brand, which works very well for us. We have not refreshed anything in that since 2000. In our World Traveller cabin, it is from 1998, so it is very timely that we look at that right now. The new aircraft give us the right cycle time to invest in that capital against new aircraft equipage. We working with those, they are drawings at the moment, and working closely on how we can use the expertise of the airframe manufacturers and our OEMs to capitalise on what is available right now and get that into service. That is something for the future and let us not forget that 70% of our customers experience the British Airways brand in the World Traveller cabin. It is very important that we look at an upgraded experience for all our customers, while we focus on our premium.

**We focus on new experiences**

We are also spending a lot of our time on innovation zone and thinking about these new experiences. Robert talked to you about the new experience of London City. When we thought about this innovation, we thought what is it that people from the City would like to see and do. You told us that you wanted a focus on a personalised service and what you see here today in our London City product are two aircraft, services six days a week, a 32-seat cabin configuration. Also because you are very special to us, we are showing you this outside, so please take a chance to have a look at that mock-up seat in the foyer so that you can see what that will look like.

We shall be the first airline to provide transatlantic text onboard the aircraft, so we shall have the technology to drive text and data, which again is what we have heard from you is what you want. So that is our new cabin, that is the London City product that will come on line in the autumn. I am very excited about that and you can take a look at it outside.

**We focus on a personalised service**

I want to leave you with some thoughts. I have just given you a quick focused presentation on what we do with our customers, and we focus on our customers. These are game-changing times and focusing on our people and our customers, and having cleverly targeted planned investments in our products leads us to believe that we are very well placed in these defining times.

## OPERATIONS
**Andy Lord**
**Operations Director**

It gives me great pleasure to add my welcome to Willie, Martin and the rest of the team today, and to talk to you about a part of our airline that infrequently we boast about. I am very proud today, as is everybody in BA, to be able to boast about the operational performance and the resultant fantastic customer service that we have been able to deliver over the last year or so.

**Our operation – FY 08/09**

Let me give you a quick reminder of some of the statistics around the scale of our operation. Many people think they know how big we are but, in terms of some of the key facts and many of you will be familiar with these so my apologies if you are, but I believe it is worth reiterating, we carry out a take-off or a landing somewhere in the world every 60 seconds – a fascinating and huge operation. We have just under 250 aircraft in the fleet and we have approximately 18,000 flight and cabin crew in the business, over 8,000 of whom will be on duty at any one time worldwide. We operate just under 780 flights a day across the globe to 157 destinations. By any comparison, it is a significant operation and this year we are expecting to carry in the order of 34 million passengers, and just under 575,000 tons of freight.

**Operational promise v delivery**

This time last year we made some promises to you as a community and to our customers. We said we are going to improve our punctuality, we will improve our regularity, which is our measure of cancellations – how successful we have been in operating our planned schedule – and we are going to improve our baggage performance. Baggage and punctuality are the two key measures that our customers were focusing on and, as a result, we are going to improve the customer experience. Within that, we set ourselves two internal targets: one was to become the most punctual domestic airline in London out of Heathrow and Gatwick and the second was to be in the top three of the Association of European Airlines ranking. For those of you who are familiar with us, we have regularly been at the bottom!

**Punctuality – progress on our promises**

I shall now take you through some of the progress that we have made. In our industry, there are many measures that are used for punctuality and we are just as bad at measuring all sorts of measures when it comes to punctuality.

**Network – 15 minutes**

However, the industry standard used throughout the world is on time at 15 minutes: that is whether or not the aircraft has pushed back from gate 15 minutes from its schedule or planned time of departure. The graph here shows our performance since April last year at the network level, so this is worldwide across the BA operation. The grey bars are the previous financial year, the green is for this financial year, and you can see with the exception of four months that we have beaten our own self-imposed target, and we are now up with some of the other leading carriers in terms of our performance.

The reason for that is primarily driven by our performance at Heathrow. Since Terminal 5 has opened, we have seen in the order of 20 point improvements in our on-time 15-minute level performance. That has made a massive difference to our operational punctuality performance worldwide.

**LHR 15 minutes**

If we send the aeroplane on time from London, it will come back on time from the other end of the route. We have done that through a number of different ways and processes.

**LHR T5 departures 15 minutes**

Terminal 5 has given us a tremendous opportunity with improved facilities and improved infrastructure. It has enabled us to introduce new processes and our teams across the Heathrow operation are working the new methods and new ways of working. It has also introduced some new challenges for some of our customers around the 35 conformance check, with which I know some people have an issue. However, it has fundamentally improved our on time performance, and improved our misconnected passenger rate: the number of customers who now miss our flights has reduced significantly because of the introduction of the 35-minute conformance point.

**LHR T5 regularity**

This graph, which resembles much of my heartbeat over the year, is the daily performance across Heathrow Terminal 5. There are a number of days you can see where performance has dipped and each of those is related to events beyond our control, whether it be capacity constraints or severe weather. However, the green line clearly shows the improving trend and improving performance over the year, and it is worth saying that across the year since April, we are averaging more than 80% of our flights departing within 15 minutes from Terminal 5. A year ago, it was less than 60%, so that is comparable to, if not exceeding, the other full service longhaul carriers at their primary hubs in Paris, Amsterdam and Frankfurt.

As far as our regularity performance, our measure of cancellations, have we delivered to you as our customers what we planned to deliver? It has held up and is very good. With the exception of the start of the year, which was immediately post the T5 opening, our regularity performance has been very good and we are averaging over 99.5% of our planned schedule is operating. That, again, is exceeding our target and comparable with the other European major carriers. It is worth noting as well that our speed to recovery is very quick. The beginning of February saw the snow events in the Southeast UK where we had to stop flying completing from Heathrow and Gatwick for a time but within 24 hours, we were back to normal.

**Progress on our promises – best days in T5**

What is the progress on the promises we made, what have been some of the highlights that we delivered over the last year? On punctuality, our best days so far Terminal 5, 14 October: 95% of the 280 departures on that day departed within 15 minutes, and on 19 November 94% of the entire network departed within 15 minutes. To get to the top of the Association of European Airlines league, the top performer normally hits 84% or 85%.

As far as baggage, to which I shall talk more in a moment, on 7 February our total missed bag rate was five bags for every 1,000 customers through Heathrow. Again, industry-leading statistics. The latest data we have on missed bag rate for the main European hubs are typically between 25-31 bags per 1,000 customers.

**Punctuality – record-breaking performance!**

Some of our own internal headlines: you will not have seen these before externally but these are measures that we set ourselves and performance that we have delivered during the past year. November was our best ever on time performance: 60% of our flights were ready to go and departed on time, that is at the zero minute level, 19 points up on the previous year. On the day that we flew back the Olympic team into Heathrow, 66% of T5 flights departed on time, and the records have continued to fall over the last year, culminating two weeks ago with over 140 of our flights from Heathrow departing early with their customers and their bags.

**Punctuality – Global Performance Monitor improvement**

It is all very well my standing here and telling you how good we are. What are our customers telling us?

**Network satisfaction with punctuality up 14% pts vly in Jan 09**

Silla has already made reference to the Global Performance Monitor and the ratings of “extremely” or “very satisfied”. I am pleased to say that the customers and yourselves are telling us that we have also improved. We are seeing a more than 14-point improvement versus this time last year, a staggering improvement, something that we have never seen in the company’s history. That is at the network level for January.

**Heathrow satisfaction with punctuality up 18% pts vly in Jan 09**

When you take that back to Heathrow, we are 18 points better than we have seen, and it is still on an increasing trend. We are confident that we can continue to deliver more and more.

**Baggage – progress on our promises**

Turning to baggage, this has been our nemesis over the years. Terminal 5 created a fantastic opportunity for us. Working in partnership with the BAA and a number of other key suppliers, we invested a huge amount of money and capital into the infrastructure and the system, and we committed at Investor Day last year that we would aim to deliver a short shipped rate of 31 per 1,000 – no more than 31 per 1,000 – which would put us on a par with the likes of Lufthansa, Air France and KLM.

**T5 is working – baggage to carousel**

I shall talk more about the statistics in a moment. However, for the first time in the company's history, because of our baggage performance and our punctuality performance, we launched an award-winning advertising campaign in August last year. We focused on a number of aspects of the operation, be it baggage delivery to carousel, be it departure time, be it time through security. As a result, we would only have done that if we had the confidence that we could deliver that to our customers, and we did and we continue to do so.

**T5 baggage performance – missed bags**

Delivery to carousel and our general short shipment rates are very good. The red line, which is very small against the scale, is what we call our direct performance, that is customers whose bags are travelling from Heathrow to a single point. The green line is our total Heathrow performance, which includes transfer bags, bags coming either from a British Airways flight to another British Airways flight, or from another airline's flight departing on a British Airways flight. The yellow line is our target and you can see that across the year we are regularly below our target and achieving it, despite all the events that are outside our control, be they weather-related or be they IT-related across the aviation network. However, it is worth noting again that the time to recovery is very quick. If I use the snow example in February where we stopped our entire operation and cancelled over 800 services, we repatriated all the bags – ALL the bags – within 36 hours, which again is unheard of compared to British Airways in the past at Terminal 4 or Terminal 1.

**LHR overall short landed baggage performance**

You can see that improving trend across the year, and for next year we are setting ourselves an even better target. You can see the comparison with previous years, the grey bars, and quite rightly see why our customers in the past have not been prepared to use us as an example for good bag carriage. This year has been a step change and it will continue to do so.

**Baggage – Global Performance Monitor improvement**

It is not only confined to Terminal 5. Yesterday, in Terminal 3 on the ninth day of the operation in Terminal 3, not one single bag was left behind: every single bag was carried with its customer, something that has never happened before.

**Network satisfaction with baggage retrieval speed up 13% pts vly Jan 09**

What are our customers telling us? Across the network, our customers are 13 points better more happy with what we are delivering than previously. We are regularly achieving rates in single or low teens across the network.

**Heathrow satisfaction with baggage retrieval speed up 25% pts vly Jan 09**

In terms of actual retrieval at Heathrow, since April last year we are averaging more than 90% of bags arriving to carousel within 35 minutes of the aircraft arriving on stand. In reality, that means for most customers that their bags are beginning to arrive on the carousel by the time they get there, which is pretty impressive. It is so impressive that a number of the long-term off-airport parking companies have had to change their processes so that now customers have to ring as soon as they get off the aeroplane, otherwise they spend more time waiting outside the terminal than they do waiting for their bags.

**Some things are still out of our control [*photograph*]**

However, we still have the occasional day where things are beyond our control. This was 1 February and you will all remember the depth of the snow across the country. The big, big positive out of that day was, again, at Terminal 5 and North Terminal at Gatwick, the facility that we had, the contingency plans we had in place and the levels of customer service in very difficult circumstances meant we were able to maintain and achieve. There were no marquees, no queues outside the terminal. Everybody was contained, rebooked and managed within the terminal over the next 24 hours and, again, every customer travelled within 24 hours, something that has not happened before. Our contingency planning and working with our key suppliers and key partners, particularly the BAA, has made a huge difference since Terminal 5 has opened.

What are we trying to do for the future? We still passionately believe that there is more room for improvement. We introduced services into Terminal 3 last Wednesday, 21 departures a day, as Silla has already mentioned, and that transfer has gone extremely well. On Tuesday, every single flight left on time, at schedule or early – again, something that we have not been able to achieve before.

Throughout this whole year, we have delivered this improved service as well as re-planning and implementing the revised flight switch plan to Terminal 5, and I do not think it should be underestimated that we re-planned the whole move programme in the space of five weeks and successfully delivered it, while maintaining and improving our standards of operational performance and customer service.  This is something that we, as an airline, are extremely proud of and something that the media and, to be frank, most of our customers, quite rightly, did not even notice – something I believe we should be recognised for.

**Operations – delivering cost reduction through even better performance**

Going forward, this gives us the opportunity further to improve our productivity and our cost performance.  We have already taken out, as Keith will talk to later, a significant amount of cost at Heathrow, both staff costs and through improved productivity, and we have more plans over the next year or two to deliver that.  Terminal 3 is being used as a benchmark of how we work differently at Heathrow, already having a multi-skilling workforce on the ramp area.

We continue to plan for new aircraft deliveries.  The first of our next 777 deliveries comes into service next month, and we are well on the way to planning for that.  We continually look to improve how we operate within Heathrow and within Gatwick and the other UK airports, focusing on what aspects can be used to deliver further enhanced customer service.  As a result, we are looking at how we can really use our improved operational performance to focus on the transfer opportunities that gives us, and Drew will talk more about that going forward. Terminal 5 enables us to deliver things that we have not been able to do before.

Finally, we have the last Heathrow terminal switch to British Airways which will be the move of our Joint Services Agreement operation towards the end of summer this year, and we also have a couple of major infrastructure programmes still to deliver in conjunction with the BAA: Terminal 5C, which Silla has already spoken about, which will be available from 2011 and the T3/T5 direct baggage tunnel.  It, too, will enable us further to improve our baggage performance.

In summary, we have gone a long, long way and made significant improvements over our operational performance, which our customers are recognising.  They continue to give us feedback on where we can improve and we shall continue to do that, but the opportunity has not ended.  We shall continue to drive for this going forward and we shall deliver both improved enhanced service for our customers, as well as productivity and cost improvement for the operation.  Thank you for your time.  I shall now hand over to Drew, Director of Sales and Marketing.

## Drew Crawley
## Director of Sales and Marketing

Thanks, Andy, and good morning everybody.

**Agenda**

A couple of years ago, if you were Director of Sales & Marketing, the main challenge you would have been worried about was what Andy and Silla have been speaking about. Now we have fixed that and I shall talk to you about the challenge facing us in Sales & Marketing today. I shall talk to you briefly about the revenue outlook as we see it, I shall not give you precise numbers for next year; Keith will take you through that in his presentation after lunch. I shall talk about market share because, at this time when the markets are shrinking, share is the important driver that we shall be monitoring, and our performance to date on that. Transfer performance has been mentioned by most of the speakers, and I shall show you how that is playing out and what we intend to do going further in the transfer space. I shall give you a few insights on market trends and how we can maintain the momentum that I believe we have at the moment going forward into next year.

**Total volume holding up**

On this first slide, the yellow line is last year's net new bookings, so it is a measure of activity in the marketplace if you like. Last year was one of our best years ever, so it is worth bearing that in mind and, overall, our volumes could be described as holding up. The squeamish slide is next, I am afraid, so if you are squeamish you should turn away now, because underneath that is this rather challenging and concerning performance in the Premium segment.

**Decline in Premium bookings**

What you can see if you go back all the way to April is that Premium was under-performing the year before. The impact we were seeing at that time was the weakening in the US market which started probably 12 months before in around September of the year before. Going through the year, we were slightly weaker than where we were, and you can see in September that people came back from holiday, started booking again, and then Lehman's Monday hit and a sense of paralysis ensued, which shows that quite large fall-off just after September. That spike you can see in November is a frequent flyer offer that we put out of which many people took advantage, some of you I hope will manage to take advantage of that, and then we came back from the Christmas break and in January, our biggest booking month, we were waiting to see how the market would play out. It played out in a fashion which was worse than we expected it to be. You can see the red line and the yellow line are still separating further as we go through.

**Strong non-Premium bookings**

Underneath that, there is a strong non-Premium booking performance and there are a number of reasons behind this. The first reason is we can still stimulate volumes through sales activity and we have been doing a lot of that. The second reason, which we spoke to you about last year, is that we put in place last year a new pricing structure within our Economy cabin, we have added more price points in and smaller trade-up steps, so effectively we were on sale all year round and were able to generate incremental sales through that new pricing structure.

**Transfers providing some mitigation**

The third reason is transfer traffic. Here you can see the significant impact that transfers are having on our business. In particular, since the beginning of this calendar year, in January, one of our biggest booking months, you can see that we turned the taps on in our European and North Atlantic markets to make use of the strong dollar and strong euro, and our ability to generate demand. We can do this with the confidence of knowing that our Terminal 5 transfer operation is able to handle this. Therefore, this in some ways provides some mitigation for the lack of demand we are seeing at the front of the aircraft.

**Dynamic revenue management model**

Something else that is helping to drive non-Premium performance is the way we revenue manage. If you look at the top chart, that gives you the actual configuration that we fly on aeroplanes, so they are the number of seats that we would have, or representative of the number of seats we would have on any given aeroplane. Because the demand at the front of the aeroplane in the First and Club World cabins is down, we adjust the amount of inventory that we sell to the Economy space, which is making the most of the asset and trying to fill every seat, using those areas where we know we can stimulate demand. It also gives us an opportunity to look at how we manage at the airport the upgrade mechanism.

This results in upgrades in between all the cabins and a lot of that is done operationally at the airport. Today, we manage to sell upgrades relatively effectively, so of all the upgrades that we do about 40% are sold either using cash currency or mileage currency, and 60% are done at the airport on an operational basis using various criteria for selection. One of the opportunities we see is flicking that around a bit, selling more upgrades before people arrive at the airport, doing fewer operational upgrades, and I shall show you some of the techniques that we put onto ba.com to enable us to do that more effectively.

**Market share performance**

I have spoken about market share and why that is important. There is no industry standard measure for market share but I shall tell you that we are using two sources of market share for these data. One is called TMS, and those are airport-originated data which give you passenger volumes. It does not allow you to split the data between cabins because there is not any information on selling class, and it does not allow you to split the information between transfer and point-to-point. We know the data source and we know they are accurate but they are not necessarily holistic in outlook.

The other measure we use is CRS data, which is travel agency bookings. This does not have airline internet flight bookings included in it, so that is something you need to know, but it does give us the opportunity to look at Premium and non-Premium.

**BA longhaul network share**

How are we doing on market share? If you look at our longhaul network since February 08, we are the black line and you can see the impact of Terminal 5 and the hangover effect of that. Then there is a recovery from July onwards: the relatively strong growth in more recent times on our longhaul network. These are all customers, all passengers regardless of where they originate from or what cabin they are in. These are TMS data here.

**BA shorthaul network share**

Similarly, our shorthaul network shows a picture of the T5 effect, recovering a little quicker and then continuing to grow. None of these graphs shows the impact of capacity. There are capacity changes going on in the background but we are not reflecting those. This is the pure market share picture.

**Europe sales – US journey group**

The point we were speaking about in terms of generating sales out of Europe and America, let us take a look at the share for Europe sold business to the US journey group. These are CRS data so we can split them between Premium and non-Premium. Again, BA is the black line and you can see from about October onwards that was when we started to adjust our inventory because the currency values were changing, so we were allocating more value to the business that we were going to get out of Europe, the space opened up and we were allowed to sell through. Similarly, in non-Premium an improvement in share.

**North America sales – Europe journey group**

From the other end of the route, North American sales to Europe, there is a similar picture. Not quite such a strong performance in Premium but, nevertheless, off a slightly higher base. We have a good base of Premium market share bookings within the US, and in non-Premium there is a significant shift in share in the more recent months. At least that gives some comfort that we can turn volume on and generate some business to mitigate, to a degree, the business that is not coming through in the Premium demand segment. Clearly, it has an impact on yields and yield is a very challenging area at the moment, both from mix terms and the perspective dollar and euro bookings are helpful.

**Corporate market under pressure**

Here are some insights which you will be pleased to hear we did not pay any money for, because they were publicly available and also quite obvious. The first point was from an article in the *Financial Times*, it was an Ipsos MORI survey, and I think the copy around this article was saying that this is a frightening thing to see – people paralysed and stopping travel. Travel bans are evident in one in five companies, and I believe that will ease off a little but the general trend will be that people will be travelling less and spending less on the tickets that they buy in the corporate marketplace.

**Consumer behaviour in a downturn**

From a consumer perspective, brand strength will play a critical role at this time. People are doing what we call "investment shopping": they are buying less but when they buy, they buy quality. That is an area where BA with the strength of its brand can take some advantage.

Digital communities are becoming a much more important part of our marketing mix as well. Traditional advertising still works but customers are recommending services and products much more to each other on line in various fora that exist, so we need to be mindful of what they say about us. It is not just price they are talking about but the quality of service that is being delivered from each of these products. So we need to be mindful of that when we are planning our marketing expenditure.

The last couple of points, people still want to go on holiday which is good news but in this particular survey, 78% of those people also said they want to pay less so they are looking for more value.

**Challenging times but BA is well placed**

We are well placed, we do have some advantages. Here are some quotes from various surveys from our loyal customers and from UK flyers in general. What we see here is the degree of goodwill that there is behind our brand. This is something that we can take away and bottle and sprinkle a little more liberally all over our services. This point here: more than one in four UK flyers used the word “love” when they described BA, so if we can bottle that and spread it around a bit and share the love, that will be helpful to us. I shall tell you how we can do that a little later on.

**Conclusions**

Just a stop point in the presentation, as you all know the corporate market is under significant pressure, we can stimulate volume in non-Premium, consumers will want to go on holiday, our brand will be a key opportunity, upgrades is an area we should be focusing on, we put that in the ancillary selling box, and transfers can provide a natural hedge and we can do that with much more confidence than we have done in the past.

**Moving forward**

What are we going to do to maintain the momentum? Retain and grow market share has to be at the crux of our strategies going forward, and these five areas are ones we shall focus on in our selling and marketing activity over the coming year.

**Reinforcing our brand heritage and leadership**

The first one I shall talk about is reinforcing our brand and heritage that we have. In the past few years, I believe that BA has lacked a little confidence in its brand, and the reasons for that are pretty clear. We have not had an operation we can be proud of, and we do have an operation we can be proud of now. We can start to leverage that, go out on the front foot and talk confidently about it. We can talk about that also in the context of knowing that we have a new strategy to be a leading global premium airline, but both those things give us the opportunity to go out and ask our customers where they think we should be placing ourselves, where our unique brand position should be.

We have a strapline as “upgrade to BA” but we wanted to dig down a level or two below that and find out what customers thought that meant, then take that learning and translate it into the way we communicate with our customers, the way we communicate with our colleagues, the way we deliver high quality customer service all the way through the experience.

**We talked with customers globally …**

We spoke to customers in these various countries. They are a good portfolio of customers to give us a global outlook.

**… to define a unique brand position for BA**

One of the objectives we had was to find out where we should uniquely be positioning our brand: it has to be global, it has to be emotional, it has to be commercial and it has to be ownable. We spoke about five areas, the first of which was one which again we have been a little shy and retiring in talking about and that is the Britishness: how should we use the Britishness, how can we leverage that piece, is it important to customers? We spoke about the spirit of adventure and how BA can lead the way and show customers new and exciting travel opportunities.

The third area we spoke to them about was delivery of the promise, how do we deliver our great customer service on a consistent basis, is that important in the way we position ourselves?

There is one other area which is about people: what do value do the people we have in our company play in the way we portray ourselves as a brand, the way we emotionally engage with our customers.

We distilled all that down and came up with one brand positioning which is encapsulated in a sentence, and I have a short film which will be able to say more than I can about it in terms of the emotional engagement that we want to generate with our customers using this sentence. This is a sentence that describes what our customers think we ought to position ourselves as in our unique brand position: "The experts that fly our customers with style". I shall show the film now and then talk further about what we are going to do next with this and how we embed it into our company going forward. [*video shown*]

**What makes this unique to BA?**

We believe that encapsulates that intangible thing that we call our brand, and it is the reason why people pay that little more for the British Airways service. Is it unique, expertise, are we the experts? I think we can probably claim that territory as ours, because we have probably been flying as long as flying has existed – just under 90 years. Other airlines talk about anniversaries but almost 90 years probably beats all of that, so that is probably a safe area that we can claim as our own. Our people as well: the importance of our people and the way they deliver our service in the British style does that really strongly. It shows in markets where we were not expecting it to.

In Asia we are well aware that Cathay, Singapore and other Asian carriers offer very high quality levels of service, and there was a huge engagement, an aspirational desire for British brands among our Asian customers who were saying we love this Britishness, you must not stop talking about it, it is something you should be proud of, something that does the business for us. They are so keen on British brands, that they were talking about other brands which are not British as if they were British brands such as DKNY, Gucci, DNW were mentioned in the interviews that we had with customers as British brands. Therefore, sometimes as Brits we think we are a bit clumsy and understated, we cannot really do things as well as everybody else can but to the outside world looking in at us, we can.

**Making it real – brand activity for 09/10**

What are we going to do with this? The task is to deliver this upgraded experience as "experts that fly our customers with style" and we need to do three things. We need to establish that positioning properly, reassert our leadership where we have been a little shy and retiring in the past and then build pride within our community, within our colleagues so that they deliver that very effectively.

Establishing the positioning is not about going out and doing a fantastic new TV ad, we are not going to be doing that this year of all years, it would be inappropriate to do that. However, we are going to look at the key customer touch points where we can really reinforce this brand essence and push that through to the customers so that they can feel it. Reasserting leadership: in this time of recession we have an opportunity as a brand who people expect to come out front in coming up with ideas. We have quite a few ideas on that which I cannot share with you today for obvious reasons, but that is an area we shall focus on, and engaging our people.

One thing of which we wanted to be sure when reviewing our brand this time round was that we made it practical so that our colleagues in the front line who are delivering service get it, rather than it being a slightly nebulous academic exercise that we do over here in Waterside. So we sat down with them, and worked out with them what they felt were the right behaviours that gave evidence to this brand positioning. We have five behaviours which we shall be embedding throughout our company and it is not just in the front line but in every aspect of every employee's work life – they should be exhibiting these behaviours.

**Keep promises**

The first is keep promises: that has to be the stable of every premium brand. If you say that you will do something, you must follow up and do it. I think we can do that much more confidently now with the satisfactory or excellent state of the products we have to offer our customers, so keep promises.

**Look the part**

It is important that, if we are delivering a service with style, we look the part. We design uniforms that reflect style, that they are worn correctly, that we have clean aircraft, that we have little design elements throughout every customer touchpiont.

**Do things properly**

We need to run our business responsibly and effectively. Our uncompromised standards of safety and security mean that we shall deliver our service by doing things properly and never compromising.

**Find solutions**

This shot is our solution to a problem of finding a space-efficient way of putting a flatbed Business Class seat onto an aeroplane. This has served us very well but there are hundreds of little problems that take place every day in British Airways and each of those needs to be given the same emphasis on solution-driving as a particular challenge presents.

**Treat everyone as an individual**

Finally, treat everyone as an individual. Every customer is different and we need to reflect that in the way we service them, deliver great quality customer service regardless of the class they are in, their age, ability or whatever it might be. We need to treat everyone as an individual. Our plan this year for our brand is not a great big expensive advertising campaign but it is about practical application of the insight we have discovered through talking to our customers so that you will notice it through your interaction with our colleagues on the front line.

**Moving forward – helping our customers through difficult times**

Customer retention is a critical part of this.

**Customer retention – corporate**

Customer retention in the corporate marketplace is an area that we should be looking at: deeper partnerships with our corporate customers, being very proactive, going out there to talk to all of our big customers, working out how we can align their objectives with ours through understanding what their needs are and at a price delivering that, in turn they are delivering greater commitment back to us. Our First Class cabin is an opportunity that we can use in this segment. It is unique and we use that to sell our Business Class product, our Club World product and with the availability of First Class seats now, we can put the First Class upgrade offer into a large number of our corporates.

We are looking at new channels. Our attitude to risk in some areas has changed slightly. The definition of agency nets is to distribute more broadly some of the discounted off-tariff prices that we have in the marketplace. We are going to do that tactically so that it does not become the norm, but it is an area where we believe we can grow a little more share.

Focusing on our regions, not just the regions outside the UK where we can have some success in driving transfer volumes, but also the regions in the UK where there is a good opportunity to get back some market share that we have lost for longhaul passengers who have been travelling over the European hubs.

**Customer retention – Executive Club**

Executive Club customer retention: a subject close to many of your hearts. This is a No.1 issue and what we want to do at this time is put our arms around our Exec Club members and look after them. We have fixed the No.1 issue with Gold members who say, "I have all these miles but I cannot use them". We have this product called Priority Reward for Gold members which allows any Gold Card holder to use their miles on any flight whenever they want at double the mileage price that they would normally pay. So if there is not a frequent flyer redemption seat available but there is a commercial seat available, they will be able to access that seat by paying double miles, and that is a product that we introduced a couple of weeks ago, so we hope that Gold Card holders will start to see the benefit of that.

The key thing about the loyalty proposition that we have is engaging with people within it. The more you engage, the more loyal people become, so enabling people to use their banks of miles more effectively with this priority reward proposition is an effective and sensible thing to do.

Tier points on every flight. Many people in our Club are concerned that they are not going to keep the status that they have. I can see some people smiling around the room now. Travel policies have changed, they have gone from the airline that is cheapest on the day, so we have tactically put in place tier points, not to the degree that they used to be but tier points nevertheless, that allow people still to be rewarded in status terms for when they fly with us. So that is a tactical application that we have put in until the middle of May and we are going to review that on an ongoing basis. More flexibility is in the one-to-one conversations we are having with members. If members are not quite making the threshold, we shall write to them or call them to remedy that. I can run a clinic at lunchtime on that particular topic if people are interested.

We have experimented with part cash-part miles, there are people who do not have quite enough miles to get to where they want to go, and we have products in the marketplace now that allow them to use some cash and some miles and blend that price together so that they can get access and use their miles and engage with the programme.

Miles for upgrade on trade bookings: again this is much spoken about. We do have a product for miles for upgrade but it is only available on bookings that have been made direct. In May we will have changed the technology so that those bookings that are made through travel agents, the vast majority of bookings for our customers who have miles, customers will be able to use miles to upgrade on those flights subject to availability.

Finally, we have added more partners. This is a big one, Amex membership rewards, people who use their Amex card, split membership where all points can convert to BA Miles. That gives them another opportunity to create more currency when they are looking for redemption opportunities. Avis and Accor have recently signed up as well as our global partners. That is customer retention.

**The Executive Club sale**

This is the sale that I spoke about. Again, the purpose of this was to engage with our Executive Club community, to get them to use their miles, see the worth of the club and then come back and be more loyal as a result of it. This went out for a week, so we dropped the price in miles of our redemptions by 50%. You saw that spike in the bookings, and there was a similar spike in non-Premium as well but the baseline is different. In one week, we had around 140,000 people take advantage of this offer, so for me that is 140,000 happy Executive Club members who will engage further with us over this difficult period.

**Moving forward – acquiring new customers**

Acquiring new customers is clearly something that we should be doing in the sales organisation anyway. It has become more of an imperative as demand has fallen from our previous existing customers. We shall focus on and spend quite a lot of our marketing budget this year on tactical selling and promotional opportunities in non-Premium, Premium, and in loyalty, so that will form the bedrock of our marketing plan going forward this year. Data mining and analysis is an area that has proved very responsive to new sales leads. We have plenty of data that we have not used as effectively as we could have done until recently which look at where we have relationships with one company in one country where they do business in other countries, and we have seen some success in that already.

Our onBusiness programme is our loyalty programme for SME businesses – small and medium size enterprises, and we are looked at ways of engaging more partners to help the recruitment part of that process.

Finally, we are looking at price products and Marine is a very specialist area but, nevertheless, it is quite big. We have not reviewed it for a number of years and we believe there are good opportunities to grow share there, and partnerships is something that we can better deliver now. Many hundreds of companies talk to BA every week asking how can we work with you, how can we give discounted flights or offers to our customer group, and we have closed user group functionality on ba.com, which will allow us to exploit that piece better than we have done before.

**Moving forward – building on T5 experience to attract and retain new customers**

T5 has been much spoken about. There is still a job to do on communicating how good it is. We look at the numbers every day at British Airways. Our non-Premium customers, in particular, do not fly with us every day, they fly with us once a year, once every two years, so we have a big communication job that we need to do.

**Selling T5**

This was the first one which was a practical, pragmatic, honest and transparent approach to telling people that we thought Terminal 5 was working really well. We have used other campaign ideas, this is what we used in the United States.

**Selling T5**

This is an asset that we had developed anyway which gives a sense of calm when travelling through Terminal 5: an aquarium version of the terminal. We have quite a few assets that back this up: we have a TV campaign as well which we ran in the States on this particular topic which worked very well. It had a breakthrough level about 15-16 points greater than any previous campaign we had done, which is part of the reason why we saw an uptick in the US as you could see the evidence from this particular campaign in the US.

In overseas markets in particular we have to communicate effectively that we have a great asset in T5, which people should feel really confident to use relative to other transfer hubs.

**Moving forward – exploiting our existing and new ba.com capabilities to drive new revenue streams**

Finally, ba.com. This is a big channel for us, it has grown significantly over time.

**Direct channel continues to grow**

We have 30% of our overall volume globally coming through ba.com, and that number was 28% last year.

**50% of UK&I sales now direct**

If you look at the UK equivalent, 38% of our volume comes through ba.com and 12% of our other direct channels give us 50% of our overall volume that we sell in the UK. That 38% on ba.com was 35% last year.

**UK&I sales – ba.com trends**

Why is it an important channel? This is somewhat reflective of the non-Premium segment that I showed earlier but it is a very robust channel. It is performing pretty well and the evidence of some selling activity that we do in the marketplace and promotional activity will be supporting these numbers.

**Knowing our customers on ba.com**

The other good opportunity is that we know our customers intimately on ba.com. Of the universe of people who come to ba.com to book on us, 53% of them come directly to us, they are registered customers, 5% come from email and the remaining 42% come from search, Google and so forth, affiliates, things like travelsupermarket.com. We know where they come from, we know how to exploit the relationships with these direct customers, we know how to minimise costs with those other channels that deliver ba.com customers to us.

**Attracting and converting sales**

This is how we think about ba.com: it might look slightly odd but it is a funnel effectively. The main idea is to drag as many people as you can to the top of the funnel, so bring them to ba.com, and then minimise the drop away as you get down all the way to confirmation. We have 400,000 unique customer visits a day to ba.com, that is the universe that comes to look, and those who get a quote amount to around 50%. It falls away to payment and confirmation at around 7% and 6%. Therefore, if you can move any of those conversion rates by one or two points, that is what we focus on doing and you can make a real difference to the overall revenue that you drive.

The right-hand side shows the devices that we use: the offers that we drive, search engine optimisation and affiliate programmes. Every day selling is a test-and-learn principle which looks at how people respond to how we package the look of the website. I can assure you that even moving one or two words or changing the photographs can make a significant difference on the conversion rates that you see. We moved one upgrade device above the fold so it was visible and the conversion rate went up by 30%. What new functionality are we adding?

**ba.com selling enhancements - new**

I have spoken about making the most of the upgrade opportunity and we are going to upgrade people, so if we can sell the upgrade in advance of doing it operationally at the airport, we should be doing so. We have introduced something that we call proactive online upgrades internally. It has been around in the Manage My Booking area for a few months now but we have more recently introduced it at the selling point. When you go to get a quote and confirm payment, you are then offered the opportunity to upgrade for a specific price.

**Enhanced up-sell opportunities post booking**

This is what that looks like, if you can see it.  This is the Manage My Booking part, so you would be going into change a seat or put a meal request in, and you will be offered an upgrade to Club Europe to Venice for £59 at that point.

**Enhanced up-sell opportunities at check-in**

This is online best practice if you like: customers who also bought this book liked this. The person is going to Madrid, other people went to Malaga, Alicante, Barcelona, Lisbon and Rome, so if you are looking for further inspiration on holiday ideas, that might give you some.

Some of you will have gone onto ba.com and then phoned someone to say I have a great rate on ba.com, and when you go back it isn't there.  That is because the engine behind it is dynamic and the prices are changing according to the demand that is coming in. So we have put a device onto ba.com which says only seven seats left at this price, book now to avoid disappointment.  It drives some urgency into the sales process.  You can enhance the up-sell opportunity to post-booking, so on the Manage My Booking area we have put the price and the product attributes in, and offered it on the return trip as well.  We are constantly improving what we are offering in this particular up-sell space. Again, at online check-in, dialling up the response side made a significant difference to the number of people who clicked for an upgrade.

**ba.com selling enhancements – upcoming**

New things that are coming along.  Dynamic packaging – we may have mentioned this before.  This is our capability to sell hotels and air together, and the opportunity that it gives us is huge because this is the new way of tour operating.  The old way is taking allocations and selling allocations, then giving back what you didn't sell.  This is dynamic access to hotel inventory that you then blend with price to create an opaque price to the customer, so you can use this device cleverly without upsetting the integrity of your public pricing tariff.  In addition to that, the volume of product that becomes available when you plug into dynamic packaging is huge, there will be over 5,000 additional hotels that we shall be providing relative to today when dynamic packaging comes along in April.

Engaging with people better, giving them interesting ways of looking at flights is an example of the sort of thing that we shall be doing.  We shall be putting destination information to make it more attractive for people to book.

Contextualisation: when you have booked a number of times with us, we will work out the sorts of offers that will be appropriate to you, specify your name and deliver relevant offers which may be of interest based on your previous behaviour and the behaviour of other previous users.

Finally, promotional capability: this is an exciting development because it gives us the capability to offer discounts to unique groups of customers. It is quite simple in that it gives you a promotional code which you will tap in when you are making a booking which will give you a discount that you were aware of when you bought previously, and we can sell these vouchers, we can use them tactically to drive sales campaigns and promotions, and we can use them for close user groups. That is a great capability that we can use that will bring people back to ba.com. Every time someone comes to ba.com, it is an opportunity to sell them something whether it be dynamic packaging, insurance or whatever. That is something we are looking forward to.

**Metrotwin.com**

Finally, in the digital space, this is a bit of R&D really. We have spoken about communities and the fact that people are talking and comparing on a peer-to-peer basis. Metrotwin is a device, a community that we have set up that links New York and London business travellers. It allows them to compare and contrast experiences in various restaurants, hotels, to chat to each other and create a community. We were not sure whether or not this would work when we set it up in September. We have 21,000 members on just this one route, and we believe there is an opportunity to expand it to other routes and perhaps to monetise the asset, selling advertising but also engaging with the customers who are using it. That started out as an experiment and I think it will be an interesting evolution that will come.

**Marketing prioritisation**

How are we going to spend our cash? We have centralised the way we manage our cash, the marketing area, so that we can prioritise it effectively to deliver the greatest return on the investment. Tactical selling activity and loyalty activity will be of paramount importance during this period. Digital channels, because they are 100% measurable in terms of ROI, will also be an area where we shall look to spend more money this year. There are plenty of partners in hotel, car hire and other spaces who face the same challenges that we do and by working together we can drive more efficient campaigns. We can reuse our marketing assets much more effectively. We have an electronic pool of marketing assets which are available to anyone around the world, we can distribute those electronically to all our agencies around the world and media partners.

Talking about agencies, the remuneration model we have with agencies is mainly retainer based and we need to turn that into something more flexible so that we can dial up and dial down according to the requirements of the business. Test-and-learn for future investment has to be built in as a must-have for all of the investment that we put in place, and currently we think we can save at least 20% in efficiency terms and deliver a similar result as we did last year from a marketing perspective. So that is how we plan to spend our marketing cash next year, adding in flexibility so that we can dial up and dial down accordingly.

**Summary**

In summary, it is challenging – I think you knew that before you came in. We can get quite a lot out of our brand and we have done some good thinking on that, and we can do that very cost-effectively. Our market share is currently growing and we must maintain the momentum there. T5 is a great asset in particular for the transfer hedge. We believe our plans maintain momentum and we have flexibility in the way we spend our cash. With that, I shall hand over to Tony McCarthy who will talk about our people plans.

## PEOPLE
**Tony McCarthy**
**Director People & Organisational Effectiveness**

I am going to talk about the People plan and running through whatever Andy, Drew and Silla have been talking about at the heart of it all are the people. What I shall do very briefly is talk about strategically what we are trying to do with our people, where we are going towards 2012, as we have set a vision for where we want to be in 2012, and then I shall come back to some of the short-term tactical things that we have to face from both this marketplace and some of the issues that we are facing at the moment.

**Driving value through our colleagues**

This is who we are very briefly: nearly 43,000 mainly in the UK but 6,500 people overseas, the biggest bulk being in New York. There is a lot of experience in this business, the average length of service is 15 years within this business. There is a lot of knowledge and understanding of how we work this business, and then there is a breakdown of some of the bigger groups. What you can see is that £2.1 billion is the cost base of people. So there is lots of experience, lots of knowledge but lots of money.

**Driving value through our colleagues – our strategic direction**

Strategically, Robert took you through our vision for being the leading global premium airline and where we are going, and Robert talked you through the five segments as did Silla. Around that what we have said is where do our people feature within this? What do we need to do to ourselves to move us forward to deliver this strategic direction of vision that we have? Around it there are five key things we have said we need to work with, and we need all 43,000 of us to work on what do we have to do for our customers, what do we do with our partners, how can we be excellent, how can we perform to world-class standards that people aspire to, then what do we need to do to ourselves.

We have created what we are calling Compete 2012. This is a change programme for all our people throughout the organisation to deliver that strategic direction that we have identified. We have called it 2012 simply to set a time-span that we can see is within our grasp, it is linked to our sponsorship of the Olympics, so we can use many of the things that we feel proud about in the Olympics. We can use gold, silver and bronze as awards, and we have set that time-scale to then put against it some key milestones, measures and behaviours that we all expect ourselves to achieve. Again, our colleagues, our performance, our customers, our partnerships and our excellence, and this is all about driving value and productivity improvement through engaging all our people.

We are using a different language. We use the language of colleagues, we are all in this together, we want to engage in driving the performance and productivity of this organisation altogether. We do not use “employee” or “staff”, we use “colleagues” as we are all together in this to drive performance and customer experience improvement.

**Driving value through our colleagues – Compete 2012**

This is a picture of it. I will not go through all of this but to enhance shareholder value by setting a vision of where we wish to be in 2012 working with all our people on these five things. I am proud to give more to this organisation for the customer. I think about customer in everything I do. We win together with the strategic partners that we have within this organisation. I make things happen and I set the standard that others will aspire to.

What we then have is lots of activities underneath each of these. We have described what that vision looks like for each one of these areas, task activities underneath it all and then it is managed by one of the teams here. I look after the Colleagues team, Silla and Drew look after the Customer team. We are currently engaging our very senior managers, around 200 of them, and rolling that through the organisation, engaging all our people. At the end of it, it is about driving productivity and performance improvement for delivering customer service.

**Key areas of short-term focus**

Having said that, we have some short-term activities that we need to deal with and address. I just want to talk a little about these now and then go into a bit of detail about some of them.  We see a radical change in the marketplace.  There is no question that the speed of change we are seeing is really affecting the way we work.  We need to increase our flexibility within the workforce so that we can react quickly to the changes that we are seeing, and we are talking to our people about this at the moment.  With the speed of change, we need to make sure that the cost base we have is more variable.  We have been working on that over the years but we need to build more variability into our cost base to react quickly to the changes that are happening out there, and we need to continue to keep the focus on the customer all the time.  The customer is king, the customer is the one who brings the money into the business, so we need to focus more and more on the customer.

As far as productivity, we have some issues that we need to address and we are addressing them.  We need a radical improvement in productivity.  There has been a great deal of productivity improvement that has gone on over the years in this business and now we need to do more of it.  We need to eliminate some of the restrictive practices.  There are still within this organisation restrictive practices that get in the way of us delivering top class service to our customers.  We are working on what we do about eliminating those restrictive practices.

How do we engage our workforce?  Silla talked a little about this but this is about how we get people rationally and emotionally to engage in this organisation to deliver the service for our customers and reduce the cost.  As part of that, we are working with Unipart on lean operations: how we can get lean manufacturing techniques into this organisation.  Unipart have built that expertise through working with Toyota over the years, and we are bringing that lean expertise into this organisation.  Then we will reduce the cost base and then we will continue to improve customer service.

Then we have to prepare for coming out of this and we have to make sure that we come out of this period very flexible, without restrictions and removing some of the bureaucracy that is built in.  Drew talked about this business being around for 90 years and within that there are many rules, guidelines and so on that are not there to deliver service to the customer, so we are working on how to remove that bureaucracy.

Within all that, we need to develop the talent that is very definitely within this organisation.  There are many very talented, top quality people in this business, so let us get them, develop them, train them and performance manage them, that is what we are doing.

**Our short-term imperatives**

These are some specifics on the leadership and talent area.  The first part is what Willie talked about at the beginning.  We looked at all the managers we had, we painted a picture of the future which is a really exciting picture but also a tough journey to get there, and we asked our managers to decide whether they wanted to be here or not. At the end of it, about one third of our managers decided to leave the business at Christmas. Using that, we then started to redesign the organisation. You have seen the top of it from the picture that Willie showed but we redesigned the organisation working top to bottom and some parts are still going through some of the process. We are removing duplication and overlaps, being clear about accountability, who is responsible for what. We are being clear at the handover points within different parts of the business but also making sure that we did not replace the leavers. If people left, we did not replace them, and now we have come down to around 1090 managers which is a third fewer than we had before. It is a radically different organisation structure.

**Leadership and talent**

We have also embarked on developing the talent in this business. Despite the challenges that we have financially, we are investing in our leaders to manage both the short-term problems and issues that we have but to prepare for the longer term as well. Lots of things – behavioural training. We have identified three key competencies for managing and leading our people in this organisation: communicating a common vision, agreeing accountabilities and motivating and inspiring. Our training and development activities are working on making sure that our leaders can do this: this is deep behavioural training that we are into here. We are into the lean thinking with Unipart, we are talking about customer first, we are running customer first programmes for all our people, as Silla touched on, some of them with our frontline people.

We have restarted graduate recruitment. We are going to the best universities to bring in the best people we can and, interestingly, we have started now identifying fast track talent in the business. Let us go deep down into the organisation, we have stripped out layers within the business, which has shown us that we have some really good people down there. Let us find them, let us pick them out and develop them and then push them forward into leadership positions. That is what we are doing, supported by coaching and supported by mentoring.

Despite the fact I say we are investing, these are very targeted programmes, internally developed and very heavily performance-focused. People have to perform and to deliver to be able to be recognised by this.

**Management performance**

That is the message on here: this is not rocket science. It is saying we are now being very clear about what people have to do, what you have to do but, more importantly, how you have to do it.  Part of all of this is how you behave towards your colleagues and how you behave towards your customers.

Differently, what we have done is say there are consequences for performance, and we are forcing a distribution through the organisation for the next period of time where we are forcing through the changes but we are looking at the positives of learning, development, of being a top class performer.  The positives of the reward: the pay, the share plans, the bonuses and so on.  Also if people are not performing and they do not perform two years running, unfortunately they have to exit the business, but we will put help, assistance, mentoring in place to help get those people through.  However, if unfortunately they don't perform, they will not be here.

**Pay, productivity, performance & redundancy**

We also have pay, productivity and performance challenges that are with us as we speak.  Each area of the business has a significant challenge to improve their performance and productivity in this marketplace that we have.  We also have a pay claim on the table at the moment, and we are engaging all our people in a discussion about what we need to do to improve our performance and productivity.  We are doing focus groups, we are doing meetings, we are doing communications, there is a massive exercise going on talking to our people about what we need to do to improve.  Every area has a target and those targets vary depending on their efficiency and productivity.  However, what we are looking at is how we remove those restrictive practices and what we are trying to get towards is to ask does this practice deliver for the customer?  Then we look at whether it is safe and legal, and they are the only restrictions we want on our people performing the job they have to do.

We have started the discussions with the six separate union bargaining groups we have in this business and they are under way with pilots, cabin crew, admin and check-in areas, junior managers, ramp and baggage areas and then engineering.  All six of those conversations are going on.

We are bringing it down even more specifically so that we are clear on pay, productivity, performance and redundancy: for pay we do not envisage a pay increase this year, that is the message that has gone out very clearly to all our people and we have been talking about that very clearly.  We deliberately did not say we are doing a pay freeze, it is not envisaged how we can pay anything but depending on the productivity that comes back and the speed of the productivity, we should consider and hold our position.

In productivity, we are looking in our terms at radical, structural, sustainable changes in the way we work.  That is our definition of productivity improvement – radical, structural, sustainable changes in the way we work.  Examples that we are using are that in Silla's area we are talking to the cabin crew union about new terms and conditions of employment for new crew coming into the organisation that are radically different to the working practices before.

In performance, we are talking about improvements that we need to make on a day-by-day-by day basis: everything we do every day needs to improve and that is operational performance. That operational performance would address any issues such as absence, it would get into the impact of the lean thinking and the lean operational work that we are working on.

Finally, on redundancy, we have taken the redundancy of the management with a third out of the organisation, about 450, that was done and finished at Christmas. We are looking at other ways of reducing costs whether it is by eliminating work in areas that we can quite quickly eliminate and cover the work in very different ways. There may be some other structural changes that we need to make further down the organisation or some other reorganisational things such as putting work out, which is something we are looking at. In those three areas, those things are under way.

Finally, there will be further redundancies that come out of the productivity and performance conversations that are currently ongoing.

**Summary**

It is a pretty radical change agenda. It is intended to bring in more flexibility, additional variability into the cost base, to increase the engagement of our people so that they can drive customer experience and productivity improvements, so that they can rationally and emotionally engage with what we are trying to do within the business. It is improving the customer service and we are doing this by being strategically clear about where we are going, both in what we have to do and how we have to do it, by redesigning the organisation to get rid of some of those barriers that perhaps were there before in the organisation, engaging our people and improving the service to the customer every day, focusing on performance management, focusing on highly talented people and getting rid of some of the bureaucracy. That is not getting rid of best practice, that is bringing best practice to the organisation. Thank you.

**George Stinnes:** We are just about ready for some lunch. A bit of time for feedback would be good, we are making good time through the day. There are some hosts in various places who will show you where food is but it is out to where we came in, onto the main street as we call it, turn right and the lunch area is down towards the very end. We shall reconvene in about an hour and a quarter if that suits, so you can probably have a bit of time for the Blackberry. We have various home team players so to speak who will dotted around the tables at lunchtime, but it is a chance to sit down and have some further discussions. With that, I wish you a good lunch.

## FINANCIAL OUTLOOK
**Keith Williams**
**Chief Financial Officer**

I hope you had an enjoyable lunch and that those of you in need of quantitative easing got exactly what you wanted!

**In the eye of the hurricane …**

I said in November at our half-year results, and I repeated it again in February, that we were still heading into the eye of the storm, but what has changed? The first thing to note is that the storm has become a hurricane. This is a picture of an aircraft travelling through a hurricane. As meteorologists will know, a hurricane begins as a collection of storms. We are now seeing a significant slowdown in the world economy set off by the failures in financial services, which is significantly reducing our premium demand and impacting yields across all segments of our business. At the same time, we are seeing other storms created by enormous volatility in both currency and commodity prices and by the failure of the banking market to provide finance.

One of the things that pilots do to navigate their way through a hurricane, apparently, is to identify the strength of the individual storms that make up that hurricane and set an appropriate flight path. We started a lot of work to navigate ourselves through the current storms, and my presentation is based around giving you a financial flightpath from the presentations that you saw this morning.

Revenue is obviously difficult to predict in this market but I thought it was important that we give you some direction. I shall offer what I call the “glass half empty” view with a *caveat*: take it for what it is, it is an informed view based on what we see today in the light of current economic conditions.

On fuel the position is both clearer and brighter. We are likely to get quite a lot of help this next year from the fall in fuel prices. I have assumed a central case price of $60 per barrel for 2009/10, and that is in line with most analysts’ forecasts that I have seen. I hope, similarly, that exchange will be much less volatile than this year, which has seen dollar rates fluctuate widely. I have assumed a sterling/dollar exchange rate for next year of $1.50

to the pound.  At that level, you should expect some positive exchange impact on revenue in the first half and some negative impact on costs. The second half is likely to be much more exchange neutral.

We also have a much better idea on non-fuel costs. I shall share with you some of the major areas of progress we have made in the second half of this year. It is something that you might find a little bit surprising, it is not something that we have majored on to date. The control of costs at BA is part of our DNA and it is something that we do all the time and on which Willie and I update regularly. I shall show you a picture of what we have done this year and how that flows into next year, together with some of the initiatives that we are taking on.

Finally, I shall touch on balance sheet issues. Next year will be a difficult one and the balance sheet will be weaker by the end of it. However, looking at our plans for next year, I feel comfortable with where we are on cash, comfortable with where we are on liquidity and on debt. I shall give you some overview and then George will cover off some of the detail in his presentation that follows.

Pensions is an issue that is looming large as well next year as we get into discussions with pensions trustees on the next triennial valuation, and I shall try to give you some insight on that. Enough of the introduction, let us get into some of the detail.

**Revenue**

First, the revenue side and the simplest starting point is where we are for this year 2008/9. I am pleased to say that, as much as I caveated what I said going into the presentation, at Investor Day last year we gave an outlook of a revenue increase this year of 3.5%. Guess what we have? 3.5% but how we got there is totally different of course.

**This year's revenue is driven by exchange …**

At the half-year, we had in mind an underlying revenue position that was flat for this year, and because of the strength of the dollar, and you saw earlier the way in which we have been attempting to improve our sales overseas, we are having some exchange benefit. That left us with a picture up at least 4% and that is how we saw things at the half-year. If I look at things today, that picture has changed quite quickly. Drew mentioned Lehman Monday, and we saw pretty quickly the underlying position fall from September onwards. In September our premium traffic was down about 8% and it has been going down steadily ever since. If you look at the picture today, we expect the underlying revenue for the year to be down about 3.5%.

That is offset by a bigger exchange benefit of about 7% and, if you look at the picture overall, you are seeing the revenue up 3.5% for this year. That is slightly lower than we were giving you in January as well, and that does not mean that we are changing our forecast for this year. You will see later on that there has been some improvement in the fuel cost position and there has been some improvement on our other costs, so that leaves the guidance that we have given you of an operating loss this year of £150 million broadly correct. There might be some slight impact from the weather in February, and there might be some impact if we make additional provision for severance. As I believe Tony mentioned, we have a severance programme that is ongoing at the moment, and that might require us to make some additional provision for severance this year. However, broadly our guidance for this year is unchanged. That is this year, let us move on to next year.

**… with steep decline in second half revenue**

Next year starts from the position that you can see here where we have lost a considerable amount of both cargo and passenger traffic in the fourth quarter. This chart looks at the underlying revenue performance throughout this year, and on the revenue side we started the year with positive underlying revenue, which has deteriorated primarily as a consequence of the fall in premium traffic which I said in September was down 8%, and in January was down almost 14%. In the February number put out yesterday, it was down 20% in premium traffic, but I would hasten to add that was in part down to February being the shortest month and the fact that we suffered from weather disruptions. That is the passenger side.

The cargo side in the early part of the year benefited hugely from a number of factors. One was that we had a considerable improvement in our own cargo performance and we were seeing the benefit there, and the other was that yields were strong at that particular time and we were benefiting from relatively high surcharges in our cargo business. Those surcharges have gone away and, as you can see, we are seeing a fall in the cargo business. If you look in the second half of 2007/8, you can see that our traffic volumes are down, and we are down about 10.5%. Remember that figure of 10.5% because, as we go into next year, let me give you the position for next year.

**Trend expected to continue into next year …**

We go into next year with a view of the revenue being down 10.5% on an underlying basis, and what we are expecting for next year is that picture to continue. What we are seeing in the first half of next year is a projection of our underlying revenue being down just under 14% for the first half of next year. The assumption behind that in terms of premium traffic is, as I said earlier, in January premium traffic was down about 14%, in February it is down 20% and I have assumed that premium traffic in the first half will be somewhere in the middle of that, so it will be a slight increase on what we were seeing in January but better than we were seeing in February. We shall see some further deterioration in yield. That is the first half.

**… with exchange benefit reducing the impact to ~ 5% overall**

The second half, on the face of it, looks much better. You can see that in the second half we are predicting the underlying revenue to be down about 4-4.5%. Now you need to bear in mind that behind that, it is coming off that base in 2008/9, so it is showing you a weaker picture than we are seeing in the latter half of this year. When the Chairman said in his introduction that the BA view is that the world economy is not improving this year, you can see it in our forecast on the revenue, that we are not assuming there is any improvement through to March 2010. Clearly, if we did see some improvement, particularly in the US, that would be good for our business. Taking that picture overall, you get to a point where our underlying revenue is down about 9% on this year. To put that into revenue terms, that would take us down from just over £9 billion this year to just over £8.2 billion. That is the underlying position.

However, as I said earlier, we shall see some benefit from exchange. In the first half of the year we are currently in, the dollar was trading at about $1.90 and our plan assumes $1.50 so we shall get some help in the first half of the year, which you can see here, so we are reflecting a position of the revenue being down about 6% in the first half, which will give us an overall revenue of about £4.5 billion.

In the second half, less benefit from exchange revenue of about £4.1 billion, and that leaves us a full year position of revenue of just over £8.6 billion next year. That is down just under 5%. That is the revenue picture.

**Fuel and currency**

If I move now to fuel and currency, I shall start off again with some general observations. If we go back five years to 2003/4, our reported fuel bill that year was £917 million. In that year, we had around $83 million of hedging profit or around £50 million. The underlying fuel bill was under £1 billion. The average exchange rate last year was about $1.70/£, so pretty similar to what it has been this year. The reported revenue for last year was just under £9.3 billion, so when I am giving you a picture this year of lower revenues, and I shall show you what is happening to fuel costs this year, you can see how much fuel has influenced our overall cost base.

In 2003/4 fuel costs were about 10% of revenue.  If we fast forward five years, our fuel bill for this year will be just under £3 billion and that includes a small hedging profit which is anticipated at about $30 million.  The exchange rate has not changed much, the average for the year is about $1.75/£.  The reported revenue, as I mentioned, will be just over £9 billion, so fuel will represent about 33% of revenue this year, and it was just 10% five years ago.  You can see just how fuel has become such a major part of our cost base.  You can also appreciate why we try to hedge our fuel to smooth out the lumps and bumps along the road, although the road has tended to be on an incline for the last few years.

Over the last five years, we have held a pretty consistent fuel policy which has been to hedge out at least 50% of our fuel exposure over the next 12 months.  At times, we have had much more hedging than that and that has stood us in good stead in a rising market. Hedging profits over the last five years have averaged over $300 million a year.

**We have a lower hedging position next year**

We go into next year with a hedging position which is at the bottom of that target range.  We are around 50% hedged at the moment over the course of next year, so we have added cover in the last few months at the front end, and this locks in some fuel spend which we assume for the business over the year.

**So fuel spend likely to fall next year**

Some of the hedging which we have put in place will be a drag on our fuel spend next year but, even so, we expect our fuel bill to be at least £300 million lower based on our central assumption of a $60 fuel price, and I shall show you the sensitivity to that in a moment.  That is based around an exchange rate of $1.50/£.  As you know, we did not typically hedge out the exchange rate exposure on fuel like some other airlines, as we have a significant proportion of our sales in dollar and dollar-related currencies.  In a normal year, this offsets our exposure to currency fluctuations, and I shall show you why that has not been the case in 2008/9 and what the likely position is next year in a moment.

**With sensitivity because of lower hedging**

Just to give you some detail on that, this slide takes you through our fuel spend for this year versus last year, and you can see the evolution of the fuel.  It has been up in every quarter and we now expect our fuel bill for the year to be up around £950 million on 2007/8 – in 2007/8 it was £2,055 million, so you can see that this year we expect the fuel bill to be about £3 billion.  You can see with the fall in the fuel price we are getting some benefit in our fuel spend.  It is not a total benefit because exchange has been working against us.

In terms of where we are in hedging, this gives you our hedged position at the moment. I said that, if you look over the year, we are about 50% hedged. We have added some additional cover at Q1 as the price has been around $40-45 but our total breakeven point is about $83-84 per barrel. This chart is showing you what the effective price that we would pay against the market price. Based on the hedging we have in place, there would be some hedge losses incurred …

**Fuel cost benefit emerging**

What does that translate to in likely fuel spend? This is a picture showing you on the central assumption of $60 per barrel what our fuel spend would be by quarter next year, and you can see it would fall in every quarter and the total spend on the central assumption of $60 per barrel would be just under £2.7 billion, that is down from £3 billion this year.

To give you the sensitivity on that which might help you get to your own fuel assumptions, there is the central assumption which is $60 per barrel and if you plot across, you will see the fuel spend is just under £2.7 billion. Those of you who feel more bullish on the fuel price, you can see the average next year is $50 and, while you can do the calculation yourself, you can see that each dollar is worth about £20 million off that fuel spend. You can follow it down and you can follow it up if you are bearish. That is the picture as we go into the year and, clearly, that will change as time elapses during next year as we spend on fuel. The other is as we put in additional hedging. So this gives you a picture of what we look like going into the year, each dollar is worth about £20 million but that will change as we add more hedging. For those of you who are looking at $50, you are looking at a spend of around £2.5 billion.

I mentioned currency and it is important to come back to currency because it had a large effect on 2008/9 and it is important to explain why. As I said earlier, we sell tickets in dollar and dollar-related currencies. In 2008/9 we had, as you know, an abnormally high oil price which reached $147 per barrel, and we had anticipated quite a lot of that. What this chart does not show you is that last year, or this year 2008/9, we had bought about £1 billion worth of dollars going into the year at an average exchange rate of over $1.90, and that still left us in a short position on dollars for 2008/9, which is why you are seeing such a large exchange fluctuation in the year.

If I look at 2009/10 taking you through the various oil price assumptions, obviously we buy oil in dollars, you can see that our short position is relatively lower than it was last year. In fact, at $40 per barrel because we have already put in place some dollar hedging, and we are long in other currencies, we suspect that we are probably naturally hedged at the operating level, there will be some shortfall if the price is higher around $60. However, it is by no way as bad as it was last year.  So currency is likely to have much less impact in 2009/10.

Looking out longer term, in terms of fuel hedging we have spoken about the 50% hedging that we have in place for next year.  If we go into the following year, we have a small amount of hedging at just under 10% for 2010/11, so our fuel spend should continue to fall over time.  This chart also assumes that we have 2% growth not next year but starting again in 2010/11, so that is giving you the fuel spend assuming we adopt a growth model of about 2% per annum for 2011 onwards, and I shall come back to that in a moment.  So fuel spend will come off and, at those prices, it will never get back to £970 million ...

**Capital expenditure**

If I move on now to capital expenditure and fuel efficiency leads me there, I want to give you some observations first of all on capital expenditure.  There are three or four points that I would like to make.  The first point is that in times of difficulty, and we are obviously seeing times of unprecedented difficulty today, it is natural to cut back on capital expenditure in order to preserve cash.  We have done something of that and I shall show you what we have done in a moment.  However, we need to balance that need to preserve cash off against the benefit of providing premium service to our customers.  There will be an end to this recession and we need to balance off thrift with being well placed in terms of product offering when the upswing happens.

We also have the advantage over many of our competitors in that much of our expenditure which we shall incur over the next three or four years has already been financed.  Not only do we have the benefit of relying on those commitments, which were put in place about 15 months ago, they were put in place on pricing that was built in about 15 months ago and all that funding is pre-agreed, so that works to our advantage.  There is one final point we should not lose sight of which is that frequently the new expenditure that we incur will in itself lead to significant cost savings.  That is very clear in the case of aeroplanes and I shall show you something on that.

**Invest in our future … the airline of choice**

This is the nearest thing a finance person does to commercial.  These are some of the products we have coming out.  We have the new terminal, and we shall continue to invest in lounges, for example in New York and other places.  We have the new inflight entertainment which Silla spoke about.  We have the new First product coming on board, you can see that, and we have new aircraft.  Therefore, we have quite a lot of investment over the next year, and it is important that we continue with that.

**Fleet size and shape supports strategic priorities**

Looking at aircraft specifically, our basic plan on aircraft supports the strategic direction that Robert was talking about earlier as a global premium airline. You can see that our plans would shrink shorthaul from 132 down to 121 aircraft, and our base assumption is that over this period we shall increase longhaul flying from 115 aircraft to 127 aircraft by 2013, so that is our central case.

**Shorthaul fleet plan – central case**

If we look at the components of that, first on shorthaul, this chart shows you the main changes in shorthaul and you can see working upwards we have the 757 fleet that we are proposing to exit and we are in contract discussions on that. We are exiting leases already on 737 aircraft. We have a number of other leased A320 aircraft and that is our main area of flexibility. If we want to shrink the shorthaul business further, we can turn back some of those leases, so that is our area of flexibility if we need it. Then we have new deliveries of A320s sitting on the top there. Those A320 deliveries are all financed already so it makes sense to take those. That is the plan on shorthaul, the central case.

**Longhaul fleet plan – central case**

If I give you the same on longhaul, you have delivery of the 777-200, we have the Open Skies aircraft that Robert spoke to, the four aircraft there which are already in. As you know, we have a lot of 747-400 aircraft and they give us our main area of opportunity for flexibility, and I shall come back to that in a second. We have the 767s which we shall exit over time as we bring in the new Boeing aircraft, and we have the A380s coming in down here in 2012/13, then on the top we have the 777-300. That is the central plan for longhaul.

**And benefit of efficient aircraft emerging**

Those aircraft bring fuel efficiency to the airline. This is the chart I showed you earlier on our fuel spend, and I have mapped out against it the fuel cost including hedging against ASKs. You can see the impact of the fuel improvement that those aircraft bring over time. What we calculate based on the fleet deliveries that we have is that by 2014, assuming that $60 oil price, we shall be saving around £130 million in fuel costs, and that rises over time as we take more deliveries. That is an example of how bringing in new more efficient aircraft will help us in reducing our costs going forward.

**With flexibility to manage our capacity downwards**

The main area of flexibility on longhaul is around the 747 fleet where over time more and more of those aircraft become more than 20 years old, they are totally unencumbered at that point, so we see our flexibility to downsize if we need to largely around those aircraft.

You can see that they bring with them a considerable amount of flexibility to downsize, to reduce capacity.

**Capital requirements modest until 2013**

Looking at the overall capex plans, you have the fleet capex on this chart and then we put in non-fleet capex, some of which is engineering, we have lounges, the new First Class product, and this gives you the total spend by year for the next five years. You can see it is pretty modest . Next year it is £725 million, it stays around that level for three years, it increases in 2012/13 and we start to take delivery of 787s and A380s.

**With over £3.1 billion of committed facilities**

If we look at the commitments against those aircraft, you can see that we already have in place committed funds for most of that spend certainly through to 2013, and some commitment to 2013/14. The gap between the blue bar and the yellow bar there is called PDP, progress payments along the way, we do not tend to finance progress payments. However, you can see that we have the commitment against our capital expenditure, and that makes us slightly unusual for an airline in this market to have so much committed against our future deliveries.

**Balancing the short-term need to preserve cash**

I mentioned that we do have some thrift during the year. We have been planning a capital expenditure of around £750-760 million as we have been talking about previously, we have thrifted that back to £725 million. That might not look that much but you have to realise that, over that period, we have lowered our exchange assumptions. Previously, we had been basing off around $1.80/£ but now we have recalibrated it to a planning rate of $1.50/£ and our capex spend is £725 million. We can still do that without compromising everything that we are planning for the customer over the period. So that is the capital side.

**Non-fuel costs**

Although you will see that our overall non-fuel costs are up around 7% this year, it hides the real story of what has been going on. At first blush, it might look as if we have had our eye off the ball, so it is important that I give you some context. The first point I will make is that exchange has made a huge difference this year. The second is that we went into the year with the need to absorb a lot of one-off costs going into Terminal 5 and, if you remember at Investor Day last year, we were anticipating our non-fuel costs to be up around 3-3.5% for the year. Much of that was associated with the move to Terminal 5 and additional resourcing. We also had to absorb an increased level of charges at Heathrow. Our costs to the BAA increased by some £80 million this year.

**Underlying targets for 2008/09 beaten but exchange has impacted**

During the year, the working in Terminal 5 and the efforts we have made in other areas started to pay off and the costs are coming down quite quickly, which I shall show you now. We went into the year at around 3-3.5% and by the half-year, we were ahead of our guidance: we were up just over 2% but exchange was working against us and the half-year guidance was for our non-fuel costs to be up around 5%.

If you look at where we are today, you are seeing non-fuel costs up 7% and that is slightly lower than the recent guidance we gave of up 8%. If you look at the underlying costs, they are coming down considerably, and the underlying costs for the year are up just 1%, and that is taking account of the T5 move.

**Costs starting to come down quickly …**

This takes you through what is happening on an underlying basis. You have the T5 move which increased our costs in Q1/Q2. If you look at what happened in the last quarter, Q3, and you look ahead to what is happening in the fourth quarter, you can see in the fourth quarter that our costs are expected to be down on an underlying basis some 2.3-2.5%. We had a cost increase but that is starting to turn quite quickly and that gives us some positive momentum going into next year.

**… but hidden by adverse exchange**

That is hidden by the exchange impact. This slide builds on the impact of exchange on top of the cost reduction, so what you are seeing is a 7% increase overall but much of that is being driven by the exchange impact. Clearly, that will start to dissipate in the second half of next year. In the first half of next year, exchange will still be a cost headwind.

**T5 exceeding expectations**

Turning to T5, this is a chart we have shown you before. We went into Terminal 5 and the basis of T5 is that in financial terms we said we wanted it to be MPV neutral over 10 years, and that was the plan. That was because we had costs to incur on the way in, whether they were temporary or permanent costs, and we needed to offset those with benefits which would come through over time.

What we have seen is that those benefits are coming through much quicker than we had in the business case. That MPV zero over 10 years is now looking like MPV zero over seven to eight years. We are seeing a 25% improvement on where we thought we would be, and that is coming from a number of areas. It is coming from baggage costs, and Andy was showing you earlier just how successful the baggage is, so that has lowered our baggage costs considerably. It is coming through equipment costs, because the equipment is working so much better, we do not need as much of it and what we have is working more efficiently, so that is a tick there, and it is working in terms of manpower costs, we do not need the levels of manpower that we thought we would. Therefore, from a financial perspective, T5 is a huge success. It builds on the operational success that Andy and Silla were talking about earlier.

**And overall manpower falling …**

If you look at what happened in terms of overall manpower, this chart shows you what happened with manpower throughout the airline. We finished the end of March last year with 42,3000 employees and that grew over the summer, we protected Terminal 5, but just look at what happened subsequently. This is total manpower, it is not just what happened at T5 although it is mainly T5. You can see that the manpower is down 2,400 from the peak and about 1,700 people less MPE this January than we had last March. Therefore, we are seeing a 4% reduction in manpower so far in the year from where we started the year in total, and we are seeing more than a 5% decrease on where we were over the summer. So we are seeing substantial manpower changes in the business, which will continue to change, as Tony mentioned to you, as there is a voluntary programme there at the moment which will reduce the MPE even further by the end of March. Therefore, we have quite a lot of positive momentum as we go into next year.

**Next year builds on 2008/9 – manpower**

What are the assumptions behind next year? As Tony said, we cannot envisage at this point giving a pay rise on base pay. What we are working towards is real productivity change and what we really want to see out of this business is real productivity change and not temporary change. We need to deliver that through various mechanisms. The working practices that Tony mentioned need to change over time, we need more flexibility and we need to concentrate on where we give value to the customer and remove the manpower that does not give rise to value for the customer or enhances safety and security. That continues the work of this year and then I would point out that there will be no management bonus for 2008/9.

**Next year builds on 2008/9 – capacity**

A lot is said about capacity and this chart repeats something that we showed you back in November. We take account of many different competing factors when we look at capacity, which is based around the management of slot risk, we look at what revenue we will spill as a consequence of taking out capacity and, as Robert mentioned earlier, it is easy when we have multiple frequencies in that we can move capacity from one frequency onto another. We take account of our competitors, of our cargo and the fact that the environment has very much changed when we look at capacity in a very high fuel cost environment of $147 to the value of fuel we see today of around $40. So that marginal flying is only coming through at a cost of $40.

**Modest reductions for summer season – winter tbd**

The one factor we ought to mention is that in the summer period particularly, our flying makes a positive cash contribution. When you look at the summer, it makes sense to us to put through about a 2% capacity reduction, and Robert showed you this chart of how that plays between Heathrow, Gatwick and London City. Therefore, we have moved from a 1% to 2% capacity reduction in the summer, which makes sense on all the analysis we show, which is that it is cash generative to fly the programme throughout the summer.

You will see there that we have put the winter tbd, so we have not yet settled on the winter programme for 2009/10, and I believe that is sensible as we need to take a longer look at what is happening in the economy. We have some assumptions in our plan but we have time on our side to decide on 2009/10 and we need to make that decision when it is a better informed decision later in the year.

**With cost improvements in all areas**

What we are seeing is cost achievement in all areas which will come partly through capacity, partly through the pay and productivity, which Tony spoke about, and we are looking at reducing our external spend, as are most businesses.

**Delivering long-term cost reduction**

That leads to a targeted reduction in absolute terms of £220 million next year, so that takes account of any offsetting inflation. We still expect our costs next year to be down some £220 million from this year. The following year with additional plans and flow-through, we ought to achieve a £300 million reduction in 2010/11.

**Underlying non-fuel cost performance**

What does the mean in terms of underlying cost performance? In the first half of next year, you should see the costs down about 3.3-3.5%, that will pick up in the second half and overall you are looking at a cost reduction of about 3.5% on an underlying basis. What is slightly different, when I show you some numbers later on, is that in the first half a lot of that benefit will be taken up from exchange. However, a 3.5% reduction in absolute costs is what we are targeting next year.

**Costs and revenues need to be brought back in line**

That will bring more balance to our unit revenue/unit cost equation. We have seen a huge spike this year primarily as a result of the fuel spike that we saw, and for our unit costs we are looking at 18-19% this year. Next year, we are bringing that much more into balance with the unit revenue, which is something that we need to do over time.

**Cash outlook – a sound financial position**

I want finally to look at the cash and the balance sheet. For airlines, cash is always king and at no time is this more clearly the case than it is in the current downturn. Many people picked up on a remark that I made that we were burning £2.7 million a day in Q3, which was true, and it was a result of a simple mathematical equation. At the end of December, our cash balance was about £1.59 billion and that was down from £1.83 billion at the end of September.

We have previously spoken about an ideal level of cash holding which was between £1.3-1.8 billion, and a liquidity level target of between 15-20% of revenue. We will remain in those parameters at the end of this year, but likely to fall slightly below that in 2009/10. That is not a concern to me in the short term, as long as the cash position remains comfortable. Net debt will similarly increase, partly from the fall in the cash level, but also from an increase in debt as we bring in the new aircraft which I showed you earlier. Again, that is not a real concern, there are no dependencies in terms of covenants or anything of that nature, and George will cover that later.

Pensions is clearly an issue and the size of the company deficit will increase substantially in the next valuation, which is due at the end of March. I am comforted by some of the guidance from the Pension Regulator has issued in February. The Regulator has emphasised that trustees need to take account of the company's ability to pay. In other words, they should not seek to kill the goose that lays the golden egg, which is very welcome guidance given that we are the goose.

The most important thing in pensions, however, that the Regulator put forward is that they should be looked at as creditors. While that is true in one sense, it is clearly not true in another sense. I do not know of other creditor balances that remain subject to the major fluctuations in value that we see in our pension fund, nor do I see ones on which we have such little influence.

In the case of the BA pension fund, on the whole we have a very good working relationship with the trustees but, ultimately, they call a number of the shots, for example on investment policies. As the company, we have to sit back and act as the funder of first resort. That is one area where the Regulator saying they are like creditors is not quite the case.

The other comment I would add is on dividends. I believe it is perfectly right that companies should not pay dividends at the expense of their pension fund but, equally, it is also right that the funds should acknowledge that it is ultimately the shareholders who are the lifeblood of the company, and it is fair to reward them with dividends paid in the ordinary course of business. Those are some introductory comments and now let us look at where we shall be in terms of cash, and then I shall look at the pension fund issue.

Cash, as I said, at the end of December was £1.59 billion, we have a high level of pre-commitments on our order book and other general committed facilities of over $4 billion and George will talk to that in a moment. Our latest forecast is for the cash balance at the end of March to be some £1.35 billion, which is ahead of the level which we have set ourselves. The outlook for the end of March 2010 is that that cash balance will fall to somewhere in the region of £1 billion. As I said earlier, I am comfortable with that in the short term but, over time, we would like to get back to the target that we set ourselves.

One final figure that I shall give you is that next year, because of the 757 depreciation charge running slightly higher than it would normally, the targeted EBITDA to net debt will be somewhere in the region of 4.5-5 times.

**Pensions**

The next valuation is at 31 March 2009 and under the Pension Scheme rules we need to agree a funding plan for the next period by 30 June 2010. Affordability, as I said earlier, is a key issue and I shall show you a quote from the Pensions Regulator on that in a second. The other thing not to lose sight of is that pensions is a long-term issue for this airline. Although you are going to see very different short-term valuations, and I shall show you a slide in a moment on what has happened in the short term, pensions is really a long-term issue for the airline.

**Equity markets and bond yields have fallen**

Here are a couple of slides that the Pension Fund Regulator issued. Not surprisingly, with the fall in the FTSE share index and the fall un 10-year gilt rates, pension deficits have increased, no surprise there.

**Causing deficits to increase**

Similarly, if you look at the information that the Pension Regulator has put out on pension scheme deficits, you can see there has been a pretty dramatic increase in scheme deficits of more than £200 billion. Therefore, not unnaturally, you would expect that our deficit will be much bigger when it is valued at 31 March 2009.

**Status v NAPS recovery plan**

This chart shows you what happened in 2006. It shows you what the funding plan was in 2006. In 2006 we had a deficit of £2.1 billion and the company put in a significant contribution of £800 million, and has been paying off annual contributions. The plan with the red line here you can see is that the pension deficit was due to come down to about £1 billion and it would have been just under £1 billion at March 2009. Clearly, that will not be the case and that 10-year recovery plan is not going to be met.

Just to highlight what the time difference makes on this, this bar chart shows you the status of the funding at various points in time. In 2007, the FTSE was at over 6000, we were well ahead of the funding plan that was planned for the BA pension scheme NAPS at that point in time. We were ahead of the plan that was put in place for the 10-year recovery. It is only subsequently that has changed.

I should add that, at that time, we spoke to the trustees about the realignment of the funds at that point and they had taken a long-term view of the BA pension scheme, and that long-term view involves a high proportion of equities because it is a long-term funding scheme. What is clearly the case, as I said earlier, is that 10-year funding plan will not be met at the next valuation, so in all probability it will extend over time.

**Contributions must be affordable**

This is what the Pension Regulator has said in February in relation to the funding of schemes, and I shall let you read that for yourselves.

**Cash contributions to APS and NAPS around £320 million**

If we look at what we have been paying into the scheme, or the various BA schemes, at the moment we have been contributing around £320 million a year from 2006, and it is adjusted each year for inflation. That level of contribution was set based on the company's ability to pay back in 2006 and, at that time, we were looking at a company that had a much healthier operating margin than today. I am not saying that the level of the company's contribution will necessarily fall but it does not seem to me that it will necessarily increase either, and that will be one of the debates for the pension fund trustees over the summer. That was based on our ability to pay back in 2006, that was the level of contributions and it will be reset at the end of the next valuation.

**Outlook**

Finally, let us move on to the outlook.

**Expect to break even in first half of 2009/10**

I hope I have given you a picture on how we see the revenue based on the information we have, how we see fuel evolving, how we see the non-fuel costs evolving. We have a much better view of the first half of next year than we have of the second. This is how we see the first half coming through. The revenue will be down about 6%, which is helped slightly by exchange, fuel costs will be down pretty steadily throughout the year around 10%, and we see non-fuel costs follow down on an underlying basis, up because of exchange. The overall performance we see as being one of break-even at the operating level for the first half of next year – that is our viewpoint. That is stated before any additional severance costs that we need to take in 2009/10, I am not yet certain what they might be. That is the first half picture – break-even.

**Full year in line with 2008/9**

The second half is more speculative but where we see the second half and the year overall is full year we would see the revenues down at about £8.6 billion, as I mentioned earlier, so down around 5%. Fuel costs down on the $60 assumption to about £2.7 billion and the non-fuel costs down 2.5%. That would leave us with a pretty similar operating result to the one we had this year 2008/9, so you see a pretty flat picture going from one year to the next. That is working through an economic environment which we see as a downturn the whole of next year.

I shall now pass on to George who will give a little more detail on the balance sheet.

## BALANCE SHEET AND LIQUIDITY
**George Stinnes**
**Group Treasurer & Head of Investor Relations**

**Balance sheet & liquidity**

When I spoke at the last Investor Day, I spent quite some time on the long-term financial target for the business. In these rather extraordinary times, it is important to keep a focus on the long term more than just the short term, so I shall do that first for a second. Then I shall take you through a view from our perspective of the state of the capital market and the availability of capital for the airline industry and, finally, I shall try to flesh out a little more in terms of some balance sheet issues, liquidity and currency impact, so that is the agenda.

**Our financial objective**

Our financial objectives are quite straightforward and they are unchanged. We are a capital-intensive business and we must maximise our returns on capital. The second part of that is that we are absolutely committed to value creation for the shareholders and will only invest in fleet when the return exceeds our long-term cost of capital.  That fundamental principle was the same as I mentioned last year and it absolutely still continues.

**Operating performance targets**

As to how we measure that, we introduced operating margin as the key financial metric for the company in 2001.  Last year, we qualified that metric with an asset turn measure as we launched our fleet order to clarify the linkage between capital and value.

**Value grid**

You will recognise this famous value grid which was in your presentation last year. The grid has an embedded pre-tax long-term cost of capital of 8.5%, so it moves if you move that assumption.  However, we have not changed the cost of capital assumption for two reasons.  First, it is a long-term measure and in reality the volatility of the markets today is such that, to be brave enough to create a new long-term view at this point in time, I would suggest is somewhat dangerous.

Secondly, and quite pragmatically, over the next four years we have significant new funding in place locked in at very low rates, extremely low rates compared to where we are today.  In absolute terms, it is also useful to remember that one of the markets that has opened up a bit recently is the bond market and there one is looking at spreads for A/BBB type credits of margins of about 500-600 over.  Therefore, in absolute terms the cost of funding is not that high today, and I do not think we should lose sight of that either.  That said, the long-term target is unchanged and has shareholder value principles firmly embedded in it.

**Capital market update**

Let us now look at the capital market update.  Indeed it is absolutely clear to me that we have not seen this level of turmoil in the financial markets certainly in the history of BA as a public company which stretches back some 25 years.  We are seeing a fundamental breakdown of many of the channels of financial intermediation, combined with a very major economic slowdown.

This has a major effect on the airline industry as many of the sources of capital that the industry has traditionally relied on are simply no longer available.  The consequence of this is that, while in the past financing was always available, albeit at a price, this is no longer the case.  Even major airlines today have been unable to borrow at various times over the last 12 months.  We are firmly of the view that a tight capital market will continue for quite some time.

**Bank finance market**

I shall just divide the market into two sources, and let me just begin with the bank finance market. After we completed our $1.7 billion facility in late 2007, the bank market for secured aircraft lending deteriorated very rapidly. In the last few months, there have been almost no secured aircraft financing transactions and those that were completed involved situations where there were special relationships between banks and airlines. In these transactions, spreads that would historically have been somewhere between 25-50 basis points have increased ten-fold to 250-350 basis points. It is clear to me that bank focus today is much more on rebuilding their balance sheet than supporting the balance sheets of the airlines.

When the market does stabilise, and we firmly believe that it will, it will continue to be tight. There will be a flight to quality and we are of the view that second tier airlines and many leasing companies will struggle. Quality also refers to aircraft type and, indeed, there too the market has favourites. Among the wide bodies, the easier aeroplanes today, and we believe for the future, to finance will be the 777s and 787s, the 350 is yet to be tested and tried in the financial markets, but one should expect that will be a good aircraft, and in the narrow-bodied area both the A320s and the 737s are what I would describe as favourite types. Some of the smaller, more esoteric types are also more difficult. We expect that margins will decrease from the current levels but will very much remain above the level that we paid about a year ago.

Desirable aircraft, which is the list I just talked about, have in the past from the loan-to-value perspective been successful in achieving about a 100% ratio, and in some cases even took advantage to over-borrow on aircraft. Looking forward, we see that will no longer be the case and certainly we expect loan-to-value on desirable aircraft to drop below 100% financing, and less desirable aircraft will fall well below that.

As to term, our last Jumbo facility had an 18-year commitment period from the banks who underwrote the transaction. Looking forward, we expect those 18-year type terms will be very difficult to achieve, and that probably one is looking to 10-12 years certainly at the beginning of a recovery phase. You know, 10-year financing for a 20-year aircraft makes things more challenging.

Finally, it is absolutely clear to us that lenders will indeed be pushing, from their perspective, perhaps for tighter terms and more favourable overall conditions.

**Other sources of aircraft finance**

Let us look at other sources of financing for a minute. The first I want to look at are export credit agencies that provided much support to the aircraft world in the past, largely in the form of guarantees which then, of course, get combined with bank lending, which, as I mentioned, has some issues with it. In a small number of cases, to be fair, there is also funding that comes with these export guarantees.

In the last few months, this has proved to be a very difficult market because the spread expectations of airlines when they deliver bank guarantees are different from the spread expectations of the lenders. I have to say the lenders have won and today, even in the restricted liquidity circumstances of banks, being able to get government credit for the 150 basis points over, greed has finally prevailed and, indeed, there are transactions at these high spreads that are now being done. However, if you think back a few years, for government credit certainly you would not expect to see those kind of levels.

Unfortunately, BA and many other European airlines in countries where aircraft manufacturing takes place are, of course, disqualified under home country rules for such credit support. That said, in small circumstances it is available and we have recently taken advantage of the NDS facility for the Embraer aircraft which we ordered for London City.

Going forward, it is clear that the expectation of the manufacturers, both Airbus and Boeing, is expected to provide significant vendor support. This usually takes the form of backstop financing or asset value guarantees. It is also clear that airlines today in the restricted markets are more likely to exercise and take advantage of these facilities that have been put in place. Of course, we must not forget there is a knock-on effect as they need to refunded in the capital markets again.

Also operating lessors have been a big source of airline capacity, so to speak, especially for lesser credits for smaller airlines who are not able to finance on their own balance sheet. Today, operating lessors also have to raise funds in the capital markets and they, too, are struggling significantly. There is certainly some doubt in the marketplace as to where the money will come from for all the aeroplanes on the order books of the lessors. I guess the very high profile one that one might think of there of a big lessor is in the form of ILFC who have a linkage with AIG.

The capital markets are faring a little better, although there have not been many transactions but Southwest completed one of those rare transactions recently with a four-year maturity and my recollection of spread on that was some 900 basis points. Again, it is not what I would call bargain financing.

Tax equity features heavily not in terms of the sole source of financing but as a component of financing for aircraft, and we have historically taken great advantage of that particularly through the Japanese market, and can generally provide between 20-30% of the financing of an aircraft. This market, I am pleased to say, is still open, although on a very selective basis, to top quality airline names. However, even in this market airlines have recently failed to complete transactions, not because the tax equity was not there but they were unable to raise the debt component required to complete the financing package. Indeed, I have to say we have been very fortunate there because we have been able to take advantage of equity packages because we have bank financing in place. One of the things I think the market undervalues in terms of today is the amount of committed facility we have for capital expenditure that is currently within our plan.

**BA historic sources of capital**

Let us look at our historic sources of capital. The core of our financing really has been a series of Jumbo syndicated facilities that we have generally combined with tax and operating lease structures. We have completed several deals through the 1980s and 1990s for approaching $5 billion and, of course, the last transaction which was $1.7 billion just at the end of 2007.

In addition, we have at times opportunistically raised capital in many other markets. We have done sale and leaseback transactions among other things to achieve fleet flexibility. We have made use of ECA transactions in the very rare opportunities that we can such as the Embraer order recently. Over the last 20 years, we have issued three unsecured bonds in the capital markets when the opportunities have been there, and we also have a perpetual preferred share outstanding. Who would have thought that airlines could have perpetual capital but it was possible at one time in the past.

I also have to say that we have very rarely done pure equity. We did a convertible in 1989, for those of you who remember that far back, when thought of doing a transaction with United Airlines at the time. We also did a rights offering in 1993. You will also remember that we are very firm in our commitment and did not raise equity in 2001 post 9/11.

I shall reiterate that we are extremely conscious of protecting the position of our shareholders, and it is not our intention to dilute them.

The structure of our debt gives us more flexibility than many other companies. That is key to our interest to protect our shareholders.

Finally, let me add that there is one very old-fashioned way that we do not talk about very often these days of gaining capital for the business, that is called earnings. We have every intention to use earnings in the future as a key source of capital for this business.

**Debt structure**

Let me look at debt structure for a second. Minimising the cost of capital in an airline is a key value driver. Too many airlines at their peril forget that there are other parts of this equation. The challenge is to balance cost availability, structure and covenant all into one package, and it is very much a trade-off. If you go too far down one road or the other, it does not work very well. Our business is very high in operational gearing and, as a result, risk, and an airline debt structure, we believe, should be managed and be conservative so as not to multiply the already excessive operational gearing effect. I am confident that we have prosecuted that strategy and we shall continue to do so.

**Debt repayment schedule**

Let me look at the debt repayment schedule: this is a little confusing but let me explain. Our primary debt repayment schedule, in red, is absolutely flat. We had some spikes in the early years, as you can see from the yellow, but this was caused by some yen maturities on some aircraft leasing. However, about five years ago we put a transaction in place quite deliberately with a view to smoothing those maturities and as part of a process to manage the debt profile. Certainly, we keep a very close eye on that so as not to have funding spikes going forward. That is a good example of how we actively manage repayment. The one little spike that you see out in 17 is the £250 million bond maturity which is the unsecured bond issue.

**Capital targets**

Last year at Investor Day, I gave you these targets and Keith briefly referred to them. We believe these continue to be good and valid long-term targets, although one has to say that when you have extraordinary times, you sometimes bump out of those targets. Looking at each of them individually for a second, with the gearing target of 30-40% over time we still continue to be valid, although we are currently at the very edge of that one. Liquidity, again, expressed as percent of revenue is also valid, integral to a conservative finance approach, having committed funding in place for committed aircraft orders being part of balance sheet conservatism. We currently have over £3 billion of committed facilities in place for fleet purchases.

Finally, credit rating is an interesting one. Instinctively, it must be beneficial. However, it is difficult and unclear in terms of the cost of funding as to whether it makes a huge difference and historically we have funded with and without a credit rating, it does not seem to make much difference, although in my gut it has to tell me that if you have an investment grade credit rating, it sure as hell can't hurt. Therefore, in the long term our objective is to have an investment grade credit rating.

**Gearing**

Just looking at each of the parameters very quickly. There is the projected gearing outlook for the end of this year and I have to say I have cheated a bit here: that is at constant exchange and it is just at the edge of the 40% target.

**Liquidity**

If I look at liquidity, we are at the 15% target that we indicated.

**Committed facilities of £3.1 billion**

As far as the committed facilities, there is a list here, £3.1 billion in total of which about $3 billion is aircraft-related, and this represents 100% of the expenditure to the end of 2012, and in total represents about 80% of the orders outstanding.

**Financing – key features**

The key features of financing. You may have heard about facilities being withdrawn in these uncertain times, and I know there are airlines who have suffered a little in that regard. Let me confirm to you absolutely that our facilities are committed at fixed margins with no covenant and no draw stops. These are absolutely firm committed facilities. As to the quality of the banks, I am very pleased to say that the banks in our last Jumbo are top tier and certainly are not giving me any sleepless nights.

On the side here, one of the issues that has also come up recently, you will notice that a number of airlines in terms of their hedging programmes have had troubles in terms of margin calls, these type of things. Let me be absolutely clear that all of our hedging is done under ISDA agreements with the financial institutions. We do not deal on margin and, as a result, we have no restricted cash, so we are not in any way exposed in terms of cash or liquidity with respect to our hedging position. That is also relatively unique compared to others who engage in these activities.

**Financing 2009-2014**

Just a little more detail in the pre-funding chart that Keith gave you in that what I have detailed for you here is also the other component that has formed part of the capital expenditure piece, namely where we have drawn down both the facility debt, which is the long-term facility, Japanese equity put in place and the bit of ECA financing that we have. You will notice, if you look at it very closely, that there is a small mismatch in 2011, which is largely the A380 PDP payment. The Jumbo facility will be fully drawn in 2013 and you see that backstop financing then becomes the major part of the financing piece.

**Capital targets**

In terms of the various capital targets, we are about to complete the most difficult financial year in our history and yet we have virtually stayed within all the targets that we set ourselves, and they are sensible targets.  For the next year, the outlook is challenging and we will fall outside these targets, although the targets are set to be cautious and we are comfortable with the amount that we will be outside them.

We are taking significant action to adapt the business to what is the new market reality in many ways for the next few years, and that business improvement will return us back to within our target ranges.

**Currency strategy**

Let me say a few words on currency.  The current accounting standard makes it very difficult to manage our volatility with respect to company financial reporting.  Companies generally have a choice between significant income statement or balance sheet volatility these days.  It is very difficult to do anything else.  In our case, we have decided to pursue a policy which is to do what is economically correct for the business, that can be the only way. However, with respect to debt, we borrow in the currencies where we have natural cash flows, thereby reducing the economic volatility of the business.  This is effectively pre-selling future currency flows and matching them to capital flows.

Under the IAS39 Hedge Accounting Standard, this creates balance sheet volatility as movements are marked to reserves although they don’t go through the income statement. This carries the risk of exposing a company like ourselves to debt covenant and there have been one or two in the UK who have suffered that but, of course, the careful management of a covenant-light debt programme means this is not an issue or a problem for us.

**Gross debt**

Just to give you that breakdown, looking at the gross debt, our strategy allows us to consider financing in these currencies.  We are currently full on yen which is why we did the rephasing on the yen repayments, but we do have capacity in the dollar and the euro as well as other currencies in which we have not borrowed, including the Canadian dollar and some of the less well-known currencies like the rand or the rupee.

**Exchange impact on net debt**

Looking at the impact on net debt of foreign exchange, net debt in the year grew some £900 million, around £600 million of that relates to the foreign exchange revaluation. The only other one I should quickly explain to you is that we took the advantage of converting some operating leases into finance leases during the year, which meant that they came on balance sheet, that is what that £134 million is.

**How currency impacts our balance sheet**

For the slightly more technical explanation, let me quickly walk through the impact that currency has on our balance sheet and the main items. The majority of our assets are purchased in US dollars mainly the fleet, and translated into sterling on acquisition. Most of our cash is held in sterling. Our working capital items, including provisions for ongoing bills for operational expenditures like fuel, airport fees and overflying fees, are paid in a selection of currencies and are translated into sterling at each period. Our long-term debt, which as you see represents around half of our borrowings, has to be retranslated into sterling each period. As we match our debt to the currencies in which we have significant revenue, we apply the Hedge Accounting Standard to the vast majority of this debt, meaning that the difference on revaluation is taken to reserves rather than the income statement.

When the debt matures, the related retranslation profit or loss is taken to the income statement against revenue. This said, there is about £200 million of US debt that relates to a 30-year financing that we have in the US market that is not eligible for hedge accounting, and the treatment on that is that it is adjusted through the income statement every year.

**The balance sheet is strong**

To wrap up, the balance sheet is strong and one way of benchmarking that is the comparison with 2001 which, while a different scenario from now, is pretty self-explanatory. We have worked very hard over the last seven years to strengthen the financial position of this company, we have been successful and I am much happier going forward into the difficult times we are looking at now with that balance sheet than I would have been with the one from 2001 – in fact, dare I say I am almost comfortable. With that, I am pleased to say that this section of presentations is concluded.

## ENVIRONMENT
**Willie Walsh**
**Chief Executive Officer**

Good afternoon again everyone, if I could ask you to take your seats for the final session of the day. I just have a short presentation on two specific issues, some closing remarks and then an opportunity for you to ask questions. Most, if not all, of you continue to challenge us on the environmental performance of our industry and specifically have asked us to clarify what we at British Airways intend to do to address our environmental performance.

**December 2008: the environment takes a back seat**

It will not come as any surprise to you that the public attitude towards the environment has somewhat changed given the very difficult economic conditions that we see and this chart clearly demonstrates that public concern about the economy far outweighs concern about the environment, and that can be easily understood by everybody. I want to reassure you that our attitude towards the environment remains very much focused on improving our performance because it is a critical issue on a number of fronts. Research tells us that companies that continue to invest in improving their environmental performance to deliver on social responsibility issues will do better than companies that do not, particularly companies that do it during difficult times.

**The importance of maintaining CSR**

Secondly, as you have seen from the presentations earlier, the issue of the third runway is a very important strategic issue for British Airways, and the environmental concerns around a third runway have been a major issue that the Government have had to tackle. Indeed, the Government have imposed very strict environmental conditions around the development and use of the third runway and, as the biggest operator at Heathrow and as probably the strongest proponent of the building of the third runway, people will look to us to ensure that we put our money where our mouth is and deliver on the improvements that we have promised.

**One destination responsible air travel**

We have a comprehensive corporate responsibility programme and we have put this label on the programme: One Destination Responsible Air Travel. We are using this internally within the business to ensure that our people feel comfortable about what it is we are doing. We need our colleagues to talk positively about what British Airways is doing to invest in environmental concerns, but also that our customers are aware of what we are doing. You will see more and more around this programme as we go forward.

**Environment**

We have set a number of significant targets for the business. When we talk about the environment, we specifically address three major areas of concern: noise, local air quality, and the two of those are the most important in relation to Heathrow, and the third issue to address in global climate change is $CO_2$. Our industry represents around 1.6% of manmade $CO_2$, and that will grow. Even with the latest projections on airline growth despite the short-term expected downturn, our total $CO_2$ is expected to grow over time. We were one of the first airlines to set hard targets for it and we initially expressed those in the form of improving fuel efficiency.

**Climate change goal**

We have now translated that fuel efficiency target into one that we believe more and more people can understand, and that is expressing it as grams of CO2 per passenger kilometre. Those of you who are into cars may well look at the environmental performance of your car. I drive a Lexus Hybrid, which is rated at 186 grams of CO2 per kilometre, and we are saying passenger kilometre for the aircraft; your car is rated on the performance of the car. When you take the average occupancy of a car in the UK as somewhere between 1.1-1.5, it really puts the performance of British Airways into context. In 2006 we emitted 111 grams of CO2 per passenger kilometre, that reduced slightly in 2008 to 110 and our target is to reduce that to 83 grams of CO2 per passenger kilometre in 2025. That is a significant target and a very significant reduction, and it really demonstrates that air transport is a very efficient mode of transport where fuel efficiency given the cost to the business is very important, and the environmental output of the business is also very important. So we have set hard targets and we shall work to deliver on these. A significant element of delivery will be through investment in new aircraft.

Finally, the last chart I have for you on the environment is important, because the Government base their assessment on runway three on a commitment that the industry has made to stabilise CO2 emissions by 2020 at the 2005 level. You can see on this chart where emissions grow, by virtue of operational efficiency, new aircraft technology, new fuel technology, the absolute emissions will come down somewhat but it will still grow until we can further improve efficiency through fuel and aircraft technology, but also by utilising emissions trading and the commitment that the industry has made is to bring our net emissions back to 2005 levels by 2020. We believe that we can deliver on that, those who challenge the industry say that we shall never do that but we believe that is possible. Aircraft technology is improving, more and more advances are being made in terms of fuel technology and as a result of increasing the operating efficiency, we are already seeing significant benefit.

As an airline, British Airways has further committed to reduce our net CO2 by 50% by 2050, so we are saying that we shall go further than that. We want to make sure we are leading the industry, continuing to deliver on improvements, so that air transport can stand up and genuinely argue that we are playing our part in addressing the global climate change challenge. There is a lot of work to do, we shall remain focused on that and I am determined and confident that we can deliver.

**Iberia update**

I know there has been a lot of interest in Iberia and I only have one slide to show you – sorry, I have two slides, I forgot.

**Share price movements since merger talks announced**

This is an interesting slide because it shows the performance of the Iberia share price which I have to be honest I do not understand, and I have yet to meet anybody who can explain it to me either. However, you can see our relative performance against Air France, KLM and Lufthansa in the FTSE and Iberia has clearly outperformed everybody. There was a very significant move in their share price in October where on one day in October they had a 25% jump in their share price. If anybody here has the answer to that, you win a second prize which will be two seats to Madrid!

That has become a bit of a public issue because people have felt that the merger ratio has been the issue of concern and the issue of disagreement between Iberia and ourselves. I want to assure you that is not the case, so please do not believe everything you read in the newspapers about the discussions we have been having with Iberia. We have been making good progress. As you all know, progress was very slow initially which was largely as a result of Iberia wanting to come to terms with the complexities associated with defined benefit pension schemes. As Keith demonstrated earlier, that was a very sensible thing to do. They spent quite a number of months understanding the financial implications, the actuarial implications, the role of the Regulator, the legal issues in relation to this and I believe it is fair to say that they are now comfortable with the issue. So pensions is not an issue between us.

**Making good progress**

The main areas that we need to address are in relation to synergies and governance. The synergies have been identified, we are very clear in terms of the value of the synergies. I shall not give you a figure today but we are very clear in terms of the value and we are very clear on how those synergies can be delivered. There is very good work in relation to how that can be done and the timescale for delivering those synergies.

The single area of difficulty between us relates to governance and specifically in relation to the financial control that Topco can exercise over the two operating companies. The structure, as you know, is to maintain Iberia as an airline with its own AOC and the Iberia brand, British Airways as an airline with its own AOC and its own brand with a Topco controlling the strategic direction, capital allocation and financial control of the two businesses. We need to have a structure in place to ensure that the traffic rights of both individual airlines are protected. All of the governance issues, with the exception of the financial control of the two operating companies, have been agreed in the negotiations between us. However, although the principle and the concept of control by Topco is understood and accepted, translating that into a formal written agreement has proved to be very difficult, and we do not have agreement on that issue at this point. Therefore, a lot of good work has been done, we have made very significant progress.

Although I highlight that as the main area of difficulty between us, nothing has been agreed until everything has been agreed. However, in relation to Chairman, CEO, CFO, Board members, in principle there is agreement on all of those issues, these are not standing in the way. I do not see the merger ratio as an issue standing in the way. Synergies and the delivery of synergies will not stand in the way. However, the only way that we can guarantee that the synergies can be delivered is if we have proper governance over how Topco exercises financial control, and we would not try to convince you on the merits of this deal if we do not have comfort around the governance structure.

I remain very positive towards the deal, I believe we have made very significant progress. I believe it is a good deal for Iberia, a good deal for British Airways, a good deal for our stakeholders, and I remain confident that a deal can be done. An important aspect to this and one about which a number of people have asked me is at what point do I say we spent enough time on this. I can assure you that Iberia is not distracting us from doing what we need to do to address the challenge that British Airways faces. I have been fortunate to be able to set up a structure around my management team that allows Roger Maynard, who has been freed up from day-to-day activities, to focus on Iberia with a small dedicated team of people, and not interfere in the work that the rest of my team have to do.

If it were the case that I or my team were spending a lot of time on Iberia, I think we would begin to get impatient but that is not the case. This is not taking up a lot of management time. We have been able to structure this in such a way that we can continue to focus on what we need to do that is right for British Airways, while separately working with Iberia to try to reach agreement. We shall continue to put whatever time is necessary to reach agreement, because I believe that agreement on a merger with Iberia is the right way forward for British Airways, and it is the right way forward for Iberia.

Before I hand it over to you for questions, I hope you have got value out of today. We have given you a view of our vision for BA, we have shared with you some of our strategic thinking. I hope you have been impressed by our renewed and invigorated focus on the customer and our renewed and really strong delivery on operational performance. You have heard Robert explain our strategic thinking, you have heard Silla talk about what it is we are doing for the customer, what the customers are saying to us and what it is we can do for the customer going forward.

Andy has shared with you our operational performance and the improvements we have seen there, and the areas where we believe that further improvement is possible. Tony has talked to you about a very important people agenda, not only in terms of the culture that we are seeking to generate within the business, but also the change programme in terms of efficiency that is on our agenda at the moment. Keith has taken you through the financial performance building on the presentation that Drew has shown you on the revenue outlook, and on the marketing initiatives that we are taking in this difficult environment to retain customers and to attract new customers to the business.

George has wrapped it all up with the presentation on the balance sheet and on liquidity, which gives you a picture of a very difficult trading environment, significant challenges out there but I hope you have recognised that we have in train agendas to deal with all of these issues. We are very confident that we have the right people in the business, we have the right skills, we have the right structure and we have the right attitude to address the challenges that we face. We believe that we are taking the right actions based on our assessment that we are looking at an economic environment that will be difficult for the next 24 months. Then separately we shall put time and effort into reaching agreement with Iberia because we believe long-term consolidation will be beneficial to this industry but specifically a merger between BA and Iberia is the right thing to do.

We have some time for questions. We have some microphones so if you wouldn’t mind identifying yourself and waiting for the microphone so that we can allow everybody to hear the question.

## Question & Answer Session

**Helane Becker (Jesup & Lamont, New York):** I have followed this company for 25 years, I guess since you became public, and I have watched the company go through premium traffic, then it went to a connecting scheme because of concerns that the premium traffic was declining, then yields declined so you went back to a premium plan, now you are going back to a transfer passenger plan. As you make this change back to transfer passengers and connecting, won't yields come under more pressure than just the shift in mix that you are seeing in some of your markets now with the down-bidding from First to Business, Business to Coach? Aren't you concerned that the revenue decline will be greater than the passenger decline because of that shift in mix?

**Willie Walsh:** There are a couple of things. One of the points we made that came in Drew's presentation is that we have an opportunity to focus on transfer traffic to take advantage of the stronger euro and stronger dollar. This is something that we did probably from the end of October onwards. In the first case, we are very confident around the transfer product that we have, we are very confident about our ability to deal with higher volumes of transfer passengers, and that was always a concern and a constraint that we had at Heathrow. Based on the performance at T5, we have strong confidence in our operational ability to deal with higher volumes, higher percentages of transfer passengers. Recognising that there was a revenue opportunity through stronger foreign currency, we decided to switch on additional capacity in Europe and additional capacity in the US. So although transfer traffic is, by its very nature, lower yielding, there was a foreign exchange benefit from this.

In the current environment, this is an additional revenue pool that we can tap into because we have a shorthaul network that many of our competitors, particularly our longhaul competitors here at Heathrow, cannot access. Therefore, in the short term I believe it is right to do it for the business, it is an opportunity for us to continue to supplement the local O&D traffic and the established transfer traffic with additional transfer traffic in the short term. Our transfer volumes in January in T5 were about 46%. Our business planning for T5 initially assumed transfer volumes in the order of 35-40%. During the build phase of T5, we adjusted that to model on 45% transfer traffic and, based on our experience of operating at T5, we are very comfortable in pushing that up further. We can switch this on and we can switch it off, and at the moment we believe that switching it on is absolutely the right thing to do. Drew, do you want to add to anything I have said?

**Drew Crawley:** I would agree with everything you have said, to start with, Willie, but I would add that you are right about yield. Yield in terms of mix will go down, and that is factored into the revenue guidance that Keith gave you. It is simply that demand is not there at the high yielding end, so we are using transfer in some ways to mitigate against that demand that is not there. However, this automatically revalues the business we are getting on transfer as the currencies change as well. The fact that euro and dollar currencies are much stronger than they have previously been again mitigates what people might have in their heads as transfer equalling low yield. It is not necessarily low yield, and there is a fair opportunity in premium transfer traffic as well within all that, don't forget.

**Mike Lindenberg (Bank of America-Merrill Lynch):** Willie, we learned today that you are cutting more capacity. Previously it was 1%, for the next fiscal year you are going to 2%, and yet we have seen a pretty meaningful step function down in traffic. Can you talk about some of the constraints and with the wide-bodied schedule that was up on one of the presentations, it does not look like you have a lot of flexibility with the fleet at least in the coming fiscal year but beyond that it looks like there is a lot of opportunity to pull aeroplanes down. Could you talk about what it is for the narrow-bodied and maybe even bring in some of the slots, because that may be a potential issue of either use it or lose it, and perhaps modifications of that could help you?

**Willie Walsh:** The figure we have given you of 2%, I would remind you that is 2% for the summer season. We have not yet determined what the capacity reduction for the winter season will be. The summer season runs until the end of October, winter is October through to March. We previously guided a 1% reduction for the summer and today we are saying that will be slightly over 2%. We are working on what winter capacity reduction would be sensible for the business and that is a piece of work that will continue for the next four to six weeks. It is clear at this stage that we see scope to reduce winter capacity beyond the reduction that we have had this year, so further scope to take capacity down. Fleet at this stage is not the main issue standing in our way. We do have quite a lot of flexibility and, again, the charts we have shown you demonstrate that there is quite a bit of flexibility in the short term too. However, we have 747s temporarily on the ground, we shall replace them with 777s, so we can play around with the fleet quite a lot on longhaul, and on shorthaul we have a lot of flexibility.

Slots is an interesting issue. We have a significant slot portfolio at Heathrow and at Gatwick. The main restriction that most people will be aware of is the so-called 80/20 rule, use it or lose it, which remains in place. There is a push within Europe to have that rule set aside. Some of the major European carriers are now actively asking the EU Commission to set the 80/20 rule aside and AEA (Association of European Airlines) has made a proposal to the Transport Commission DG-TREN to allow some alleviation on the 80/20 rule. For us during the summer, it really doesn't bother us and as far as the indication that we are only taking capacity down by 2%, we would not take it down by more than what we have already identified if the 80/20 rule were set aside. That is what we believe is sensible for the summer season.

Having flexibility around the 80/20 rule for the winter season we would welcome, and we would have greater flexibility than we currently have. Given the demand environment that we see, we would certainly be willing to support an alleviation on the 80/20 rule. That would give us more flexibility to take capacity out, and taking capacity out during that low demand winter season is a relatively easy thing to do. If we can plan it far in advance, we can take costs out of the business and in the presentation that Tony showed you, one of the things that we are pushing for is to ensure that more and more of our costs are variable so that we get additional flexibility to save costs, if and when required, by taking capacity down and taking more and more costs out of the business.

The main constraint at the moment is the 80/20 rule for winter and, as Robert showed you, we want to protect as much as possible our network, because we want to protect it for the long term. However, we have a lot of flexibility in the network to reduce capacity beyond the capacity reductions that we have shown in the current winter programme.

**Andrew Light (Citi):** Just touching on the cost issue, of the £300 million cost reduction programme over the next couple of years on fuel, what proportion do you expect to come from labour? What I am trying to get is some kind of global value on the productivity issue. Tony, for example, referred to productivity differences at T3, multi-skilled ground staff.

**Willie Walsh:** I am not going to give it to you and I don't mean to sound defensive. The reason why I am not giving it to you is it does not benefit us, because it tends to become the headline in the newspapers, and it tends to become a focus that is unhelpful to us.

If you look at what we have done in relation to headcount, we have taken our MPE down by 2,400. We have done it very quietly but you can imagine the task we would face if back in August there was a headline in the newspapers: "2,400 to go at BA". It makes it much more difficult, so we see no value in breaking it down. What you need to understand is that we have an agenda to address efficiency, we have an agenda to address productivity, which is a very structured agenda. We are not targeting a similar cut across the business. We have identified where we believe there is inefficiency and we are targeting that inefficiency. We have a comprehensive agenda with each of our work groups and we have tabled that agenda with them. This is about making British Airways more efficient, this is about securing our long-term future, it is about positioning us to be able to deliver returns that exceed our cost of capital in the long term.

In the short term, there is much that we need to do to minimise our cash burn and maintain strong and healthy cash balances. The targets are significant. It is clear that we shall look at every aspect of the cost base, not just our labour costs. Silla talked about working with suppliers. We know we can further reduce our third party costs by working closely with suppliers. We know evidence we already have that we can do that and continue to deliver strong service and, indeed, in some cases improved customer service.

The reason why I am not answering your question directly is, as I said, we have found that it is typically unhelpful to us when we do that breakdown, then people start translating it into headcount reduction. It is not the focus of our business, we shall do what is right in every area and we shall have a very strong focus on improving efficiency in every aspect of the business. We intend to work with our people, to engage with them. We have very sensible, educated, committed, proud people in BA who recognise that this is a difficult time for us and recognise that change has to happen. I am confident that we can work with them to deliver on these changes.

**Tim Marshall (UBS):** I have two questions. First, why have we not seen more airlines go bankrupt and when do you expect that news flow to start coming through? Secondly, more of a question looking back to where the business was in 2002, and clearly the balance sheet is in a much better position now. However, the difficulties on the balance sheet back then meant the reaction from British Airways needed to be a lot more acute and a lot more profound when it came through, and yours is not the only strong balance sheet in the industry at the moment. Do you think that the change that needs to happen is going to happen more slowly because of a lot of larger airlines which have a lot of cash?

**Willie Walsh:** In the first case, there are a lot of airlines that are in business today, as Drew or perhaps Robert said, because the oil price fell from \$147 to \$40. I think that had oil remained high, there are a lot of airlines that continue to exist today that would have gone out of business. The general demand environment and capacity environment still suggest that many of the weak airlines will struggle to survive, and that fall in the oil price has been a temporary reprieve. I believe the real challenge will come during 2009.

Access to financing, as George demonstrated, is difficult. We are fortunate that we have financing and our liquidity position is strong. That is a healthy position to be in but looking around at many of the airlines on which we have reasonable information, we see a significant number of small airlines that really are struggling.

One of the concerns we would have is that governments start to step in to bail out either former or existing national airlines. There has been no evidence of that happening on a large scale, we have seen it in some areas, and it is unlikely to happen given the state of most national finances that governments will be reluctant to do that, but that is the concern that we have. All of our planning assumes that we shall not get any financial assistance from either the UK Government or Europe, we are on our own and we have to take action to address this challenge on our own.

I look back at 2001 and I think the best lesson we can learn from 2001 is to look at Delta. Delta was probably one of the strongest airlines looking at their balance sheet, coming out of the 9/11 environment. If you look at what they did, I think they squandered that strength when relative to the other US carriers they were in a strong position. They had strong cash positions and they just blew it and went bankrupt, in 2005 I believe they filed for Chapter 11. That is a lesson to everybody. A strong balance sheet is very important but, if you allow that strength to fritter away, you will find yourselves in real difficulty. I believe that airlines have learned from the 9/11 experience.

I can tell you that we have, we understand what actions we need to take, we understand what we need to do and we understand why we need to do it. I believe my colleagues in BA, everybody in BA understands that. That is one of the real positives about the way we focused on the importance of cash within BA to everybody, we talk about it all the time, and the importance of generating sufficient operating margin to generate that cash to allow us to survive the downturn. I do not think we shall see those positions wasted, most airlines will have learned the lessons of the past. There is clear evidence that airlines with strong balance sheets are taking action now to ensure that they secure their position.

**Jonathan Wober (Société Générale):** I have a couple of questions. The first question is one of clarification on one of the slides that I believe Robert put up, where you showed runway capacity at Heathrow projected over the next 10 or 15 years: is that including the impact of mixed mode?

**Willie Walsh:** Mixed mode will not be introduced. Part of the Government decision was to say no to mixed mode. Originally, the idea was that mixed mode would come into effect in 2010/11 within the existing cap 480, and that gradually from around

2011/12 that cap would be raised to 540,000 movements. The Government rejected that proposal so the only additional capacity that will come on stream will come from the third runway – mixed mode will not be introduced.

**Jonathan Wober:** Okay. Secondly, given the frightening speed with which your margin is falling from 10% last year to whatever it will be – minus something – this year, is a 10% margin target through the cycle still realistic, or was it ever realistic?

**Willie Walsh:** George has shown you the value grid, and that is a better way of looking at it. We believe that the airline can generate margin. I don't see that there is a ceiling at 10% but we were very driven last year to deliver that 10% - we delivered 10.4% and then distributed the 0.4% through bonuses. It is clearly possible to exceed 10%. We have used that a simple proxy to communicate to our colleagues, to our people within the business. When we talk to you, we talk about margins and asset turn, and probably the best chart for you to look at is the one that George included last year and included again. We have not moved away from that, 10% was a simple proxy that was easy to communicate and we shall certainly stick to that in terms of the target for the business through the cycle. However, when we are looking at it in more detailed fashion, we take asset turn and other factors into account.

**Penny Butcher (Morgan Stanley):** I have two questions. The first is in relation to the balance sheet. I am curious as to your thoughts about what the stress points might be. You have given some targets where cash flow or cash position is likely to be by the end of fiscal 10, where the debt position is more or less expected to be. At what sort of trigger point would you reconsider doing something with the balance sheet, similar to a peer like Qantas which also had a reasonable balance sheet but has decided to go ahead and raise some capital to keep things in check going into the summer season?

The second question is in relation to premium traffic, there seems to be a lot of discussion that there is an expectation that maybe on a 12-24 month view, it would be bouncing back alongside non-premium as well. Are you not slightly concerned that perhaps some quite large structural changes have occurred in premium particularly in the financial services industry that will not repair in a relatively short period of time?

**Willie Walsh:** Let me deal with the second one first and then I shall comment briefly on Qantas, and perhaps George and Keith might want to jump in on that one as well. There has been a shift in premium traffic and longer term I would not expect premium traffic – let us talk longhaul premium traffic because I think shorthaul we have seen that in steady decline and an ongoing decline probably since the day it started. I believe somebody has said, but clearly since 2000 there has been a decline. I still believe that on shorthaul there is a sufficient demand for premium products on shorthaul at Heathrow. As I have expressed before, I question whether there is a case to maintain a premium shorthaul product at Gatwick, the volumes there are less than at Heathrow.

On longhaul, we are not assuming that we get a bounce-back to the highs that we have seen but our approach is very clear. We do not disclose seat factors in our premium cabin but I can tell you that we have very respectable seat factors in our premium cabin today. While we have seen a significant fall-off in premium, we believe that it will recover, not to the levels we have seen before but the case for investing in premium, and the case for maintaining a longhaul premium product is absolutely very strong, there is no question about it. However, it is difficult to predict where it will get back to but it is fair to say that there has been some structural shift in those volumes.

On our balance sheet, George made it very clear that we have no plan to do anything in relation to a rights issue or equities the way Qantas did. We learned quite a lot about Qantas from our discussions with them, and I can understand why they did what they did based on some of the issues that became clear to us as we went through those discussions. However, both George and Keith used the word “comfortable” with our balance sheet and with the projected balance sheet. I have to be honest with you, any time Keith says he is “comfortable”, I am very comfortable! Keith, you may wish to comment on that but I do not see anything in the next 24 months, I don’t see anything in what we are planning that would require us to revisit that, and I think that view is shared by all of the team.

**Keith Williams:** Let me say a couple of additional words. Qantas has always jealously guarded its investment credit, they have had that for a number of years and have guarded it jealously. I believe that its recent rights issue has something to do with that. We have never had that focus on credit ratings. We tend to raise debt against the assets rather than against our credit rating. We have not had that same focus. We have fluctuated between investment grade and sub-investment grade, so I think there is a difference there.

Secondly, if you look at our position, it is very different to that of Qantas in that we have put in place all the financing that we need through to 2013, and that puts us in a very different position to Qantas who typically go to market when they have taken deliveries and that market is not there today. I suspect there is an element of that in their capital raising.

The other point to make is that we still have quite a lot of debt capacity and, as George showed you in one of his slides, our debt today is relatively low to where it has been in the past, so we sill have that ability to add more debt if we need to.

**Neil Glynn (NCB):** I have two quick ones. First, in relation to ATI, in a scenario where the Iberia discussions fail, how does that impact the ATI application? Following on, again slightly in relation to Qantas, obviously those merger talks did not come to anything. Have you still appetite to do something else out of Europe, perhaps you could expand on your thinking there?

**Willie Walsh:** On the ATI, one of the things that both Fernando Conte and I made clear was that our commitment to American would continue even if the discussions on a merger did not progress, and when you look at the importance of ATI and the potential value of ATI from a consumer, from the business point of view, it is as strong between Iberia and AA as it is between BA and AA, so I do not believe that would have any effect whatsoever. We have a very good relationship, I believe that relationship will continue and will not in any way impact on the ATI application. I should preface all of that by saying I remain confident that we can do a deal with Iberia.

On Qantas, it was a very good learning exercise for us, it was well documented as a result from an approach from Qantas to us that we got into discussions. It is typical that you get involved in one and then another bus comes along. The timing was not ideal but in this industry, I do not think that you can afford to be too choosy. We learned a lot from the discussions with Qantas. It was particularly helpful in terms of dealing with structure, governance and dealing with the complex bilateral issues, and it demonstrated to us that those issues can be overcome.

It was important because one of the things we were conscious of in our discussions with Qantas was having a structure and governance that was scalable. Qantas knew we were in discussions with Iberia, so at all times we were looking not just at a bilateral relationship but at structures that would allow that to be scaled. We became very comfortable that such structures exist and that it would be possible. So longer term, our ambition to participate in global consolidation is as strong today as it was then. The timing on Qantas was driven by Qantas and it probably was earlier than most people would have expected but there is potential in the future for further talks on consolidation, not necessarily between BA and Qantas, but it was a very valuable exercise to us from which we learned a great deal.

**Andrew Lobbenberg (RBS):** I have two questions please. First, Drew spoke at some length about how you are overbooking lower cabin given weak premium demand. Notwithstanding the fact that you are trying to sell upgrades, are you concerned about destabilising the sanctity of the product and getting bad behaviour from people trying to game it and avoid paying the higher fares for the higher cabin? Related to that, are there any opportunities to play around with configs on the short term to get more economy in the aircraft?

Secondly, you are talking about major structural change to working practices with many colleagues and in particular with cabin crew. In the light of what is going on at Lufthansa where cabin crew are going on strike because they have only been offered a measly 9% pay rise and not the 15% they are due, what risk do you see of getting through your radical changes avoiding industrial action?

**Willie Walsh:** In relation to gaming it, yes, we are very conscious of the risk there and what I can say to you is that we have some really intelligent people ready to game it with you so that you don't pick up some bad habits. We are conscious of giving an impression that you can book your economy fare and will be able to access the premium cabin but I can assure you that you won't. We shall be very careful about how we do that, we don't want to encourage people into bad habits and practices like that but there is clearly some risk in that. One of the criticisms we have had is that we do not tend to reward our frequent flyers in the form of upgrades in the same way as many of our competitors have done, which has largely been because we have not had the capacity to do it. Our ability to do that in the current environment is better than it was in the past, and we shall do that selectively where we believe that makes sense, particularly to secure long-term relationships with important customers. However, I am not overly concerned about risking the revenue because people will expect to be able to access the premium cabin. As I said, despite the fact we have seen a fall in premium traffic, we still have very healthy seat factors in our premium cabin, and I believe our approach has been the right approach for the business. There is a very complex black box behind the simple chart that Drew showed you, and I believe we have the right structures in place.

On change, it is always difficult and Tony took you through in a short presentation quite a lot of detail, because we do have a significant change agenda. Ideally, change is best introduced over time but we do not have the luxury of time given the challenges that the industry and the business face, and this is change that we were going to have to address at some point and over some period. We now have to address it in a shorter period. I am confident that we can work with our trade unions. I am confident that we can work with our colleagues to introduce the changes that are necessary, but I am not trying to be glib about this. It is a very significant change agenda.

I do not take any real signals from what is happening in Lufthansa. They will be a profitable airline in the current environment, so there is probably a false sense of security within Lufthansa about the strength of the business. I believe that Lufthansa are facing just as significant a challenge as we are and, in fact, I believe every airline is facing a similar challenge. The airlines that survive, grow and secure good jobs in the long term will be the ones that take action to improve their efficiency during this period, and we are going to be one of them. We are going to do it because we have to do it, we are going to do it because I believe it is possible for us to do it and we are going to do it because it is absolutely the right thing to do. It is a difficult agenda, we have been very honest with people as far as the scale of the change, I think we have to be confident that we can deliver on that change and we have a good track record. We have been quietly addressing change on a significant level within the business over the last couple of years, we have to continue to do that and I believe that we can do it.

**Question (JLS Consulting):** [*difficult to hear*] Willie, I have two unrelated questions. First, we have heard a lot today about the customer. If the Iberia deal does reach completion, is there a concern about a very different product delivery from Iberia, particularly shorthaul onboard paid service, while the brands and airlines remain a separate entities.

The second question about London Gatwick, do you still remain confident that BA can perform there in the shorthaul market, easyJet is applying pressure, Ryanair is moving slightly more and Aer Lingus is establishing a base and possibly with a lack of premium at Gatwick, can you sustain the position there?

**Willie Walsh:** On Iberia, it is important to point out that we have a joint business with Iberia which we have had for several years on London-Madrid, London-Barcelona. The issue of product is important and we have to be very clear with the customer in terms of what product to expect. A product differential when you are in an alliance and in a code share can be acceptable. If it is as part of a combined single economic entity, over time we would look to standardise the product but that does mean dumbing down ours. You can do a lot more when you are both working for a single economic entity, and get a lot more commonality than you are likely to get when you are operating two independent entities. Therefore, I accept that as an issue but I do not believe it is a major problem. It is helped by the fact that you will retain two brands, and it is helped by the fact that consumers today do understand that, as a result of widespread experience with code-sharing, they will often get a different product through those arrangements. However, it is something that can be addressed so I am not overly concerned about that.

As far as Gatwick, it is an important part of our business. We have taken action to right-size the shorthaul fleet, and we have the right model for Gatwick. It is a very competitive environment and, as a result of Aer Lingus establishing a base there, we see a lot of aggressive price competition in Gatwick at the moment. However, I believe we can compete there. The challenge for us will be can we compete with the current product that we are offering, or will we need to adapt our product in the Gatwick market, and does that have an impact on our brand. These are issues that we shall have to address at some stage. It would be easier for us to address these if we move forward with a merger with Iberia and potentially a merger with or acquisition of other airlines and other brands, which may be part of the solution long term. However, we are very much committed to Gatwick. We have adjusted the size of the fleet, you have seen the capacity that we have taken out and the route network that we have at Gatwick is much better for us now than the route network that we were trying to maintain at Gatwick in the past.

Longhaul is very effective at Gatwick, we have a good cost base at Gatwick, it is a cheaper airport to operate from – there are many positives in relation to Gatwick. What we have to do is look at the short-term issues in the same way as we are looking at those at Heathrow, but also what our long-term ambition is for Gatwick and Gatwick remains firmly on our agenda. It may mean doing things in a slightly different way but we have opportunities and options at Gatwick that we have not yet examined or implemented. We are a long way away from saying Gatwick does not work for us, so you can expect us to continue with a strong presence there.

**Stuart James (Calyon Credit Research):** Lufthansa has about 15 A380s coming over the next three years or so, and with BMI can gain access to an extra 11% of slots at Heathrow, which potentially provides huge additional competition. Is that something that worries you and, if not, what are the sort of mitigants, things like slot type?

Secondly, it is unlikely that a stand-alone BA would maintain investment grade rating based on the outlook in front of us. Do you believe that a BA-Iberia Topco would be investment grade given the strong South American franchise and the cash position that Iberia will bring to the party?

**Willie Walsh:** On Lufthansa, they have a very significant A380 order. I am not concerned, I think that Lufthansa, following their acquisition or, in effect, Michael Bishop putting the business to them, have challenges to address at BMI. It has been well documented that BMI is in a very difficult position financially. You have seen the steps that they have been taking and we would expect those steps to continue. A380 is a great aircraft but the A380 needs a lot of transfer feeds and, as far as the BMI slots at London, some of them are effective from a longhaul point of view but not many of them. I believe Lufthansa recognise that trying to establish a new base in somebody else's back garden is very difficult to do.

They are a very rational company, they do a lot of things very well and I would expect them to continue to focus on their primary bases and look to restructure BMI to minimise the losses as it must be loss-making, and that their focus will be on trying to stem the loss in BMI while they look for a longer-term solution to their acquisition of BMI. However, I do not believe we are going to see them do anything irrational and putting an A380 in Lufthansa colours or even BMI colours into London would be a very irrational thing to do. From my experience of watching what Lufthansa do, I just don't see them doing it.

On investment grade, George has talked to you and Keith has mentioned how we are not overly focused on investment grade but the issue of the investing rating of the combined entity is something Keith can talk about.

**Keith Williams:** we have done a lot of work looking at that and all the work that we have done suggests that the rating would at least as good as BA's rating and probably better than BA's rating, and that is important in one context, which is that we would be keen to demonstrate to the BA Pension Fund Trustees that the deal makes sense and would go to a better or equal credit than BA.

**Samantha Gleeve (Bank of America-Merrill Lynch):** I have a follow-up question on the potential transatlantic joint venture. This process has been going on for a while, can you perhaps give us some more colour on what you have learned during the filing process, any conversations or discussions with the regulators? Also Robert, in your presentation you mentioned that this will benefit shareholders, so can you give us a little more colour on how significant the benefits could be?

**Willie Walsh:** Let me answer for Robert. I don't think we can, we would not be prepared to at this stage. In terms of the regulatory process, it has been probably more complex than we first expected. The Regulator has asked in a supplementary filing for a lot of detail that we had not anticipated, that was a request made just before Christmas. Some of the information that was requested of us was information that we did not have readily available, so we have had to do a lot of data-mining to provide those data. We sent a sample set of data to the US DoT last week I believe it was, because what we didn't want to do was embark on a full set of data-mining only to be told that is not what the Regulator is looking for. The Regulator has come back and told us that what we have given them is the information they are looking for, and it will probably take us about 48 hours to complete the full data-mining to provide them with the answers that they are looking for. Therefore, it has been more complex and, as Robert said in his presentation, it has gone on longer but there have been a lot of questions asked about ATI and particularly the way the alliances have developed and competition between the alliances.

I share Robert's view that we have two alliances that are immunised competing on the transatlantic and one alliance that is not, and that is clearly an untenable situation. So the Regulators are looking at this in a lot of detail but I remain confident that our arguments for ATI are as strong today as they were when we first filed, and we shall work with the Regulators to address all of the questions that they have asked us. We have a reasonable relationship with them, we are responding as quickly as possible and meeting the deadlines that they have set. We have had data requests from the DoJ as well as from the DoT and also from the Commission, and I believe we are filing all the information in a manner that is acceptable to them with the data they are looking for and in the deadlines that they have set for us and we shall go through this process. Despite the fact that it has taken a little more time, I remain confident about our ability to progress this to a successful conclusion.

**Stephen Furlong (Davy):** My question was about ATI so you have answered some of it. Willie, you don't think you are worried there is any danger of slippage in the timetable and the DoT or the DoJ look for unreasonable remedies or things that would not be justifiable compared to what the other two alliance partners have that have the ATI? The other question is in terms of gearing up, in terms of benefits from the ATI to say this is incremental year on year or maybe it is two or three years out before you get the full benefit from it assuming it is proved?

**Willie Walsh:** To answer your second question, yes, Robert has indicated that there would be aspects of it that could be introduced more quickly and it will be incremental; we shall not get the full value of it immediately. It is important to point out that we do not have agreement because we have not been able to talk to American but we need to engage with them once we get the ATI. However, it is clear that aspects of what we would expect to do can be introduced more quickly than others.

I do not think there is too much of a risk to this getting delayed unreasonably. It is understandable that the Regulators will want to get a better feel for what has happened in the market in the post-Open Skies environment. It is clear to us that Open Skies makes a big difference and it addresses many of the concerns that the US carriers in particular had when we filed the last time round, and it is significant that none of the US carriers has filed objections to our ATI application. Therefore, things have changed, I can understand why the Regulator is looking for new and additional information but we have to remain confident that it will be successful, and timing is not the critical issue. We are continuing to work with the Regulator and we shall continue to work constructively with the Regulator until we get a conclusion on this.

I don't want to stop you asking questions but I am conscious that we have gone over our allotted time. If there are no further comments or questions that you would like to ask at this stage, can I just wrap up by thanking you very much. I know it has been a long day, we have given you a lot of information which I hope has been useful to you. George has asked me again to encourage you to give your feedback, which we find very valuable and we would very much appreciate if you could provide feedback to any of the team. Thanks for being with us today and we look forward to seeing you at our next Investor Day and hopefully talking to many of you between now and then. Thank you very much.