BRITISH AIRWAYS

INVESTOR DAY

Thursday, 6 March 2008

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Introduction

George Stinnes

Presentation with slides

Good morning everybody, and welcome to our 19th Investor Day; next year we get to celebrate in true British Airways fashion. We do not do alcohol at Waterside but maybe we will have a little celebration next year. Just a couple of housekeeping notices before we start, and you have seen them all before.

[*Housekeeping details*] Lastly and very importantly the mobile phones: we have a good laugh about that every year and make a little bit of money. This year we have a particular objective in mind. Normally we put the money that we collect from mobile phones that ring towards Dream Flight, a programme we have where we collect money and then take disabled kids to Florida. This year we are very close to reaching our £25 million contribution level to Unicef for the Change for Good programme and so in the final push we have decided to break with tradition, and your mobile phone money this year will be contributed to the Unicef appeal – so to me it is always a bit of a mixed blessing whether your phones ring or not.

There is the map, plus the one in your pack. Every year we ask you for feedback and we do look at feedback quite seriously. It is everything from as basic as whether you like the form of the presentations, slides, venue, all sorts of things. One of the other things we ask you for, though, is your greatest concerns for our business over the next period of time, and I thought I would just review with you a quality check of how well you did.

Last year the No. 1 concern by a 2:1 ratio was Open Skies, but I am pleased to say you were right that Open Skies has happened. I am also pleased to say, as we have said many a time, we are very comfortable and are looking quite positively at Open Skies. The second piece was insightful I have to say; No. 2 was your concerns about the cycle, and we have all seen that although the first half of the year was very good the second half of the year, probably for the reasons that you perhaps did not foresee like the credit crunch, but just the same we are indeed looking at a different economic environment. The third one, which I am pleased to say you got wrong, was your concerns about the demand for premium air travel. In fact it was quite the opposite and premium air travel has continued to grow and be extremely successful, particularly for us.

The one thing that you did not mention at all and completely missed off the agenda was fuel. If I quickly go back to 2005, fuel was the No. 1 concern, when in reality the fuel price increases that we have seen over the last 12 months have been greater than any of the previous periods when you were worried about it – which all goes to prove that I guess we manage this business day-to-day, we make plans, and the important thing is to be able to adapt your plans as you go forward, and when we talk about the operating performance of the business one of the things we do demonstrate is that we have adapted very successfully. That is why the feedback is important, and I do ask you to fill up the pink sheets in your programme, and hopefully you will have some time during the day because you will not want to end up quickly doing everything in a rush at the end.

We have a competition; we are looking for what you think are the bits of good news. It is always important to leave these days with the glass half-full rather than the glass half-empty, so we would like you to think a bit about what you think are the encouraging messages. To motivate you to fill these pieces of paper in the prize for what we think is the best input and contribution on this form will be a couple of Club World tickets from London to New York, which hopefully will incentivise you.

Moving on quickly to the exciting agenda for the day before coffee, after the Chairman says a few words, Willie will start us off today and talk about the strategic options. Certainly feedback that we have had from you dictates that this is probably the topic in which you are most interested today. Keith will take us through the numbers and the outlook for next year, and then I will take you through a piece on performance measures, by which I mean the 10% plus in margin target and how we see that refining as we go forward. There will then be a BlackBerry and coffee break and we will finish off the morning on the customer and commercial piece with David Noyes and Robert Boyle. After lunch we will go over to T5. I hope that all of you who signed up for T5 remembered to bring your passports because if you did not I can tell you right now sorry, you will have an early finish. The security at T5 is today managed as a proper airside facility, so without passports those who are signed up unfortunately will not be able to go. Silla will talk to you about a huge emerging field where we believe strongly we are somewhat misrepresented and where we have made huge progress over a number of years. That is the whole issue around corporate responsibility and the environment. Finally, arguably one of our biggest operational issues today is the baggage. BAA have kindly agreed to give us a presentation which I hope means that as you are leaving, baggage will no longer be so high up on the agenda.

With that, again welcome to the day, and I would like to introduce Martin to you.

Welcome

Martin Broughton

Thanks very much George, and welcome everybody. Thank you for attending here today; these are always good sessions with opportunities for interactive sessions. I don't know how many of you saw the video as you came in but first of all I think we have done a terrific deal with LOCOG [London Organising Committee of the Olympic Games] and we are proud to be sponsors of the 2012 Games.

Let me introduce the Board. We have a full turn-out of the Board members here today, so if any of you want to talk to any of the Board members, we are here. With ladies first we have Alison Reed, Chairman of the Audit Committee, Baroness Symons. We also have senior independent non-Executive Directors, Maarten van den Bergh; Ken Smart, Chairman of the Safety Committee; Chairman of the Remuneration Committee Baroness Kingsmill, and Jim Lawrence. Please welcome Jim's first appearance today.

We will see that the agenda is in a slightly different order from previous years. Part of that is in relation to an investor audit carried out recently, so thanks to those of you in the audience who joined in that process. I thought I would quote to you a few of the responses that we have: first of all the response from the audit showed an unusually high degree of uniformity in the responses. Normally on these things one has a much wider range of responses. There was a high knowledge of the business and a high knowledge of the challenges facing the business, all of which was good; but specifically respondents like British Airways, being uniquely positioned in the airline sector, a focused, premium, long-haul flag carrier, with a market and geographic position with real competitive edge – one general finding. Management actions in recent years have restored the Group's operational and financial credibility, universally praised by sell and buy side alike. Investors like the fact that BA has focused on profitable parts.

However, it is clear you are pessimistic about the sector as a whole, and not surprisingly you are concerned by the immediate uncertainty around the outlook and the historic instability of airline industry profits through the cycle. You hope that deregulation and competition has finally changed the market in Europe, we are beginning to hope so, but you all forecast that the global industry will look very different in five years' time. You feel that British Airways is well-placed for new opportunities, but understandably you want to know our views.

Terminal 5 is acknowledged as an opportunity for our brand but carries some operational risk, so no surprises there, and we have certainly been trialling every aspect of that to make sure that it runs as smoothly as possible. I was pleased that the senior management team gets a strong vote of confidence, and that is particularly true of Willie as Chief Executive and Keith as CFO, and indeed as Chairman I was pleased to see that there were no corporate governance issues.

What comes across clearly is the need to hear more from Willie on a one-to-one basis. We will see what we can do about that, although I am sure you will appreciate that his time is very precious. We would like to make maximum opportunity of these kinds of events as well to communicate. Anyway, Willie will be addressing you first and he will be taking you through some of the strategic options.

Now of course the opening of T5 in 20 days' time means the official opening next week and the operational opening on 27 March. We will have some 380 flights in and out on that day, some 40,000 people, so it is a very exciting time. You will be going there this afternoon and I am sure you will get to feel the 'Wow!' factor in what is an historic time for us. Some of you have heard me talk before about an analogy of where we see this, as we have come from what would be a long and troublesome taxi out to the runway over recent years, and I will not catalogue some of those because we have been over them quite enough. However we now see ourselves as ready for lift-off. With T5, the upgrading of Club and First soon to follow, the fleet renewal which is in place, the start of the OpenSkies Europe/US operation, the A318 all-Business we have announced going from London City to New York, we see the opportunity to grow and an exciting future ahead.

That exciting future looking out further: there is Runway 3, the consultation has just completed. Protesters have made sure it has had plenty of coverage with their security breaches, both with our own aircraft and at the Houses of Parliament. It is going to remain a very contentious issue. We hope the Government holds firm in its clear intent to go ahead with Runway 3, and it is an important thing not just for British Airways but for London and for the UK economy.

We do recognise in that context that climate change is perhaps the biggest challenge we have. It is of a different nature to the challenges that we have been facing, but it is an important and big challenge for us. It is very important for us in overcoming that challenge to be able to get across to the public that the atmosphere really has no preferences. The atmosphere has no preference as to whether emissions come from aviation or agriculture, or whether emission savings come from one or the other. There is no preference for whether emissions occur in China or in the UK. It has no preference for whether those emissions savings are very cheap or very expensive, very practical or very difficult, and that is the whole essence of emissions trading. The whole process is one whereby in the global context, emission reductions can be achieved in the most economically sensible manner through these trading systems. It is vital for us to get across that simple, underlying message which is often lost in the headlines around this whole subject.

One final piece that came out of the investor audit was the dividend. That was one of the few areas where there were very mixed views as to whether or not British Airways should pay a dividend. It was not high on many institutional investors' lists but it was high on some, and it is certainly high on the lists of our individual shareholders, and I would just like to confirm that as far as we are concerned we do think it is an important part of the whole and is still very much on our minds.

With that I will pass over to Willie.

Strategic Landscape and BA Options

Willie Walsh

Presentation with slides

You will probably be pleased to hear that my wife and daughter have also said that they would like to see a little bit more of me on a one-to-one basis, so I will try and fit you guys in as well! When I joined the business the challenges that faced British Airways were very clear and the issues that we needed to tackle were very evident. From the early discussions that I had with the Chairman Martin Broughton before I came into BA, and indeed with some of you because I did have the opportunity to talk to a number of you before I joined BA, I identified a couple of key issues that needed to be tackled. The first of those was the pension deficit. The second was to prepare the business for the move to Terminal 5 and to ensure that we maximised the benefits available to us through that move, particularly in the context of working practice changes. The third was to deliver on the cost-saving targets I brought out and Martin so kindly agreed to, and the fourth was to continue the work to strengthen the balance sheet.

In addition to that from the discussions that I had it was clear that there were a few other things that we needed to do. There was a need for greater clarity around fleet replacement and the capex programme associated with that and the restoration of our credit rating. The issue of the dividend was something that exercised a lot of people, and when I joined the business it also became clear to me that we had to tackle the profitability of our shorthaul business, and in particular the regional shorthaul business that we operate.

I mention these because when you look at them combined they pretty much restricted, and indeed very much narrowed, the options available to us in terms of strategy and direction. I saw all of these very much as ‘Must Do’ issues, so before setting any new strategy for the business we need to remember where we have come from. We also need to be clear in terms of the desired objective. The financial outcome for our shareholders must be at the heart of any strategy, and we have tried to keep this issue simple. Our guiding principle is that in the long term we should maximise the returns from our capital – or, more correctly, our shareholders’ capital – and that is principally the aircraft fleet that is committed to the business, and again, learning from some mistakes in the past we only commit capital to fleet replacement if the return on that investment exceeds the long term cost of our capital.

Now, it should not surprise you when I say that I see this year and the agenda that we will be pursuing this year reflecting a business that is in transition. We must continue and complete the work that we have started over the last few years, and it should not surprise you therefore that the immediate focus will be on delivering T5. T5 opens in 20 days and just over 18 hours, so we have had the 500 hour mark at eight o’clock this morning, so the clock is ticking down. I do not see the job being done on the day that we move into T5 on 27 March; on 27 March we move our operation currently in T1 into T5 with the exception of our 757 fleet. On 30 April we move from Terminal 4 into Terminal 5 with the exception of flights to Sydney, Singapore and Bangkok. The balance of the operation will move into T3 by this time next year, so from the end of April this year we will have about 92% of our operation in Terminal 5. However, we have to manage that transition, and critically we have to deliver on the benefits (and particularly the cost benefits) that we have identified, and Keith will take you through those issues in relation to T5 in a few moments.

We recognise that our customer experience has not been very positive in recent times. Our customers have been frustrated and irritated as a result of the restrictions and the infrastructure problems that we have encountered at Heathrow, so this year we are determined to focus on delivering an upgraded customer experience. We believe that an upgraded customer experience is fundamental to our long term success, and in Terminal 5 we have the opportunity to do that. Martin has said you will be impressed; I have said to many people that I find it sad that I get so excited about a building, but T5 is a very significant step for us. It is a fantastic piece of infrastructure. It will enable us to transform the customer service that we give at Heathrow, and particularly to transform the premium customer service that we give at Heathrow. It will be a great experience for everyone that flies with us, but we have an opportunity really to deliver an upgraded experience to our customers, and we are determined to do that – and not just in T5, but we will be tackling the end-to-end customer proposition to ensure that we address some of the shortcomings that have been in evidence.

A new challenge to us is clearly the Open Skies agreement that comes into effect at the end of March, and that has pretty much played out the way we expected. The competition that we are seeing is broadly in line with what we had anticipated, and our reaction to that is very much in line with what I outlined when I spoke to you last year. It should not surprise you to hear me say that we will continue to focus on cost reduction. I believe we have done a good job on our cost base but there is more work that we need to do, and there are profitable opportunities for growth out there which we intend to exploit. We start taking delivery of new aircraft in 2009 with the delivery of the first of four new 777-200s but there will be opportunities before then, so we have to prepare the business for that. It is absolutely right that we now sit down and set out the direction and develop the vision for the business over the next five years.

I say that because if you look at where we are today we have a business that is economically profitable. The quality of our revenue base has significantly improved, and Robert Boyle has an excellent presentation for you. I know this is something that many of you have questioned me on in recent months, so we have put together a presentation that will demonstrate our customer base, segment our customer base, and give you a much greater insight into the quality of our revenue. We have made good progress on costs and we have taken about £1.9 billion out of our non-fuel-related costs since 2001. Our net debt is now in hand down from just under £7 billion to about £1.4 billion today. The pensions deficit is under control; we have restructured that and the residual deficit will be manageable through a plan that we have put in place over the next 10 years; and we have managed to cope to this point with rising fuel costs. Clearly we cannot defy gravity and the fuel costs that we are seeing going forward represent a challenge to the business, and Keith will take you through that in a moment. Significantly I am confident that having addressed all of those issues we are now fit to grow the business.

I think everyone in this room will be well aware of the 10% operating margin target that we have set for ourselves. I have been very comfortable about that as a metric for the business, and I have been particularly comfortable using that as a simple metric with the internal audience in mind, but as you know that is just one side of the coin. There is a flip side to that coin, which is asset turn. We have used a combination of a 10% operating margin and an asset turn of 1, a simple or crude proxy for return on capital. We have finessed that model and George will give you a presentation in relation to that, but as I stand here today we believe we are on track to deliver a 10% operating margin, and clearly that was one of the targets that we had set for ourselves this time last year.

Some of you have questioned me about the margin volatility around that 10%, and through the work that we did last year around fleet replacement we identified a range of 8-12% as being an acceptable, or deliverable, range. Clearly we are not there yet as the statement that we issued this morning showed. We are targeting a 7% operating margin next year, so there is further work that we need to do, and there is cost restructuring that needs to be completed. T5 is one element of that, and as I said Keith will take you through that, but there are other opportunities for cost reduction. Is a 12% margin achievable in this business? I believe it is. I believe at the top of the cycle this business, British Airways, can deliver margins in excess of 10% - indeed somebody in this audience very kindly pointed out to Keith in recent days, and Keith was equally kind in making it known to us, that if we had today's cost base with the price of fuel that we saw in 2001/2002 we would be delivering margins of 27%! However what is interesting is that through the work that we have done and the work that George will show you, if we manage our asset base – and I think we have done well to do that – at 8% we are delivering more than our cost of capital.

However, given that some of the shackles have been removed I think it is appropriate that we start to review and re-evaluate some of the strategic options that are available to us. If you look at what is different today, and I have highlighted some of the challenges that we needed to face, some of those were internal and I think we can tick the box. We have addressed the profitability of the business, the balance sheet is in good shape, we have tackled the pension deficit. Some of the external constraints that we have faced in recent years are being addressed. Through Terminal 5 we have new terminal capacity at Heathrow, and that was a significant constraint – and is a significant constraint at Heathrow today. It is clearly not the only constraint because the biggest challenge we face at Heathrow is runway capacity, but I am pleased to say that the consultation on the expansion of Heathrow and the addition of capacity through mixed mode and a third runway is progressing. We remain confident that we can see progress in relation to that. We have seen deregulation in recent years and that is gathering some pace, and we have also seen consolidation around the industry.

If we look at the strengths within British Airways, I am pleased to put at the top of that list the fact that we do have a strong management. We have strengthened our management team in recent times, brought in new people, promoted people internally and taken experience in from outside. We have a very strong brand, and despite the fact that I have to acknowledge that our brand has been tarnished as a result of some of the operational difficulties we have encountered at Heathrow it remains very strong. We have a very good premium product, and we have invested in that product and will continue to invest in that product, and our traffic statistics that we have reported month-on-month have demonstrated that that was a sensible decision on our part. We have a key position, a leading position, in one of the best markets in this industry at London, which is premium-rich. T5 is about to open. We are a major player in a number of key markets. We have a very strong position in North America, India, Middle East and Africa and we are well-represented in Europe, Japan, China, the South Pacific through our joint business with Quantas, and the relationship that we have with Iberia gives us opportunities in South America. Clearly we have a strong balance sheet and a good cash position.

However, there are challenges. As I have said, Heathrow remains constrained; runaway capacity is unlikely to be available for a number of years yet. We are restricted to 480,000 movements per annum, and it is unlikely that we will see an increase in that for at least another six, possibly seven years. It is unlikely that a third runway will be effective and in place until about 2018/2019, possibly 2020. We operate in a high cost environment at London so our cost base, despite all of the good work that we have done in recent years, remains high relatively to many of our competitors.

We clearly have a challenge managing industrial relations. We operate in a highly unionised environment. We have over 70% of our employees in trades unions at British Airways and there are challenges there, and that has been evident in recent weeks in relation to the issues that we have with the pilots' union, BALPA. However, we have made good progress and we have succeeded in making significant change. Resolution of the pension deficit demonstrates that we can overcome many of these industrial relations challenges. We deal unfortunately with some significant monopoly suppliers and I believe the economic regulation that is in place to control those monopoly suppliers is ineffective. I do not believe the CAA is delivering the right result through the economic regulation model that we have in place today.

As George said, Silla will be taking you through a presentation on our corporate responsibility, which is a key focus of this business. I believe we have a good story to tell but there is a poor perception outside of the work that we do in British Airways, and we need to address that. On the back of that poor perception the Government sees us as a soft target, so we have faced taxation in the name of the environment and the Government clearly sees further opportunities to progress that issue – but the industry is changing around us. We have seen some positives. I think you would have to describe the EU/US Open Skies as a small step in the right direction, and we have noticed that has given confidence to some other Governments to start looking further at deregulation, so I am quite optimistic that we will see deregulation and the pace of deregulation start to accelerate.

We have seen some good consolidation in the industry. Air France/KLM have demonstrated that you can consolidate in this industry and make your airlines better as a result; the experience with Lufthansa/Swiss has also been a positive one.

Clearly there are negatives out there. There is no doubt that the economic environment is slower today than it has been, and fuel – surprisingly, or staggeringly I suppose – remains over $100 a barrel. When we looked at that 8-12% margin range we did not expect to see an economic slowdown associated with a rise in oil prices, so these are challenges that we need to consider.

We are not going to lose the run of ourselves. We see our strengths as being strong airline managers. We have a lot of expertise in the airline industry and therefore our focus will, certainly in the short term and in the context of the vision for the business over the next five years continue to focus on airline or airline-related activities. If I go back to my earlier comments about commitment to capital returns, we must be confident that we can deliver on those targets.

If you look at this chart we have focused very much on the left-hand bubble; we have been maximising the returns from our current Heathrow business, and to be fair as share-holders you probably have not seen the benefit of that, as the benefit of that has gone back into strengthening the balance sheet – and that is clearly something that you told us we should do. It has also gone to addressing the significant pension deficit that we had.

We deliberately avoided, or if you like deliberately stayed out, of growth until T5 was developed. You could challenge whether that was the right decision but we took the view that the complexity associated with the move to T5 and the benefit associated with the move to T5 was so significant that we decided not to add any additional longhaul aircraft to our fleet until after we had moved into Terminal 5. However, the work that we did last year around fleet growth and replacement has validated that the replacement and market-related growth in the order of about 4% per annum will earn an economic return on our capital.

But I suppose the first question that we need to answer now is can we create more opportunities within the London franchise? The second question is to discover whether there are opportunities outside London. OpenSkies the airline is one example of that. The third leg to this stool is consolidation and what role that will play in our plans to drive capital returns.

It is fair to say that historically we at British Airways have looked at consolidation in the context of cost synergies, but we have watched with great interest – and, if I am to be honest, with some admiration – at what Air France/KLM have achieved, and indeed what Lufthansa/Swiss have achieved, because they have clearly demonstrated that consolidation can contribute very significant revenue synergies as well. In fact it would be fair to say that the value of some of those revenue synergies has been sufficient to allow those companies to be more patient about the delivery of the cost benefits associated with their consolidation until real deregulation allows them to pursue that agenda. Of course these strategies are not mutually exclusive, so there is work that we need to do, but we have clearly identified that we have a good London franchise that we can build on and we believe that there are opportunities for organic growth, and we are looking to pursue that, and clearly we remain mindful of the opportunities that consolidation presents.

When we first put this chart together we felt it would get all of the investment bankers in the room running and salivating, so we have tried to keep this simple. If we look broadly at three options, Europe is the easiest one to look at. In Europe today there are few if any barriers to consolidation, but we see few opportunities for consolidation to pursue. We remain committed to our relationship with Iberia. I was challenged recently by somebody who said that I clearly had no ambition in relation to this issue because I gave up the opportunity to acquire additional shares in Iberia when Logica and BBVA decided to sell their shares, so we did not exercise our pre-emption right to acquire an additional 7%. Now there may be criticism, but the way I look at it is we gave up the opportunity to acquire additional shares at €3.60 a share. When I looked at the share price in Iberia this morning before I came down here it was €2.36. You can say that is a lack of ambition, I say that is a good decision, so we have to be careful in relation to the opportunities out there. Iberia is a good company, and we have derived significant benefit from our relationship with Iberia, and we remain committed to that relationship. I believe we can strengthen and deepen that relationship through the work that we have done as part of the consortium that we were involved in, so Iberia is clearly a company that remains attractive to us.

We are also very interested in the future of BMI. BMI has to be of significance to us because of the position it has at Heathrow, and going back to what I said about our ability to grow at Heathrow where we have a strong franchise, anything that gives us the opportunity to pursue further growth at Heathrow, or accelerate our growth at Heathrow, is of interest to us. However, we are clearly conscious of the position within BMI where Michael Bishop has said he is not selling, and we are all aware of the fact that there are put/call options in place; but that clearly is something that is of interest to us. Beyond that we really do not see much in terms of strategic value with the various airlines that are likely to come into play or are in play around Europe.

In North America – I thought I would be standing up here today talking about the start of consolidation in the US with the talks that have gone on between Delta and North West. I personally believe that consolidation in the US industry would be a significant step forward. Delta/North West was probably one of the best and easiest options in pursuit of consolidation and there clearly are other opportunities there. Consolidation would benefit the industry within the US, and would benefit the industry globally because we need to see a strong US industry if we are to make progress in the second stage negotiations between the EU and the US around further deregulation and liberalisation, and particularly the issue of ownership and control. So the US carriers, and American in particular, have always been seen as a natural partner for British Airways, but the current regulatory environment prevents us from pursuing that.

We have a good relationship with American. That relationship has been positive for us through the oneworld alliance, it has been beneficial to British Airways, it clearly has been beneficial to American Airlines, but we are inhibited by the lack of anti-trust immunity. I am sure all of you in this room are conscious of the fact that Continental disclosed earlier this week that they paid something like $209 million to acquire four slot pairs at Heathrow. When we went after ATI with American a number of years ago, the regulatory penalty for that was 16 daily slot pairs [224 slots in total], so the costs associated with acquiring ATI at that level would in no way justify the pursuit of ATI with convergence. However, we need to understand whether the regulatory environment has changed or is changing as a result of new Open Skies agreements, and that is very clearly something that we will look at.

We are particularly interested in what is happening in the East, because we see that as a clear growth area. India and China are growing at a significant pace. I am pleased to see that recently India has started to allow foreign investment in their airlines. It has restricted that investment at this stage to investment in charter and cargo airlines but again we see evidence of deregulation, we see evidence of governments being aware of the benefits of this. We are conscious also of the comments of Mr Lee, the Chairman of the CAAC in China, that they would welcome foreign investment in their airline, so we are looking at whether there are opportunities for us there. I do not see any opportunities today, but given the strength of those markets and the growth that exists there, I think we would be foolish not to look at that.

We can also take some confidence and comfort about how we have developed a strong presence in Africa through our franchise arrangements with Comair. We have a shareholding in Comair, but the franchise arrangement that we have there has been very successful in that it has extended our brand significantly across Africa – way beyond the direct operating presence that we have there.

So we are looking with interest, we are mindful to opportunities, and I hope I am not disappointing you when I say that we do not see any opportunities out there today. However, we are mindful of the fact that the regulatory environment is changing and the pace of that change I believe is accelerating, and that may make opportunities available to us in the future.

If I start to summarise before I hand over to Keith, we have clearly learned a lot of lessons from the past and one of those is that not all growth is equal, and indeed not all growth generates value. In the late nineties we rapidly grew our business at London, expanding our operations at Gatwick. We committed large capital expenditure to new aircraft that did not return their cost of capital, and if we look at that in terms of the graph here you can see that that significant expansion in capacity terms merely drove down the profitability of the business and destroyed value. Recently, we have been pursuing a slow-growth approach, growing capacity through greater efficiency, and at the same time we have been able to grow the profitability of the business.

When we look at the lessons that we can learn from other industries it is striking to us that performance really is the key. Growth is only valuable when you have associated superior performance. When we identified those who have succeeded, those who have delivered and those who have under-performed, the first tier – the first division, the premier division – are those companies that have been able to grow their business and deliver superior returns. The second class are those who have been able to pursue slow growth or small growth and deliver superior performance, and the third area, the third division, are those who have pursued growth and worsened their performance.

I would see British Airways in the second category. I think we are delivering superior performance but we are not and have not pursued growth. The airline industry typically goes from the second division rapidly into the third division, because we have historically pursued growth while destroying value, and clearly that is something that we are not going to do at British Airways. We are very conscious of the lessons that we have learned, not only from our own industry and our own experience but also looking at other industries around the world.

We are in a position of strength. We have strong profitability and we have a strong balance sheet. I do not think we have quite fixed the core business but we are well on the way to fixing that core business. We have a very strong position in London. Deregulation is creating new opportunities for us and we are mindful of the pace of change there, and the current market environment where we see the slow-down impacting on a number of our competitors will also create opportunity. We need to be ready in British Airways to seize those opportunities and move into the gaps that are created by the failures of some of our competitors. We are looking very carefully and exploring the right way forward for our business, and we are actively addressing this issue.

We are also actively addressing the culture within British Airways to ensure that the culture of the business is aligned to any future strategic policy that we pursue. Clearly the big difference this time round, and the significant thing this time round, is that our strength gives us options. Going back to what I said at the beginning, when I joined this business I did not really see any strategic options available to us because we had critical issues that needed to be tackled, and until we addressed those – and foremost of those the pension deficit – our strategic options were significantly limited.

I remind you again of our agenda. As I said I hope it does not surprise you. We are going to deliver on Terminal 5; we intend to make T5 a fantastic experience for our customers. We will be delivering over time – and Keith will take you through this – the cost benefit associated with Terminal. We will be upgrading the customer experience, and David Noyes will take you through a presentation in relation to that. We will manage effectively both the opportunities and the additional competition associated with the move to Open Skies. We will continue our focus on costs; we have done a good job there and there are still further opportunities for us. It is clearly more challenging today than it was a number of years ago but there is more work that we need to do. We will be developing and taking advantage of the opportunity for profitable growth, and we are now starting to put together and develop the strategy and the vision for this business, recognising that there is still work that we need to do. A lot of that work will be completed in this transition year so we need to have strategy for the business ready next time I stand up in front of you this time next year.

Thank you very much. I will hand over to Keith now.

The Bottom Line

Keith Williams

Presentation with slides

Thank you, Willie. At business school I always thought that the leader is the person who has his eye on the horizon and the manager has his eye on the bottom line. As you know the outlook for next year is more difficult than in previous years; we face realities of economic slowdown and high oil prices. Our recent history has demonstrated our ability to adapt to such challenges, and we will need to maintain our focus this year on the bottom line.

Looking firstly at this year, and Willie clearly can tell you how many days and minutes there are until the opening of Terminal 5, for me there are 25 more days to go until the end of the financial year. With that in mind let us move quickly through this year's forecast numbers, as I know most attention is already focused on next year.

I do not have much to add to our latest view on 2007/8 which we gave you with the Quarter 3 results in February. I do, however, want to spend some time giving you a report card on the year as a whole, because in many ways it is a useful introduction into next year.

Firstly looking at the revenue, this is where we started the year on revenue guidance, around 12 months ago, and where we are today. At a 3-3.5% increase for the year that guidance is unchanged since November. As you can see, that was down 2.5 percentage points from where we guided you this time last year.

If we look at the reasons why, around 2 percentage points of the mix is down to exchange, mainly as the result of weakness of the US dollar. Price and mix have performed broadly in line with the forecast, price being very slightly better because of the additional fuel surcharge that we levied in November, and mix very slightly weaker because of the slowdown in shorthaul premium traffic.

The other main driver however of the lower revenue guidance is volume. This was down to weakness in non-premium markets, initially across the trans-Atlantic, and recently more widely across the network in longhaul non-premium, and as I mentioned earlier the weakness in shorthaul premium.

If I move on to fuel, the price of fuel is up some £160 million from our original forecast despite the good timing of the fuel hedge that we put in place. If you recall we added a lot of cover in the summer last year when the price dipped in August. Exchange was favourable and offset most of that price increase, leaving our latest estimate for fuel up £30 million from where we started the year and up £130 million in total.

Finally, this is what we have achieved on controllable costs. We have had an excellent performance on non-fuel costs. These are improved by some £220 million against the original forecast for the year. Again, we have had some benefits from exchange here and a small amount of help from volume. However, the majority of the improvement is down to the focus on our controllable costs. This was not forecast error; we have been managing our variable costs over the year to fix the holes in the bucket that have appeared in the revenue and fuel.

Now all of this delivers an overall picture on track to the 10% margin target that we gave you 12 months ago. There are some slight differences between the categories but overall we are still on track to deliver the 10% as Willie mentioned earlier.

Moving on to some of the other key performance metrics for the year, cashflow will be some £200 million higher than the previous year at just over £1.5 billion, and the year-end cash balance should finish ahead of our £1.8 billion cash target. Impact from the recent turmoil in the credit market has meant that in the last six months we have been able to earn substantially better rates of interest from our cash balances than the average rate we have been paying on our borrowing, some 100 basis points higher in fact.

Finally, those of you at Waterside this morning will be able to look at Terminal 5 later today and appreciate some of the investment we are making in our product. Spend on Terminal 5 is still in line with the £330 million forecast that we gave you some three years ago. More generally we have maintained good budgetary discipline on capital throughout the year. We now expect our capital expenditure for the year to be some £660 million, which is £40 million better guidance than we gave at the half-year.

The bottom line profit before tax should be in excess of £900 million. Published earnings per share should be just over 60p per share, although this is flattered by an abnormally low tax charge of around 22% resulting from the change in Corporation Tax, something we have already spoken about. Ignoring that one-off benefit the underlying earnings per share should be around 55p. All of these should leave us with a record set of numbers for the year. With that, and assuming we reinstate the dividend, we will have met all of the financial targets we set back in 2002.

I wanted to say a word or two specifically about earnings per share and price earnings ratio. This chart shows you the historic relationship between share price and forward-looking earnings per share plotted over the last 15 years. The left-hand vertical axis shows you the share price in pence with the distribution of the share price mapped out by the dots. The horizontal axis shows you the 12 month forward earnings per share, also in pence, and the share price correlates against the earnings per share. The line across the graph is the dividing line based on 10 times earnings per share. You will note that historically we have traded around a 10 times multiple. There has been some increase in the multiple as the earnings have been lower and some decrease as the earnings have been higher.

This chart plots the same data over time and shows you that historic relationship between the share price and forward-looking earnings over the same 15 year period. The left-hand axis again shows you the share price in pence and the share price is shown in the dark blue line. The right-hand axis shows you the forward earnings per share, also in pence, mapped out in the light blue line. You can see the recent dislocation between the share price and earnings per share. At the present time, we are trading at around five times current earnings. As to forward earnings some forecasts already recognise concerns about the economic slowdown and higher oil, but equally I suspect that some of you in the room have been waiting for today's guidance to finalise your forecasts for next year.

So, the main part of my presentation today is looking at how we are responding to the challenges next year and how we see the resulting bottom line, but before we cover off all the detail let's start with some short-term direction.

We have based our forecast next year around an assumption of sharp slowdown in both the UK and US economies, and some slowdown in both Europe and Asia. To some degree we are already seeing signs of that slowdown – for example, earlier I showed you the volume impact this year from the weakness in longhaul non-premium and shorthaul premium traffic. We expect some further weakness in both these segments next year.

Longhaul premium traffic, however, continues to be strong. Most of you have already seen that we issued our February traffic stats yesterday and these showed premium traffic for the month up 15.1% year-on-year. That did include an additional day's trading in February but the underlying premium growth is still over 11%.

There has been a lot of interest in our ability to hold premium traffic, with particular questions about our corporate market and customer base. As Willie said, we have asked Robert Boyle this morning to give you some insight later on our progress there. I think you should find his presentation helpful in understanding some of the underlying trends within our longhaul premium segment.

Looking forward, however, into next year we expect to see further growth in longhaul premium volumes helped mainly from the additional capacity from the reconfiguration of our fleet, which adds more premium seats, but also in part at the end of the year from the delivery of the four new Boeing 777 aircraft. In turn this should benefit yield through mix.

Yields will also be helped from the flow-through effect of the fuel surcharges increases last year and the recent increase of two weeks ago. We see these developments as more than enough to offset any yield pressure from Open Skies competition and economic slowdown.

Although the dollar has fallen back in the last weeks to around $2 to the pound on a likely US rate interest cut, we are forecasting an additional weakness in sterling next year and accordingly have adopted an exchange rate assumption of $1.95 to the pound. As to sensitivity to exchange, because of the increasing significance of our dollar fuel costs (which next year will be around 30% of our cost base) we are likely to be short dollars. This would mean that we would see some upside in our forecast if the dollar is weaker.

Fuel has become our single largest cost. There is a huge divergence in expert opinion on the outlook for fuel prices. At the moment we have assumed a price of around $85 a barrel for next year. This is based on our assumption of general economic weakness and our dollar exchange rate expectations, whereby a stronger dollar has tended to reduce fuel prices. This forecast is higher than the IATA forecast of $78 a barrel but not as high as the spot prices that we see today. I will show you some detail of the sensitivity of the financial result fuel prices later.

That leaves other costs. We have made huge progress on costs over the last six years, as Willie showed you earlier. That focus has to, and will, continue.

Underlying costs expect to be flat next year despite significant cost increases in some areas, particularly in landing charges and the incremental costs from the multi-terminal operation and the move into Terminal 5.

Now, looking at capacity I am happy with our decision to add more premium capacity next year, as I said earlier, from the reconfiguration of the aircraft, and premium capacity is expected to be up about 3.5%. There is virtually no additional longhaul non-premium capacity added in the short term, and again given the state of that market we are comfortable with that.

On shorthaul, most of the increase in ASKs comes from the new routes we are flying from Gatwick following the end of the franchise for GB Airways. The total capacity increase for next year is just over 2%.

In terms of volume we anticipate total capacity numbers to be slightly up, around 1%, and RPK to be up about the same amount. That would leave load factors down slightly, at just under 75%.

Revenue is likely to be driven mainly by price including surcharges in the mix that you saw in the previous slide.

Just to comment on some of the other drivers behind the revenue, the opening of Terminal 5 should drive some volume improvements in all segments including the re-introduction of better baggage allowances and the movement of our Dallas and Houston service into Heathrow from Gatwick. Additionally we should see further improvements from the continuing roll-out of the new Club World seats and the other benefits in improvements in our products.

Finally, systems improvements will allow us to introduce better revenue management systems overall and we are working particularly to introduce more price points in the Club World cabin. Accordingly overall we expect to see some volume increases next year despite the negative impact of the slowing economy and the impact of new competition from Open Skies.

If we summarise all of that in terms of numbers, the major element of the increase in revenue next year is forecast to come from yield, much of which as I said earlier will come from the flow-through effect of passenger fuel surcharges. There are some volume increases and additionally some benefit based on our assumption of exchange rates.

The only other factors I should mention are that we expect small increases in contribution both from ancillary revenues and from volume increases in our cargo business. Altogether therefore we see revenue improvement next year of between 4.0% and 4.5% overall.

That is the revenue side. I mentioned the significant element of fuel surcharge recovery in the revenue increase next year. The level of fuel surcharge recovery has traditionally recovered just over two thirds of our additional spend on fuel. Now, as you can see from this slide, that has been fairly consistent as fuel prices have increased – in other words customers have been generally willing to accept fuel surcharges as a consequence of our higher fuel spend. There has been some element of dilution in non-premium volume as a consequence but to date this has not been significant.

That is surcharging; now let us move on to the fuel price. This is a chart I showed you with the Quarter 3 results, updated for Quarter 4. I would have liked to have said that the position on fuel has improved but clearly it has not, and prices have again been rising over $100 a barrel. I mentioned earlier the IATA assumption of $78 a barrel next year; most experts believe that the fundamentals in the market point to a fuel price much lower, between $60 and $70, and both of those forecasts look optimistic today. I have adopted a central assumption of $85 a barrel, which is equivalent to around $850 per metric tonne of jet fuel. I should add that I made this assumption as recently as two weeks ago when the spot price was working towards $95 and $100 today. However, the $85 is based on our earlier assumption both of economic slowdown and a stronger dollar.

This is where we are on current fuel hedging position. It is actually at a slightly higher level than we have had as we have gone into previous years. Overall we are now 60% hedged in the first half of the year, an average of around $80 a barrel, and 45% for the second half with an average around $83 a barrel. Most of this cover is in instruments which would mean that in the event of a significant price fall we would still benefit from the lower fuel price which ensued.

But even with that level of fuel hedging we face a substantial increase in our fuel bill next year. This chart shows just the central theme, our projected fuel spend, given that average exchange rate of $1.95 to the pound and an average fuel price of $85. You can see that those levels of forecast fuel spend is £2.5 billion, an increase of just under £450 million from this year driven primarily by price increase, but at those sorts of levels fuel would account for just under 30% of our total costs.

This slide shows you the variability of fuel spend based on different prices, and again I have left the exchange rate at $1.95. The absolute cost of fuel is reflected by the red line on this slide, and our fuel hedge position is shown in yellow. Each dollar increase in fuel price impacts our fuel bill by approximately £18 million.

This chart follows on from the one above and shows you the impact on profitability. It ignores of course any impact of additional fuel surcharging. A question that I am sometimes asked is 'How high does the fuel price have to go before you lose your operating profit?'. Assuming no change in the level of fuel surcharging I believe at the moment that would be just under $120 a barrel next year. Long-run fuel prices at those sorts of levels would of course result in pretty fundamental changes in the industry.

That is fuel, so let us now look at other costs. Willie showed you earlier what we have done on costs over the last few years and these are the absolute numbers. You can see we have taken our costs down £1.92 billion over the last six years, and there are some points that I would like to bring out from this slide.

The first is that we have made continued progress year-on-year and this year we have made progress despite spending £35 million on transitional costs on the move to Terminal 5, around £40 million in the operational failures at Heathrow over the summer. You saw our performance overall on non-operating costs earlier.

The second point I would like to make is our ability to select some of the costs in order to meet our target operating performance.

We showed you this slide at the half-year but I thought it was worth repeating because it does show you our ability to adapt to dangers and threats. We have generally managed to realign the business by changes in the costs and revenue environment. It sometimes lags in making changes to our costs but we have normally managed to adjust them to changing circumstances. At the end of that we need an ongoing pipeline of initiatives.

We already have some initiatives in place to reduce our cost base further. In October last year we commenced a major change agenda in the US to realign our operational costs to prevailing market rates. This project is known internally as Project Charlie and seeks to achieve improved working practices in our customer service operation and US cargo operation. We already have plans to improve our marketing spend, for example moving to fewer agencies. We are continuing to reduce our property portfolio and we come out of the main crew reporting building, the Compass Centre on the Bath Road, shortly. However, a main focus of our cost saving effort will now switch to Terminal 5, and I will cover that off in a moment.

Looking at the overall cost picture next year, I mentioned earlier some of the cost increases that we face. Some of these are in effect increases from regulated suppliers that we can do little about with landing charges in the UK and overseas, where next year we are expecting a bill up more than 10% from this year. We also face an increase of around 5% in our wage bill.

The actions that we are taking on cost reduction will mitigate some or all of these increases, and we are left with a small increase shown by the small yellow element on the pie chart shown here.

Most of the cost increase next year is related to growth, either in the mainline business in the new Open Skies venture and in London City. These costs are incurred early in the aircraft coming into operation, this is recruitment and training needs. Finally there is an expected £50-60 million adverse exchange movement based on our exchange assumptions which I gave you earlier.

Taking all of this together it leaves our costs up some 3-3.5% next year.

I want very briefly to touch on capacity increases scheduled for the following year as we take delivery of the aircraft. At just under 5% this will be the largest increase we have had since 2001 and we should be growing more or less in line with the market.

Now, if we are to grow into the future it is absolutely important that we keep the real focus on unit costs. To date we have done well here, and this slide looks at the unit cost performance excluding fuel price increase. We really need to retain that focus. Next year you can see that there is some increase in unit cost as we incur the recruitment and training costs which I spoke to earlier. We also have the incremental costs of the move to Terminal 5.

I wanted specifically to cover Terminal 5. This chart shows you the cost increases and cost benefits which stem from the move. This year we will see a small amount of benefit from the working practice changes, and that is shown in the blue box there, but this has been outweighed by costs, particularly temporary costs associated with the double-running of our operation of the terminals as we take people off-line for familiarisation trips and for training.

I have broken next year's impact into two. As we have already said, we have retained much of that additional resource based in the first half of the year and then see benefits as we become fully settled into the terminal in the second half of the year. There are ongoing long term costs associated with higher rental charges and depreciation charges for the terminal, and they are reflected in the red boxes on the slide. The net benefit is shown by the yellow dotted line, taking us to 2011. Further benefits should accrue once we move into the T5 satellite.

An important element going forward into Terminal 5 is the increased productivity, and this slide shows you how productivity increases over time.

Finally, this slide shows you what is happening to manpower in the first year and beyond. As we run towards the second year we see a prospective 900 reduction in MPE as the terminal becomes fully operational.

Moving on, I wanted to cover off capital expenditure and cashflow, briefly. On cashflow expenditure we are continuing to invest in the business, and it is absolutely important if we are to retain our market-leading position. I have already covered off this year's capital expenditure of some £660 million and next year we aim to spend around £750 million (around half of that will relate to aircraft), and the following year our capital expenditure should fall to around £550 million, most of which is attributable to lower aircraft spend. If we look at the cashflow against that, with the forecast cashflow after interest and tax you can see that the business should run at a positive cash level over that period.

Finally, no outlook would be possible these days without mentioning proposed accounting changes for this year and there are three to which I would like to draw your attention. The first is a tax change that we have already told you about. At 1 April next year we will reflect the Government's intention to change the rate of future relief on industrial buildings. This will increase our tax charge next year and the deferred tax balance by around £75 million, which has no immediate cash impact. Second is the adoption of what is called IFRIC 13, and this covers revenue recognition and customer loyalty programmes. It proposes that revenue allocation from loyalty rewards as part of ticket sales, for example the reward of BA miles on British Airways flights, should be recognised at the point of redemption rather than the point of issue. Practically in simple terms it means that whereas at present we recognise the income today when sold and the cost of the loyalty programme as a provision, in future we will defer the income and not set off the costs.

The impact on profitability will depend on the passenger sales redemption, but we do not anticipate that to be material. However there will be a downward adjustment to reserves and an increase in provision for redemptions as a one-off on the adoption, and that is expected to be in the region of a few hundred million pounds at 1 April 2008.

The last change relates to pension accounting. Today as you know we do not account for most of the pension surplus related to APS on the basis that practically, as a company, we will never get that surplus. Under the proposals of IFRIC 14 we might well have to bring that surplus, which comes to £300 million, on balance sheet. It is not often that I turn down a £300 million asset that is thrown at me, and at the risk of looking a gift horse in the mouth I do find it unhelpful that we should recognise something on the balance sheet that we are never likely to realise.

Enough on accounting; the bottom line. There is no change to this year's guidance. We have based next year on a slowdown in the economies around the globe between the UK and the US, but even so we will expect next year's revenue to be up 4-4.5%. We expect a substantial increase in our fuel bill, up more than £450 million as I showed you earlier, and something of an increase over 3% in our other costs. That would leave us with an operating margin of around 7%.

Looking further down the profit and loss account, we expect interest costs to outweigh interest income only very slightly next year, leaving profit before tax only very slightly below operating profit. We expect the tax rate on a normalised basis to be around 29% and there is that one-off tax charge from the proposed accounting changes for the buildings allowance and that impacts the result around £75 million.

That is the bottom line as we see it for next year with some improvement to come in the second year, and with that I will pass you over to George.

Performance Measures

George Stinnes

Presentation with slides

So on to performance measures now.

I guess how best to measure the performance of an airline has been a debate which has gone on for years and years and years, and even after this presentation we will be continuing to have that debate. The conclusion that I personally have come to is that there is no silver bullet, there is no one number, there is no magic to this, but what it does require is an intelligent approach looking at the circumstances of businesses, time, and indeed not just in terms of the financial piece but also the actual business piece.

With the benefit of hindsight, our 10% margin target has worked extremely well for us. However, as Willie said the business is facing exciting new opportunities, and in the context of those opportunities this is an appropriate time to validate our performance measures as we look toward the future. I do not want to tell you the answer before I tell you how we get there, but let me be clear: our conclusions are that operating margin will continue as our headline target. However we will introduce formally a capital productive measure to stand alongside our margin. We will also introduce formal capital structure targets and aircraft ownership measures.

Having concluded that there is no silver bullet and that no one measure actually creates value, which is at the end of the day the objective of the business, we must remember that we need an effective communication tool across all stakeholders in our business – and by "all" clearly I mean our shareholders, the analyst community, and very very importantly our own staff, and in particular in the UK one must never forget the media.

Let me just remind you again, and you have seen this slide today before as it is the same one that Willie had, these are our financial objectives. We are committed to create value and will only invest in fleet when the returns exceed our cost in capital. Clearly our challenge is to find a measure or a group of measures that achieves just that objective.

Now a bit of history: ever since I started working in Investor Relations – some 11 years ago – at BA, we have always had value at the heart of our performance measures. I would just like to remind you of some of the old ones. I will ask you a question now: raise your hand please those of you who recognise that number? [*Hands raised*] Well, there are three wizened folk in the room just like me! Chris, since you are younger than I am I will ask you to remind this group what that 17.3 was? [*Pause*] You see even his memory is not that good, and he needs my help. It was a cash-driven measure designed to drive value. In simple terms it provided for the cost of capital; in addition the money (the cash) required to grow to replace assets and pay the taxman.

Intellectually it was a stunning success; motivationally and realistically I spent more time explaining 17.3 and getting less traction than on any other thing I have ever tried to explain to people. It just did not capture the hearts, minds and imagination of people.

Despite the fact it was great it just did not work. Needless to say, with the sample of three old-timers that we have left here, or four including me of course, it did not work that well externally either, to be truthful, so a great intention but ineffective.

We then moved on to our next success, and with the benefit of hindsight it seemed a really good idea at the time; but going home from work and explaining to friends and family that you are working for nothing, or indeed that your financial target was zero, did not really give a lot of emotional or motivational traction either. The first problem was the same as with 17.3, it was impossible to communicate effectively across stakeholders. We also found another problem. The way different companies calculated CVA, which appears to have minor differences which were generally around the value of assets used in the model, it turned out that CVA was indeed not equal in all circumstances. When we looked at various different models that different people used it picked up differences within the context of our business somewhere between £100 million and £300 million value generation year-to-year. Indeed in our case taking the most conservative approach meant that we really never had any prospect of creating value, ever. So again – not a good measure.

This takes me back to the heart of where we are today, which is the 10% operating margin target, and let me remind people it was 10% through the cycle; 10% catches people's imagination but "through the cycle" is a boring additive. What we have tried to do over time and we have talked quite publicly is that our interpretation of 10% through the cycle was about 8-12%, and that is where the 8-12% comes from. It is about 8-12%.

Looking at that today, and looking back at where we were in 2000, in 2000 the business was in tough times, there was no question about it. Little did we know it was going to become tougher not just a few months on, but we had over-expanded. We had grown our lowest margin business segment the fastest, and indeed destroyed profitability and capital efficiency. We needed a clear target that was instinctively motivating to everybody in the business, and that was 10% - and it did have immediate traction.

Stakeholders understood it. We built it into employee reward and bonus programmes, and I am confident that today you would be hard-pressed to find a single staff member who does not know what 10% is, and who could give a pretty good crack at explaining what it meant to him in his job. In my time that certainly means that it has been one of <u>the</u> most effective performance targets that we have had.

To you, the investment community, we always did point out that the target was 10% but at the centre we also had a very strong asset focus, and indeed the asset link takes you from margin to value quite effectively. In 2000, however, what we said was, in simple terms, 'Margin 10%, asset turn 1'. We had no specific target, and indeed at the time we also had no specific target for debt level. I can remember standing here with the simple words ‘My Debt Target Is Lower’, because when you have almost £7 billion of debt it is pretty academic whether you want to end up at 1, 2 or 3. It was a huge challenge.

What we effectively did was to manage the asset piece through policy and not through target. We reduced our capex and in fact we took the last wide-body aircraft in 2001 and the next one is coming at the end of this year or early next year. The effect of this capital discipline is clearly visible, for example in the fleet age, where we have gone - and have not been recognised for it – from having what was the lowest average fleet age of the major European network carriers. If you look at where we are today we have come nicely back in line with our major competitors in the network piece, around the 10-11 year piece.

Our measures for EBIT and for capital productivity? Let’s see how we did. This is an old graph, you have seen it before but it is a good story isn’t it? I do not think you would find too many other airlines standing up here and demonstrating that kind of a performance on a margin.

This is the one we don’t focus on very much, so in a sense it is a newer graph, but it is an even more impressive story, where the 10% margin together with the asset turn has been absolutely critical, and if we look today at the 50% asset turn drive when you combine that with margin, which I will demonstrate to you in a second, this business has not just earned its cost of capital this year, we have had excess returns to cost of capital of the order of £125 million, and that is an achievement for an airline.

So that is where we are today. Willie has already made it clear that we feel our business is fit for growth and to look to the future and new opportunities and ways forward, but let’s just see what we have to do and whether the 10% still works.

What is wrong with 10% going forward? The measure was unrefined, as I have already admitted, and it clearly is only part of a value story. It was a blunt emotional target that worked to recover the business but it indeed never showed a precise link to value. It does not provide a capital efficiency target and says little about balance sheet efficiency. In short, a growing business which is planning to grow its assets clearly needs to have a bigger focus than just margin.

The challenge for us now is not to lose the benefit of the 10% through the cycle or the 8-12% target, that is understood and accepted, while at the same time creating an effective performance measure for growing the business successfully.

This is our approach to that piece now, and really if you want to add general value in the airline business there are three components: effectively running the operation and earning a good return on the capital that is in the operation is one piece; minimising your cost of capital in a capital-intensive industry is a no-brainer; and the last piece is quite hard to measure but it is keeping an eye around aircraft ownership costs and to minimise those.

Looking at the airline operation, maximising effectively the return per unit of capital, a simple objective, and clearly the revenue and cost piece as I said earlier is the same as margin. It does not touch productivity. So going forward in simple terms we will integrate a formal asset turn target into our matrix. I do not expect us to stand up in front of the staff publication and say 'We now have 1.2 times asset turns' because that just does not work does it? But we will talk to them clearly about margin targets where they understand that they can influence that number. An asset turn number clearly still has to be managed at the centre, but we will bring that target much more to the forefront in our communications.

The relationship between asset turn and margin is hugely important and translates into this wonderful piece of work called 'The value grid'. The truth of it is that it is the relationship between the operation and the capital productivity that tells you where you create value, but it is not as complicated as you might think. When we launched the 10% target we said that at the heart of the target was 10%, asset turn of 1, which equated to earning more than our cost of capital. At the time our asset turn was well below 1 so clearly we had work to do. If you look at that graph you can see pretty clearly if you go up from the 1 to the 10 you end up somewhere under that 'U', but well within the right end of the scale – and to be clear, blue is cold and bad and red is hot. That is where we want to be.

If we looked forward to where we are this year, we are expecting a 10% margin and an asset turn of about 1.15. That is where that blob is. If you look at the scale the slightly darker yellow represents the band between £100-£200 million economic value creation. That is where my 1.25 comes from. As Willie said earlier 8% creates value, but follow the dotted line up and with an asset turn as we have it today 8% actually earns more than our cost of capital.

Here is the rub: 8% actually is okay with the asset turn that we have today, and that is where we will have a little bit of a compromise. We will have a margin target, but I am expecting all of you in this room to be able to go that one step further and realise it is a range through the cycle based on, for example, capital productivity as well.

If I look at next year, which is in the area of 7% and in fact the asset turn number that is in our forecast sits somewhere just over the 1.2 area, even in a year which is looking pretty tough from an economic, fuel cost and a whole bunch of other reasons as Keith explained to you, we are not far from the value frontier. Dare I say, someone says that around the area of £50 million at this stage of the business year is not much of an 'around' area because I defy anyone to forecast our earnings to the extent of £50 million precisely; but we are and continue to be in a reasonable position.

In an academic world one might choose to use measures other than the simple EBIT measure to an asset turn measure; EBITDA, for example, as a pure cost measure is certainly intellectually more robust. We have modelled the scenarios around using the slightly more obtuse but more intellectually satisfying measures, and the truth is within the area that we are operating, within the range of the area of this graph, it does not make a difference. The axis values look a little bit different but the position and the value grid is unchanged, so in our view the communication benefit of sticking to simple EBIT margin target far outweighs the intellectual satisfaction.

In the next bit of the presentation we will look at some other targets, and they are in part particularly issues around targets for how much of our fleet we own and how much we lease. Clearly if we change those number significantly it would have an impact and invalidate some of the simple measures, and that is why these measures in a sense do come as a package.

Moving on to capital structure, the simple objective here is to minimise the long term cost of capital. On the last Investor Day, I took you through a lot of analysis on capital structure but today I will not do that, I will just give you a couple of quick updates and indeed set the targets. Firstly, in terms of our sources of debt typically it comes from three places and historically we have used all three – although I have to say we have not issued unsecured debt since 2001. This year we will repay the last £60 million of a £100 million issue of 10 and seven-eighths in 2008, and the only unsecured debt that we have left outstanding will be £250 million due in 2016.

The £1.7 billion that we closed in October 2007 will largely be used in conjunction with tax-enhanced financing, but our option can also be used for secured financing. However if we look at it, tax-enhanced deals we achieved across the fund was somewhere in the order of 100 points under LIBOR, or secured financing is in the range of 50; really unsecured is much more expensive.

That takes us to an estimate on our cost of capital, and using a capital asset pricing model approach and reflecting the nature of our debt structure, we see our cost of capital currently is in the range 8-8.5%. Witness the capital targets then; although a very basic measure we will continue to set a basic gearing target of 30-40% as debt to total capital over time. Liquidity where the target is currently £1.8 billion, and you will remember that, going forward as the business grows it will be expressed as a percent of revenue to account for revenue growth. The target there is 15-20%. Integral to a concerted approach is committed funding for committed aircraft orders. Our target is to have in excess of 80% committed, and currently we have over £3.5 billion of committed facility in place for committed fleet purchases.

Finally, we have just been returned to an investment grade credit rating at the corporate level. Truth be known it is unclear, particularly given our large use of the secured financing markets, that there is a significant benefit in terms of cost of funding in these secured markets from investment grade ratings. However, I have to say when we completed the last financing we did find that the investment grade credit rating which we had just received certainly delivered a significant degree of comfort to the banks that we were speaking to, and I am very confident that it had a positive impact, at the very least, on the size of the transaction that we were able to complete.

Let me just update you on our net debt slide that we showed you at the last Investor Day. If you compare it with the last time we showed you the slide it was a bit different. If you remember, the last slide we did was on a minimum/maximum amount of fleet purchase, but this now reflects the actual timing that we have under the capex. Basically, the difference is because the capex in the order that we placed comes slightly later, we continue to see our net debt fall, and then rise toward the back of the fleet programme which goes out to 2014, so it is just a change in shape and a little bit less in volume because the order was slightly smaller than the biggest that we had considered.

Finally just a comparable chart which you can look at at your leisure with respect to the gearing, which shows a similar shape.

Moving on to the third part of the circle, aircraft ownership costs, again much less scientific. The first objective clearly, and hugely important, is to pay the right price for the aeroplanes, and I am very confident and very satisfied that that is exactly what we did with our last order. Fleet age is also very important, both in the value analysis and also in the capital versus maintenance cost trade-off. Carbon costs driven by fuel efficiency are, as ever, playing an increasing role in fleet costs as well, and – although often forgotten – aircraft trading plays a major role in reducing fleet costs.

Finally, very important is the owned versus lease decision, and has a key impact on our business. If you look you will see that we own most of our wide-bodied aircraft, and we tend to lease a portion of our narrow-bodied aircraft, principally for flexibility.

If you look at the cost of an operating lease for a wide-body aircraft you will find that it is significantly higher than trying to lease a narrow-bodied aircraft. In simple terms that centres around the residual risk, which in an operating lease of course is assumed by the lessor, and generally those risks are deemed to be higher than they are for the much more commoditised shorthaul aircraft. When there is risk the best person to assume that risk with respect to an aeroplane is the airline who knows how long they intend to operate it, and we tend to take our wide-bodied aircraft and operate them for their full life. There is no point in paying someone a lot of money to take that risk off you.

Owning this measure is important because it validates using the slightly more simplistic measure of EBIT in the value grid that I showed you earlier. Of the targets in that area that are measurable in the owned versus lease, currently in that area we have just over 95% of the aircraft owned; the target is 95%, and in the shorthaul piece it is in the range of 50-55% owned. Currently with fleet age the right place to be seems to look round about 10-12 years on average. I would point out to you that there are two pressures on that number: the first is that the reliability and quality of modern aircraft clearly mean that longer might actually be absolutely fine.

Some of you were down in Cardiff a couple of years ago when the engineers told you quite clearly about the big aeroplanes coming in for checks; in the old days when the 747-100s came in for the major checks there was a lot of work to do, but a 747-400 has less work, and one guy jokingly said to me about the 777 'When we open up the panels it looks like it just came out of the factory'. The durability and reliability of aircraft, things like corrosion protection, all that technology, means that aircraft may well have the capability to fly longer. With the 787 you all know that Boeing is expecting a longer life for that as well. Pushing against that clearly is the impact of technology on fuel consumption and the issues that impact the environment, so it will be interesting to see how that number moves over time.

Just a couple of housekeeping issues I guess, just to remind you. We think that with any system of performance measures the inputs to those measures need to be readily available in the report and accounts. There is no point in trying to get too fancy about this. The measures need to be simple and clear to all stakeholders, and really must be able to be integrated into a motivational tool within the business.

Finally, we come to comparability, because of course people always try to benchmark one airline against another. That is difficult, and one of the reasons it is difficult is because different airlines at different times will probably be producing different matrices. If you look at that I have a bit of a conversion table for you here looking at two measures. One is return on capital, and we all know that there are airlines which use return on capital. The formula is there for you, which means it is an after-tax return on capital, and we reckon that where our business is today in round numbers an equivalent target to our value grid is about 8%, and that is our performance over the last number of years.

The correlation here is pretty good because return on capital is a measure that is quite closely aligned to value. If you look at return on equity all over the place it is in that case much more difficult, and that is why looking at it you should probably be thinking about 15-20% as being where you want to be.

Time to wrap up; operating margin will continue to be the headline target for the business. However, for analytical purposes we will use asset turn to measure capital and productivity and establish the link to value, and certainly we are delivering more than our cost of capital. Measures on capital structure and ownership costs will underpin the value grid and complete the circle, generating return for the business.

Thank you for that, and that indeed concludes – you will be pleased to know – the morning set of presentations. We now have 20 minutes or so for coffee, a BlackBerry break or indeed for the multi-taskers probably both. Could I suggest before you rush out of the door, we have just had three presentations so you might have a look at your feedback forms, because you can probably remember something about what you heard for at least the next five minutes. The feedback forms are very helpful to us and we give them a lot of consideration. We will continue after the break with David Noyes and the two commercial presentations. Thank you.

CUSTOMER EXPERIENCE

David Noyes

[*Video Shown*]

Good morning, everybody. I hope you are refreshed after your coffee break or, as George would call it, your 'Blackberry' break. For those of you who managed to do both, I hope you managed to get both work done, and are suitably refreshed for the next part of this session.

The last time I was in front of this group was three years ago, to take you through what were then our plans for Terminal 5. I am delighted to say that, here we are, three years on, literally on the point of delivering Terminal 5. As Willie said, T5 is very much our springboard for reinvigorating the customer experience that we deliver for all our customers. What I will take you through this morning is both the T5 aspect but also what else we are doing across our whole product range, to invigorate the customer service that we deliver for all our customers.

Last year we introduced the notion of Basics and Brilliance – basics being those things that our customers expect us to deliver, and to deliver to an excellent standard. Then, on top of that, we also defined those things that we see as being what differentiate British Airways' service from that of our competitors, the brilliance. By bringing the two things together, the Basics and the Brilliance, we would then be in a position to deliver an upgraded customer experience for all our customers – an experience that differentiates British Airways from the rest.

The things we defined as basics are these [*on slide*], and they will be familiar to you:

- punctuality;
- baggage;
- connections experience. We have concentrated on the connections experience because in the region of 40% of our customers actually transfer through Heathrow on British Airways and therefore the connections experience is an important part of the products and service that we offer our customers and one that, at times, people forget.
- aircraft cleanliness and condition, and
- reliability and content of our in-flight entertainment.

Those are the five things we defined as basic. Let me take you through a little about what we have done and what we are doing on this.

Our network punctuality is obviously heavily affected by what happens at our London bases and, in particular, at Heathrow. Across our network, our punctuality, and in particular at Gatwick during the winter, our domestic and overseas outstations, our performance is pretty good and is comparable with anybody else. It is at Heathrow, and also at Gatwick in the summer – and particularly when Gatwick is very full, that our performance has not been so good, and that is where we have really been focusing our attention as to what we can do significantly to improve our functionality.

For those of you who remember the presentation we took you all through a few years ago, T5 has been designed to improve our punctuality. In particular, we have been using Terminal 5 to re-define our processes and our working practices at Heathrow, so that we can really improve our operational performance and those elements of punctuality that British Airways can control.

Over the last couple of years, we have been re-defining the way that we work and the processes we follow at Heathrow. We have re-designed over 200 of our core processes. I am delighted to say that we have managed to take our workforce with us through all of this. One of the things we talked about two or three years ago was that ability to take our workforce with us. I am delighted to say that all the working practices that we are changing at Heathrow, we are doing with the full agreement of our trade unions and, more importantly, all our staff.

At the heart of these processes is our ability to control the Heathrow operation. At any one time, there will be about 2,000 people at work at Heathrow, delivering punctuality on the ground. Controlling that and making sure that, in particular, we get the right resources in the right place at the right time, is absolutely critical to us. At the heart of this change has been the introduction of a computerised work allocation system that enables us to communicate directly with all our staff, but it also enables us to plan and control the way that the operation is running. It is a system that you will see operated in many of the European airports – in particular in Berlin, Zurich and Amsterdam – and we are following the same trend. I am delighted to say that that system is now just coming into full operation in Heathrow, in time for our move into Terminal 5.

At the same time as we are improving our control of our operation at Heathrow, we are also introducing an element of team rewards for all our people who work there. We have an element, if you like, of 'pull and push', in improving the way we work at Heathrow.

As a consequence of all these changes, the target we are setting ourselves for punctuality is to make ourselves the most punctual airline at Heathrow. If we do that, this will then put us, on a network basis, in the top three of the Association of European Airlines' league table on punctuality. So that is punctuality.

Baggage is something those of you who are going over to T5 this afternoon will see more of. Baggage is the other key area where, in particular at Heathrow, we have under-performed. In fact, our critical point is transfer baggage. When you look at our performance for what we call 'direct baggage', for those people who are beginning and ending their journey at Heathrow, in the last six or seven months we have significantly improved our performance to the point where, in terms of short-shipped baggage, we are regularly at less that 1% - so, regularly at the point of five bags per thousand, which is at an industry standard.

It is with transfer baggage that we have really struggled, because of the infrastructure at Heathrow and it is here that T5 will make a significant difference. Instead of having to move 40% of our bags between two terminals, we will be at the point where 85% of our transfer bags will all be handled within a single system in T5. You will see more of that this afternoon.

This afternoon you will also hear about the testing regime that we have been putting the new system through. Every week, two or three times a week, we are putting over 12,000 bags through the T5 system already and I am delighted to say that with the type of performance that we are getting from it, especially in the last two or three weeks as we really begin to refine the system, we are getting down to less than 0.5% in terms of short-shipment. That system will really make a huge difference for us.

Again, in terms of benchmark and in terms of targets, we are aiming to be as good as, if not better than, the leading hub in Europe.

In terms of the other three areas, Connections is a key area for us. Once again, T5 brings a significant advantage. As Willie has already talked about, over 90% of our passengers will be operating into and out of T5 and so, again, in terms of transfer experience we are able to give our customers a single terminal transfer, instead of people having to move between Terminal 1 and Terminal 4 as they do today.

In terms of aircraft cleanliness and condition, here our focus has been on both exterior cleanliness of aircraft, as well as interior cleanliness. We made significant improvements in terms of the time that we allocate for the cleaning of our aircraft, both exterior and interior, and we are beginning to see real improvements in terms of what our customers are noticing in the condition of our aircraft.

Lastly, our in-flight entertainment. This year, as part of the introduction of the new Club World product, we introduced a new in-flight entertainment system – a system called Availability on Demand. Effectively, we are giving our customers much greater control of when they can watch whatever entertainment they would like to see. The introduction of that system over the first few months had some teething problems but I am pleased to say that, through a great deal of hard work from our engineering department, and working with the suppliers of the system, we have managed significantly to improve the reliability of the system. Our customers are now scoring our in-flight entertainment system at a higher level than they were with the older system – both the product and the content of the system and in particular, most importantly, the reliability of the system. The system so far is just on our 747s but we will be introducing the system as part of the new Club World product roll-out on our 777s, and that will start early this summer. Those are the basics.

Let me move on to where we want to differentiate the service significantly over our competitors, starting with T5. I know, from talking to many of you this morning, that many of you have already seen T5 and so you already know about the very different environment that T5 will present for all our customers. There is a real wow factor to the building itself and the whole environment is very different from that of the terminals in Heathrow today.

We are also looking to remove the stress and the hassle of having to go through an airport and, in particular, we are looking to remove queues as much as we possibly can. The key thing we are doing here is changing the whole check-in process.

Over the last couple of years, we have been encouraging our customers to take advantage of online check-in, as well as self-service check-in, to the point where, already today, over 30% of our customers use on-line check-in and over 70% of our customers are using self-service as a whole – either on-line, or self-service kiosks. In Terminal 5, the advantage for our customers in doing that is that allows us to concentrate our resources – both desks and, in particular, people – first on fast bag-drops. We will genuinely be delivering fast bag drop in Terminal 5, rather than what many of you have experienced in our existing terminals – the slow bag drop.

The reasons for that are, quite simply, the infrastructure. In Terminal 5, we can have up to 96 fast bag drop desks whereas, in the existing terminal, we do well to release something like 25 desks. In doing that, we will be able to give our customers a promise of no more than one person in the queue in front of you to drop off your bag with us. For the customer who has already checked in on-line before they get to Terminal 5, it will take them no more than 10 minutes to go from the front of the terminal, through fast bag drop, through security and then airside. That is through the work that we have been doing, and also the work that we have been doing with Heathrow Airport and, again, their infrastructure that they are providing through the security channel. Some of you will have the chance to see that later on today. That is revolutionising the whole check-in process for our customers.

I have already talked about transfers for our customers. One area that is often forgotten for our customers, however, is the arrivals process. In the arrivals process in Terminal 5, both we and Heathrow Airport have invested significantly. It will be a very different proposition for our customers and, in particular, something we are doing is that by using mobile technology, we are getting our people in arrivals out in amongst the customers, helping the customers in the baggage hall. That will have a very different look and feel for our customers in terms of that whole arrivals process. So Terminal 5, for all our customers, will make a huge difference.

Linked to that, it is absolutely critical that we, in terms of all our people across the whole of the British Airways network, deliver the softer side of the British Airways service. Last year, we did a lot of work updating the British Airways service style, based around BA values as see on this slide. The critical point for us now is actually embedding that in our customer service amongst all our people. Therefore across all our people – both on the ground and in the air – we are embarking upon training programmes that really embed this BA service style amongst them.

The other key things we are doing concern recognition for our customers, especially our most valued customers. We recognise that this is a very important part of the British Airways service and so, through the use of improving some of our technology we are getting information to our frontline colleagues about our customers, so that they are better able to recognise our most frequent travellers as individuals. There are a number of different things we shall be doing through the course of the next year.

Linked to that, we recognise that there will always be times when things go wrong in this business, whether it is due to the weather, or for individual customers when their journeys are disrupted. We recognise the importance of recovering people in those situations and so part of our key theme for the next year will be about improving our service recovery.

Another area where we already know that we have differentiated ourselves from our competitors is BA.com. BA.com already wins plenty of awards for its excellence and we are looking to develop and build on that, in a number of key ways.

First, when we first started with BA.com, it was primarily a selling tool. Increasingly these days, however, it is the channel through which all our customers communicate with us. I have already mentioned on-line check-in, but we have also been developing a functionality on something called ‘manage my booking’. This allows customers to better prepare themselves for their journey.

In terms of future developments, we are introducing something called ‘dynamic packaging’, which Robert will take you through in greater detail in a moment. Something we are also working on is, through moving BA.com on to new generation technology, we are enabling ourselves better to personalise the website when customers come to BA.com. It will reflect more their own individual needs and preferences.

Lastly, but most importantly, the premium customer experience. Our investments are not just in T5 but they are across the whole range of our products and services. I will take you through each of those now.

In terms of T5, one of the things you will see later is the fantastic lounge complex that we have there. We believe that this is the biggest premium lounge complex of any airport in the world. There are six different lounges in T5 and, for those of you who like key sound-bite facts, the floor space of those lounges equates to 10 football pitches. And, when you have finished playing football in the lounges, I am delighted to tell you that there are 100 showers in the arrivals lounge. These lounges, therefore, are on a scale we have never had before and this enables us to offer a premium lounge experience for our customers that we believe is unrivalled.

Just as we are upgrading our lounge experience in T5, we also are very conscious that we need to be doing the same around key parts of our network and, most importantly of course, at JFK. One of the things we will be introducing over the course of the next 18 months, therefore, is an upgraded lounge experience at JFK, including a drive-in check-in facility for all our First and Gold Card passengers.

If that is on the ground then in the air, of course, is equally important. We have already rolled out our new Club World product across our 747 fleet and, to date, that has been remarkably well received by our customers. The old Club World product received, on average, in the course of the last 12 months of its life, a satisfaction rating from our customers of 70%. By this I mean that 70% of our Club World passengers were rating it as either extremely satisfactory, or very satisfactory. With the new Club World product, we are now receiving a rating of 85%: 85% of our passengers flying in new Club World are rating it as either extremely or very satisfactory. On the back of that, we will be rolling out the new Club World across the 777s: this will start in the early summer and it will be completed in about 18 months' time.

On the basis that we have successfully upgraded our Club World product, we are not going to stop there. We recognise that First, as our flagship product, equally needs to be updated and refurbished and so, during the course of 2009, we will be launching a new First product. This will involve the upgrading and refurbishing of the cabin, but we will not be stopping there and we will be looking at the complete end-to-end customer journey experience for our First passengers.

To back this up, we recognise that our crew on board need the most up-to-date training and, in particular, training on delivering premium service. What we are therefore starting this year is what will amount to a £5 million programme of training all our crew who work in the premium cabins, to improve their skills in delivering customer service to our premium customers.

Last but not least, something else we have rolled out this year is something that we have called Gold Guest List. This is a one-stop service for our top Gold Card holders and it has proved to be very popular and successful and so, off the back of that, we will roll that out worldwide to all our top gold card customers, across the world. Following that, we will then start to look at how we develop that concept further because, clearly, this notion of a one-stop service – which is a phone-based service - with our people empowered to be able to help our customers at the point when they most need it, is a very powerful differentiator. We will therefore be looking to develop that further over the course of this business plan period.

In terms of summary, I hope that has given you a quick canter through this. I have given you a quick canter through how we are focusing on both the basics and how T5 will really support our improvement in delivering the basic service that all our customers expect, and at the same time how we are focusing on those things that we think really differentiate our service. Overall, we are delivering an upgraded customer experience for all our customers.

With that, I will hand over to Robert, who will talk to you more about our customer segmentation.

REVENUE SEGMENTATION

Robert Boyle

Good morning, everybody.

I am going to talk to you about revenue segmentation and the aim of this piece is to give you some further data and information on the breakdown of our revenue and customer base to allow you to get a deeper insight on our exposure to different customer segments, the robustness of our revenue stream and to talk to you about our approach to managing and maximising the value for our shareholders from each of those segments.

This chart shows the breakdown of our global passenger revenue by area of sales. The UK and Ireland there, representing pretty much half of our revenue, is actually sold to customers and corporations based in the UK and Ireland. North America is clearly our second largest sales area, representing just under 20% of our revenue base. That has come down a bit from where it would have been previously, not because the US economy has not been doing well, not because we have not been doing well, but at today's exchange rates it is worth quite a bit less in sterling terms perhaps than it used to be.

Asia Pacific, the next largest segment: in the way that we describe our regions that would include the Middle East and India. Europe is a similar size, probably slightly bigger in total, but it is split there into two: first of all, Western and Northern Europe, which would be broadly speaking the 'Old EU'; Central and Eastern Europe would include Switzerland, Austria, then Eastern Europe and Russia. Africa is another significant segment for us, covering quite a broad spectrum of territories from rather more developed countries such as South Africa, through to places like Nigeria and the rest of Africa. Then a small segment here in sales terms – sales at the other end of the route – Latin America and the Caribbean, albeit something like the Caribbean is more significant as a route, but it is mostly sold in the UK.

So this is really a chart which will give you an idea of the exposure of our revenue stream to the fortunes of consumers and companies based in each of those regions. I do not have a slide which shows the breakdowns by route, partly because that involves some revenue attribution issues – when you are selling a ticket from the US to India, which we do quite a lot, how do you attribute the revenue to which route? But broadly speaking, you would obviously see the UK go down – we have a pretty small business in total flying domestically – and that UK business would spread across the other regions, with the exception of things like the Caribbean, which would change in relativity, so you would probably get a similar sort of relativity between the other regions.

I am now going to switch to trying to break those numbers down in terms of analysis of some of our Premium/non Premium split. The pie chart, top left, shows a breakdown by volume and by volume here I am actually talking passenger numbers. You will have heard us talk in the past perhaps about our Premium/non Premium split in RPK terms: the 13%, which is the percentage of passengers who fly in our Premium cabins, would go up towards somewhat less than the 20% level if you looked at it in terms of RPKs. That is really down to the fact that the penetration of Premium sales is much higher in the longhaul part of our business than it is in our shorthaul business, where shorthaul business travel has been under some structural decline for some time.

It is going to be a very different picture in revenue terms. Premium traffic accounts for essentially 50% of our revenue base. Then the chart on the right is trying to give you some further insight on the business/leisure split of our business. Traditionally, people would assume Premium equals business; economy travel, or non premium equals leisure. That is still, clearly, at a skew but it is far from a complete match, as you can see from this chart. Starting then from near the top, that 9% and 4% shows you the breakout of the 13% of our passengers travelling in the Premium cabins. So just under a third of the people flying in our Premium cabins are travelling for leisure purposes, in fact. This data is based on our onboard survey asking people ‘purpose of your trip today?’

Likewise in the Economy cabins, Non Premium, and that would include our Premium Economy [World Traveller Plus] – we count that as Non Premium in the way we split our data – again, around a third, perhaps slightly more, of the passengers flying in our Non Premium cabins are in fact flying for business purposes.

The next point I would like to make is that we know a lot about our customers. We have direct customer relationships with customers representing over 65% of our revenue base. That relationship is through one of three mechanisms: first, whether they are part of a corporate relationship; whether they have an individual relationship with us through the Executive Club, our frequent flyer scheme; or a residual piece here, which has neither of those affiliations but nevertheless book with us direct, so we have a direct relationship in that respect. We have also split on this chart, within for example the corporate sector there – so representing about 25% of our revenue is attributed to our corporate relationships – and the majority of those people we will also have a relationship through the frequent flyer scheme. On Business there is our sort of corporate deal light. It is a relationship with a corporation but where the size or the extent of that relationship is not such that it warrants a fully tailored deal. It is a bit like a frequent flyer scheme for businesses – more off the shelf, more tailored sets of discounts and incentives.

The other point to make on this slide is the Executive Club space, so the 17% there, 5% from On Business and the 21% there of the rest of the Executive Club. About 45% of our revenue is attributable to people who are members of the Executive Club.

I am going to drill now a bit more into that corporate business part of our revenue stream. This chart here breaks down the global corporate revenue by industry sector. Again, probably no surprise to anyone in this audience, our largest single industry sector is banking and then also, closely related, financial services, insurance and legal. If you are wondering what financial services is if not banking, it is essentially things like fund management companies, ratings agencies, credit card companies and so on.

Those two sectors together represent under 40% of the corporate revenue, significant but not dominant, as some commentators would assert. I have put consultancy as the next industry on the pie chart. It is not actually the next largest, which would be oil and gas, because that is a sector that is somewhat linked to the financial services industry – there is obviously a lot of deal related activity which brings, sadly, lawyers and accountants and consultants with it. So it is somewhat related to the state of the financial service industry but clearly, there is quite a lot of insolvency work and other business restructuring work that consultants do in the down cycles as well.

Oil and gas is a big sector for us. At least some of those billions of pounds that we spend increasingly every year with the oil companies comes back to us in terms of revenue, from a sector which has been doing very well. Then you get into a fairly diversified set of other sectors: technology and telecoms, pharma and healthcare, then personal retail, food – that is the Unilevers of this world – manufacturing, media, government (sadly the government do not spend very much of the money they raise from us through taxation giving us business back again) and then construction and resources.

The next chart, I have taken these same data and broken them down by route group. These data are on a travel basis, rather than a sold basis. So here, USA: this is giving you the mix of corporate business on our US routes, wherever those customers have bought their tickets. You will probably find surprising the perception that our US business is particularly dependent on financial services and in total, that is not really the case in fact. You see here the banking sector is red; financial services is the orange bit. If anything our US business has a smaller mix of business from the financial services sector than is the case for the average. But really, with some interesting differences, such as importance of resources in Canada and places like that, it is a pretty broad spread in fact across the whole network. There is not really a lot of skewing at this level of aggregation, albeit some individual routes would have particular linkage to certain sectors.

Large companies, worldwide: BA has always been strong amongst the very largest most global companies in the world, reflecting the global nature of our network which pretty much applies to all the key cities world wide, which is not necessarily the case with some of our competitors. Of the Forbes 1000, we have corporate relationships either through our fully tailored corporate deals or the more off the shelf, On Business relationship, with over half of the world's thousand biggest, most global companies. That relationship with companies is true across all industry sectors.

So the chart here shows the breakdown of the Forbes 1000 into industry sector. The blue bars there are the ones that we have relationships with, the red bars being the ones that we do not have relationships with. Then you will probably be surprised by the fact that, if anything, our penetration into some of the non financial services sectors is a bit higher, so that's sectors such as manufacturing, aerospace and defence and media. We are more penetrated into those sectors than into some of the banking sectors. I have met at least one or two of you here today who work in that sector and do not travel with BA, so I am certainly hoping that we will impress you enough over the course of today to edge this line up a bit!

We are also a very global company. We have relationships with corporates based in all parts of the world. Clearly the United Kingdom, the bar on the right, the Forbes 1000 companies based in the UK, we have relationships with virtually all of them. But even into other parts of the world, in companies based in the US, in Japan, in the rest of the world, we have a strong representation of relationships across the board.

I would like to turn now to the resilience of those relationships in the face of new competition, particularly from some of the more specialised, route focused competitors that have started up in recent years. This chart shows for BA's top 100 corporate accounts how many routes have to be included to make up 70% of the travel of that corporation. At this end of the spectrum, we have a few large accounts who only do business with us on a handful of routes, but by and large our corporates are flying with us on a dozen, 20-plus routes, before you even get to the 70% point and obviously, there will be quite a lot of value for them in terms of having that next 30% as well, in terms of having the full range of the BA network.

Our focus over the last few years, because we are almost getting into diminishing returns with the largest companies in the world where we have a very deep penetration, is to really push and drive our relationship with the smaller companies or those corporates for whom we had maybe a smaller relevance. So we developed this On Business programme that I talked about earlier and we have seen really good, strong growth in that over the last few years. That has been a deliberate policy to diversify a bit away from total dependence on the world's very largest companies, to develop extra business with these smaller companies, or those with whom we had limited relationships before.

This chart shows a bit of data on some of the trends in travel amongst our UK corporates. It shows here the revenue change versus last year, in the blue, and versus two years ago, in the red. These are data for 2007, up until about December. You can see there, on the far right, our big UK corporates have been reducing their travel to the US. Again, that will probably not be news to anyone. The US has been soft for a while, still up on two years ago but, broadly speaking, fairly flat. It is a very different story in terms of some of the other longhaul parts of our network. Canada has been very strong, booming off the back of commodities and oil; the Middle East and South Asia, pretty obvious; and Latin America has been very strong as well. Likewise, Asia Pacific is perhaps not as strong as one might think; Japan is a big component of that and that has been spluttering along – probably a good description. Africa is strong but, as I will show in a minute, on the capacity side we have some obviously extremely difficult parts of Africa, such as Zimbabwe and Kenya recently. We are also more restricted from a bilateral point of view of actually having the capacity to exploit some of the demand that is there.

In terms of Europe, we have been saying for a while in our traffic stats, commenting about the softness of corporate travel on our shorthaul network – we see that on our Europe business, soft but flattish – the area where we have seen big declines is around our UK domestic route network. This is a mixture of those Heathrow hassle factors, the baggage restrictions, making it frankly difficult to do domestic travel, and also the increasing competition from trains both in terms of what it offers customers and from our customers' corporate responsibility agenda.

I have been talking thus far about the business segment. Before I move on to the leisure segment, I will just give some figures on what we have done in total capacity terms by the different regions of the network. This chart shows our annual average capacity growth over the last five years. It is mostly history, a little bit forward-looking, so it attracts a five year capacity growth rate from the winter of 2003 to the winter of 2008, which is our latest, fully formed capacity plan that we have. It shows there again – the thing that probably leaps out most – what we have done in terms of domestic capacity, really reacting to that structural weakness in that market. We have taken a lot of capacity out of the domestic part of the business, 6.5% per annum decline.

In Europe, we have been growing steadily, about 2% a year – a little bit less than GDP growth – and the same story, steady growth pretty much matching GDP growth in North America. We have grown a bit faster in Asia Pacific and in Africa, as I mentioned earlier, bilateral restrictions and some specific market issues have made it difficult for us to grow our capacity despite very strong economies in some of those markets. The strongest area of growth, both in economic terms and in our own capacity, is the Middle East and South Asia, where the opening up of that market and deregulation in the UK/India bilateral, in particular, has given us an opportunity to grow and make up some lost ground after several years of capacity restrictions.

I am going to turn now to the leisure part of our business and a reminder. Passenger volumes – so, numbers of passengers – is the biggest segment, clearly nowhere near as significant in revenue terms, nonetheless a big part of our business. Again, a reminder: we have quite a chunk of leisure business in our Premium cabins.

We have been pushing quite a lot over the last few years to develop a Premium Leisure proposition, starting when the first major airlines put a Premium Economy cabin in, which has been a real success, but also, as I will show in a minute, developing some much more attractive leisure oriented fare products for our Premium cabins. That is really responding to a number of consumer trends: increasing affluence, in both the developed economies but also increasingly in places like India, China, Russia. You only have to look at the ownership of UK football teams to know that there are some pretty rich people out there. And there are some demographic trends which are pushing in the same direction.

The flip side of our pension problems, around people living longer, and at least our pensioners' pretty affluent retirement: those are people who have time and increasingly the wherewithal, who want to enjoy, see the world, and clearly want to do so in comfort.

We also have another demographic trend, which is people getting married later, particularly women, delaying starting families till later, having careers, generating good money, working probably for some of your companies. Those are time poor people but with a lot of disposable income and again, they are looking for convenience and Premium experience. So British Airways, with the brand that we have, the product portfolio that we have, is well positioned to take advantage of those trends in the consumer part of the market.

For us to offer attractive prices in our Premium cabins requires us to be able to revenue manage inventory control effectively, so that we are not simultaneously just collapsing our yields in the Business segment. We have done a lot of work, partly for this reason, partly for general revenue optimisation reasons, over the last year, to enable us to sell simultaneously more fare products in each of the cabins.

Let me start with an example of what I mean in Club World. Airlines sell using inventory management systems. Traditional airline booking systems use things called 'selling classes' which are essentially letters where there are 26 selling classes, A to Z. Rather depressingly in this industry, quite a number of them seem to be used for non revenue purposes such as staff travel! But the ones that you are left with, that you can make available for public fares, is a sub set of those 26 letters.

At the beginning of the year, this was how many letters we had left over for selling simultaneously a different type of ticket, at a different price, with different restrictions on them, in each of those cabins. For us to push and drive a more aggressive approach, therefore – for example, the more attractive Club World fares but with the necessary tight inventory control behind them to avoid dilutions – we did a lot of consolidation of some of those classes that were formerly being used for non revenue purposes, to free up selling classes and enable us to offer more price points to the market. As you can see, that has enabled us to do what I am about to show you in terms of our Premium Leisure fares, but it is also important in terms of revenue efficiency. World Traveller, which is obviously a big revenue generation game, has gone from having seven buckets to play with, to nine, which makes a big difference in terms of the ability of the inventory management system to optimise those factors and yield.

Tempted, anyone? Barbados - £1299? That is really what all that technical work behind the scenes looks like to the customer. Not only fantastic deals for people who are prepared to pay more for a Premium experience, not prepared to pay individually as much as our Business class fares would normally be, but it is an important tool for us in combating some of the new entrants, with the ability to match or to come close to some of the headline leading prices that they offer, so that we can really fight back at those competitors, whilst still managing the risk to our yield.

So what has been the result in terms of the volumes? I have taken the scales off but these charts do start from zero. This shows the rolling 12 months volume in our Club World cabin, split between classes. Shown in the red are what we would recognise as being Business fare classes – so, fares with ticket conditions that are designed to be attractive to Business class travellers, which do not need a big advance booking, but which have flexibility and so on – and the volume on that side has continued to grow during this period, albeit very volatile. Then Leisure fare classes, which is what I have just been talking about – fare classes which are heavily inventory controlled, have ticket restrictions on them, but are at public prices that are designed to appeal to leisure passengers – show really big growth over that period. As we talked about in our traffic stats, this is where we get some of these very good longhaul Premium numbers that we have been reporting, a blend of growth in the Business fares but a very high growth rate in some of the more Leisure Premium fares.

(I should point out that these are on different scales, so if you compare them to the earlier chart, which showed Premium leisure being a little less than a third of the total, it gives you an idea of the relative size but I have put them on a different scale from each other so that you can see the trend.)

We have done that on longhaul Premium and the same on shorthaul Premium, on encouraging and selling trade ups from Economy tickets to Premium. Here is just an example of some of the stuff we have been doing at the airport. People seem to become less price sensitive as the time of their journey arrives and selling them on some more legroom and a glass of champagne is a lot easier when they are, in their own minds, already on holiday! We have had great success, therefore, with selling our upgrades and our approach is to sell those at every point of the journey – so, during the booking process, then between booking and time of travel, at the airport.

On my journey ranging from the highest yield part of our business down through more of the leisure segment, we arrive at the high volume, low margin, more commoditised parts of our business. Although that is not where we in the business are positioned, from a strategic or a brand point of view, nonetheless we clearly sell a lot of more commoditised tickets. Our approach there is that we will still position ourselves as offering an upgraded experience versus the competition. We recognise that, as one moves into the more commoditised parts of the market, the scope to do that diminishes, so you have the increasing importance of looking at the total margin that you are generating from that sale, the much discussed ancillary revenues are key.

This time last year, I said that we were going to have dynamic packaging, as has been mentioned earlier, which I will explain. Dynamic packaging is the Holy Grail of ancillary, essentially the on line real time version of the package tour industry of old – the ability to take products such as hotels, flights, cars and other things, package them up and sell the total at an opaque, single price where you cannot see what the prices of the individual components are. At the moment, we sell packages but all that we are able to do currently is take current prices, bundle them together and give people an additional discount if they buy more than one product. What you will see today on ba.com is called 'Combine and Save'. That is good, as it goes so far, we have generated increased business from it but there are two critical things that we are missing.

The first is that ability to bundle components together. In terms of our own position of offering very low prices without compromising some of our own public pricing where we have distressed inventory load and the same for car rental companies and hotels – the ability to package them together, although it might not be quite clear to the customer whether it is the hotel or the flight that has been discounted to get this tremendous deal. That is one very important thing in order to access the best deals from the hotel companies and be keen on price for the customer and secondly, from our own point of view, to do a great job of getting as much value as we can out of our distressed inventory. The second thing missing is really the live, dynamic links into the inventory systems of the hotel companies and other providers. At the moment, it is still a fairly manual type process.

I stood here a year ago and said this was going to be arriving during the year. It has proven to be more complicated than we thought, but we are now back on track and we will be launching the full dynamic packaging capability during summer. What that will look like from a customer point of view will be a much broader range of product, much more attractive pricing and, for the company, it means extra ancillary sales and the ability to sell our distressed inventory at a better yield.

That is dynamic packaging. The rest on ancillaries, mileage: this year that is about to finish has been a year of transition in our Airmiles subsidiary which is the financial services provider from RBS to Lloyds TSB. That has been a very successful gift, but it has been occupying our activities during the year. That is now complete and we are set up over the coming years to take advantage of that new relationship, focused on generating additional business from our mileage business.

Excess baggage is another story where we were planning to do a lot more in the year that has just finished than we have. We have made a lot of changes to our excess baggage policy, to make it more simple, able to be sold and to force compliance in the airports for levying it. We did get the headline prices wrong when we first did that. We fixed that a few months later. They are now extremely competitive but, with all the baggage problems that we have had in the year, it has really not been right for us to turn the dial up on the airport staff to start enforcing and applying the policies. As we get the baggage system (that you will see later on) in place, our baggage performance improves and we get out of the papers on our baggage performance, that will then give us the platform, with what we have done already, to start generating income from excess baggage. I emphasise 'excess' baggage because we still have a generous basic allowance, which we put free on the tickets, unlike the low cost carriers. We actively do still aim to offer an upgraded experience to those customers.

There are other revenue streams I am not going to talk about in the interests of time but we are looking across all the other opportunities wherever we can generate additional revenue in a way that is consistent with our brand and customer friendly and we will be looking to do that.

That is it from me and Willie will be back on stage to do the Q&A. In summary, we have strong customer relationships. I hope I have convinced you that our revenue base is better diversified than you might have assumed. There is change in consumer trends which we have responded to and we will continue to do so and we are well placed to compete in the ever changing environment that we face today.

Question & Answer Session

Willie Walsh: Thank you, Robert. I hope you have found useful the presentations that you have seen so far this morning, and that you have a valuable insight into the challenges and opportunities that we see over the coming months. You still have two presentations to see this afternoon in addition to the tour of Terminal 5. The first of those will be from Silla Maizey. Silla will be known to many of you, formally our Head of Procurement and now our Head of Corporate Responsibility. I said last year that I saw this issue as being one of the most significant challenges to our industry and events since then have demonstrated that is the case. We are putting corporate responsibility at the heart of everything we do, and we are doing it because it matters to our customers, it clearly matters to our investors and they are telling us that more and more, it matters to the people who work for us within the business, it matters to regulators and politicians and this is a challenge that we need to face up to. I believe we have an excellent story to tell, we need to get out there and tell it loud. So Silla will give you a presentation on that.

The second presentation is one from BAA on the baggage system in Terminal 5, and I hope you will find that particularly useful and that it will give you the confidence that we have that Terminal 5 will be able to deliver a much more robust baggage system, and a much better service for our customers.

In the interests of time, I shall hand it straight over to you. We have a number of microphones to go around, so please wait for the microphone to arrive and introduce yourself.

Question: I have two quick questions. Bullet one on the BA Basics is punctuality. How much of the punctuality do you control once you have gone to T5? T5C doesn't get built so 18% of your operations continue to be coached, so how quickly can you improve the punctuality to that target of being the most punctual at Heathrow, which looks like a daunting target from here?

My second question is on dividend. The Chairman referred to it first thing. European airlines tend to have dividends that are quite volatile. Traditionally, British companies have tended to want conservative, prudent policies that could be sustainable. As we look forward to the resumption of the dividend at British Airways, is there anything you can tell us about sustainability or volatility, or what your policy might be on that going forward?

Willie Walsh: I shall ask the Chairman to address the second issue. In relation to punctuality, there is much that we control within the business. We turned our attention to what we call Ready To Go, which is the measure of the issues that we control. That has given us the confidence to be able to stand up in front of you and say that we believe, based on what we know we control, we can turn our punctuality performance from where it is today, over the next two years, to a standard that will put us at the leading edge of our competitors as ranked within the Association of European Airlines.

There are a number of initiatives that we have put in place today and we are seeing the benefit of those. Many of the things we have been doing, and I have made this point before, are dependent on the T5 infrastructure. We have factored into the equation that T5C does not open until probably 2011, because we are redeveloping T5C to better address the projected fleet of A380s that we shall have, and potentially to expand the number of air bridge stands on T5C. That is an issue that is in discussion with BAA at the moment and will be one of the issues that the regulator of BAA will factor into the current economic review. However, we are confident, based on what we have seen, the analysis that we have done and our understanding of the punctuality issues that are directly within our control, that we can turn British Airways from our current position to leading edge as measured by AEA standards within two years.

Martin Broughton: If I take the dividend question, reflecting our position as a FTSE company we have taken the view that we are better off going for a progressive dividend policy rather than a volatile one. I believe that means starting reasonably low, not too low, because we have a string of small shareholders and we don't want too many 20 pence cheques going through the post. So starting relatively low, seeking to make a progressive dividend but not being fixated by that. I was on the Board when we paid our last dividend, some considerable time ago now but it was a mistake to have paid that dividend because we got ourselves into a fixated position. We would not want to do that again.

Question: I have two questions. There was an article in the *Wall Street Journal* this morning on T5 and it indicated that capacity from London Heathrow across the Atlantic would be up 22% this summer. However, I do not believe it incorporated the potential downsizings or even terminations of service from Gatwick. So I am curious as to what that all-in number between London and the US is in round numbers this summer? Secondly, with T5 coming on line you certainly have lost your fair share of transfer traffic, some of which is low yield but some of it is high yield and very attractive. When we look at the revenue forecast that you provided for the coming fiscal year, what is the take or what is the incorporation of transfer traffic: is it expected to grow, are you looking at recapturing a fair share or is that just potential upside?

Willie Walsh: If we look at the transatlantic market next year, we estimate that, in total terms, there will be about a 13% increase in seats, 3% of which will be British Airways and in competitive terms about a 10% increase. That is the total London market. In relation to transfer traffic, we have commented previously that, as a result of the security restrictions, particularly the hand baggage restrictions introduced in the UK back in August 2006, we lost significant Premium transfer volumes. These customers told us that the restrictions were driving them away from Heathrow. Since the relaxation of the rules, and it started for transfer traffic in July/August last year, we were not allowed to advertise that fact but word of mouth quickly spread, we saw that traffic come back. So we have seen a return in terms of the Premium transfer volume going through Heathrow. We are very confident that we can recover the traffic that we have lost, and that there is potential for us to gain some Premium – I am particularly focusing on Premium transfer traffic.

In the revenue projections that we have given, there is in the yield figure, as Keith mentioned, an element of that driven by passenger fuel surcharge, but there is also an element of that driven by mix. That mix takes into account the recovery of some of that premium and, as I have said, I believe we can win some Premium transfer traffic from other European hubs. I think that is one of the things you will see this afternoon in T5. The Premium product is fantastic and, given that about 85% of our transfer passengers will transfer within T5, it is so much better than anything we have had at Heathrow before, and I believe it is better than most of the other European hubs. It is certainly better than Charles de Gaulle and Frankfurt, on a par with, if not slightly better than, Amsterdam. Therefore, I believe that puts us in a strong position. Our focus will not be on chasing transfer volumes but we are interested in looking at Premium transfer traffic.

Robert has demonstrated to you through his presentation that we do dig down into our business to understand what is the best mix and how can we produce the overall best result for British Airways. I am confident this is an area where we can see some success in the years ahead.

Question: Willie, I have a question about BA's shorthaul operation at Gatwick. You declined an opportunity to put in a bid for GB Airways and, of course, that was bought by easyJet. easyJet was already applying some pressure on the BA shorthaul operation at Gatwick and they are now in an incredibly strong position in terms of volume and their pricing message. I know we have heard today about a number of things you are doing to address the profitability on shorthaul specifically but do you think, realistically, that you will be there for the long term in Gatwick, shorthaul focused, as opposed to any longhaul development?

Willie Walsh: Yes, I do. Gatwick is a challenge largely because of the actions we took back in the late 1990s where we built up Gatwick as a hub. As I mentioned previously, we have been working over the last few years to strip away a lot of the cost that was embedded in our Gatwick operation, and we are having good success there. We have a very clear focus on what we need to do as far as our cost structures at Gatwick and, equally, we have made significant changes to our approach to revenue management. Gatwick was the main driver to introducing a new fare structure in our shorthaul business.

The interesting point about GB is that we did have an opportunity, we turned it down which was a relatively easy decision to make. At the time of turning it down, our expectation at that point was that GB would sell the business to easyJet, so that was factored into our thinking when we made that decision.

The franchise arrangement with GB was one that had been successful over the years, but it was really beginning to outlive its usefulness. Under the franchise arrangement, GB operated a number of routes that were licensed to them, and we could not operate those routes ourselves. As you have seen the changing nature of shorthaul traffic, quite a number of the destinations that GB served were destinations that we would like to have served directly at British Airways rather than serving them through a franchise partner. So we recognised it was an opportunity for us to adjust our network with the termination of the franchise agreement, and that is what we have done.

We believe that at Gatwick today, we have a much better network of flights than we had under the combined GB/British Airways franchise arrangement. We are now operating these as British Airways, it is better than the former British Airways operated network, and we believe we have an attractive customer proposition. Robert has shown you the focus we have on things like upgrading on the day, which has been very successful, way more so than I had ever expected. Also with the continuing unbundling of the product from the low cost/no frills airlines, customers are beginning to be much more aware of the total cost of travel versus the headline figure. So we believe we have a good product offering, that we have competitive pricing and we believe we have an excellent network. That gives us confidence about the future not just of shorthaul, but we have a very good longhaul operation at Gatwick. However, we are confident that we have a good balance at Gatwick and that we can compete and do so effectively despite the fact that easyJet will now be the single biggest operator at Gatwick.

Question: Willie, some of the fall in returns next year is obviously due to fuel but some of it is due to the decision to grow the business. Accepting that is probably the right one after such a long time of stasis, what will it take for you to push the business back into cost-cutting and return-enhancing mode, or what sort of trigger should we expect to see? How long will you give it before you take that decision again?

Willie Walsh: We shall always be focused on cost reduction and cost control, and we believe there still are significant opportunities for us. One of the things we are doing is applying lean methodology to our business. We have used it in our engineering areas for some time and it has proven to be very effective. We have started applying it to some of our operational areas, particularly in the context of the design of the processes that David spoke about at T5. We recognise through this that there is opportunity for us to strip out a lot of waste that exists within the business from which the customer does not benefit. Therefore, there are clear opportunities for us to continue to improve our cost base, and we shall do that.

Some of the costs that Keith has shown you next year are driven by the transition into Terminal 5. Some of it is driven by the fact that we are absolutely committed to delivering an excellent product offering next year. We recognise, as I mentioned when I spoke earlier, that we have been tarnished as a result of the difficulties we have encountered, particularly since August 2006, and we need to recover from that so that we do not do any long-term damage to the brand.

The investments we are making and the money we are spending to position the business for growth and to position the business in terms of our product offering are absolutely right for the business today. That is why I mentioned that I see the next 12 months as representing a company in transition. We shall continue to be focused on cost and some of the costs will be stripped out once we get into T5, and Keith has demonstrated the cost opportunities that exist for us there. However, I can assure you all that cost control will continue to be at the very top of our agenda.

Question: I have two questions. The first is on American Airlines: do you feel you are getting into a position where you can be a lot more aggressive on seeking anti-trust immunity now that other US airlines are at Heathrow and your other competitors are trying to go one stage further with multi-immunity? If so, can you quantify roughly what kind of benefit ATI would give over the existing situation? Secondly, a number of North American airlines and Qantas have started to unveil the economics of their frequent flyer programmes presumably in an attempt to boost valuation. Is that something that British Airways would be interested in?

Willie Walsh: I shall ask Keith to comment on that because we have looked at issues there. We do not think that our frequent flyer is necessarily comparable to either what Qantas are looking at doing or what Air Canada did with Aeroplan, or what some of the US carriers may do. In relation to American Airlines, as I said at the beginning, it has been a positive and successful relationship. We are probably getting as much benefit from that relationship as we can and we recognise that it is hampered by the fact that we do not have anti-trust immunity.

Has the regulatory environment changed as a result of Open Skies? I believe it is still too early to call that one. We have seen what the US carriers – Northwest, Continental, US Air, Delta – intend to do. They still have to start that but I think it is clear they have signalled their intention. We have been able to prove, as we have always said, that access to Heathrow is possible but that you need to pay to get access, in the same way as we need to pay if we want to increase our slot portfolio. There is evidence there that the landscape is changing but whether it has changed sufficiently to change the regulatory penalty that was previously identified, as I said that was 16 daily slot pairs when we last applied for ATI. Given the value that people are putting on slot pairs today, all I can say to you very clearly, without giving you any idea of what the potential benefits could be through ATI, it is nowhere near –

absolutely nowhere near. That is a half-a-second decision if we were looking at that sort of penalty and even at fractions of that sort of regulatory penalty, we do not see that ATI would represent a sensible decision for us. It is far too early to say and we shall continue to look at it and to examine the market to see if that situation has changed. Keith?

Keith Williams: Over the years, we have had a number of approaches about the frequent flyer programme from a number of banking interests, and we have looked at them all. Both ourselves and the bankers have concluded that there has been no sense in taking out the frequent flyer programme and that situation exists today. The frequent flyer programme is well integrated into our operation and we are comfortable with where it is.

Question: I have three questions. The first is on London City: according to press reports, you were bidding for the airline VLM but were outbid by Air France. Why was it attractive and why did you let yourselves get beaten? I have two other quick questions. What does the loss of the 777 hull do to your fleet plan and how are you addressing that? Finally, is there anything you can tell us about the ongoing talks with Balpa?

Willie Walsh: We looked at VLM and had had some discussions with VLM in recent times. Indeed, at the time of our decision to try to dispose of BA Connect, we had some discussions with them. We recognise that they are and have been a good airline, operating successfully at London City and when they came on the market, we decided, following analysis, that there was value in acquiring VLM but at a price – not at any price. We were, I would say, more aggressive than we have been in the past in terms of putting a value on that.

As I said in my presentation, I believe that in the past we were overly conservative around the benefits of revenue synergies, so we had a very clear view as to what our maximum price was. We went up to that maximum price and we were outbid. I am satisfied that we understood what the value to us would have been, that we were aggressive in trying to pursue it but there are airlines out there who are prepared to pay a bigger price than we would be prepared to pay. That has to be set against the comments I made around investments not just in fleet but any significant investment that we would make. We want to see a return on that and we went as far as we were prepared to go.

In relation to the 777, it will not have any immediate impact on our plans or our network operation. However, it impacts on the modification programme, what we call the Stretch Programme, which is the new Club World product. Our intention had been to have two lines of 777s going through our hangars to do that modification programme through this year, so we have had to adjust that down to a single line of work. Therefore, it will delay the roll-out of the new Stretch product on our 777 but it will not impact on our flying schedules and we are satisfied that we can do that through this summer, and through the winter without any impact as far as the schedule is concerned. Beyond that, we are doing some work at this point, so we have not looked beyond the next 12 months but certainly in the next 12 months it is not going to impact.

In relation to Balpa, the issue is an important one. It has been brought into context by our decision to create the subsidiary airline Open Skies. The way we have approached that is in exactly the same way as we have approached subsidiary airlines in British Airways before, so we have a subsidiary airline today based at London City, CityFlyer. The pilots employed in that airline, indeed all of the employees in that airline, are employed into that company direct, they do not have British Airways contracts, they have contracts with the subsidiary company. They are recruited on terms and conditions that are appropriate to that company, they are completely different to what we call the mainline British Airways terms and conditions. They do not have seniority rights within British Airways. If the people within that company want to join British Airways, they in effect have to apply as an external candidate although they do jump to the top of the queue. So there are no rights and that separation is very important, it is not something that we are prepared to change.

I am pleased to say that I have a statement that was agreed between Balpa and ourselves in relation to the talks that are going on at the moment. It says:

> "BA and Balpa have been engaged in conciliation talks led by ACAS over the last three days. The talks will continue with both sides seeking to achieve a positive outcome.

That is a short, sweet message that has been agreed between us. I believe it is fair to say that, given that the talks are ongoing, they are making some progress, and I am confident that we can resolve the difficulties that we have between us. I need to make it absolutely clear, at this heart of this is the concept of scope. Many of you will be familiar with very much an American concept introduced into Europe a number of years ago. We have a scope clause with our pilots that is in our Memorandum of Agreement, it is in what is known as Schedule K. That gives British Airways pilots the right to fly British Airways aircraft that operate into Heathrow or Gatwick, or any aircraft in excess of 100 seats operating in the UK. There is a provision that allows us to operate the RJ100 that we operate in London City. Those aircraft are leased, but the clause also identifies that it is not the actual number of seats on the aircraft, it is the certification of the aircraft. The fact that we are going to operate the 757 with 82 seats as against the 195 maximum seating on the aircraft is not relevant.

As we have seen in the discussions in the US and I think the failed attempts between Delta and North West to progress their merger, those issues are major ones. I am not prepared to concede any change in the existing scope clause that we have. It is to me a critical issue for the future of our business. It would be wrong for us to restrict our ability to pursue opportunities that would be right for this business in the long term. I don't know what those opportunities are today, but it would be a mistake to amend the existing scope clause to extend the scope of those restrictions beyond what we have already agreed. But I am confident that we can resolve the issues between us as part of the discussions that are going on with it.

Question: Two questions. Firstly on the outlook into next year, you said in the statement this morning that the outlook was consistent with economic slowdown. Typically, I guess, in an economic slowdown, you would expect revenues to soften, and yet you are forecasting an acceleration in revenue growth for next year. I know you will talk about mix improvements, but is it fair to say that the balance of risk in that outlook is on the downside, not only in the revenues, but therefore also in the margin forecast?

Then the second question, when you were talking earlier on about consolidation opportunities, you looked at almost all the main regions in the world – you didn't mention the Middle East. I wonder if you could make a comment on possible consolidation opportunities there? Thank you.

Willie Walsh: The things I said about the rest of the world apply to the Middle East as well.

I don't think so, I think we have been realistic in terms of our forecasts. Keith took you through the breakdown of the revenue increase. We are satisfied that that is a projection that is consistent with what we are seeing in terms of the economy, and we are talking about a slowdown in terms of the economy, not a recession. I know the US, everybody is talking about a recession, and there is probably evidence of recession there.

It is interesting, I looked at the OEF Forecast for the UK. They have reduced it slightly, but I think they are still sticking with a growth of 1.9% in 2008 and 2.7% in 2009, and I think it also reflects the fact that there are a number of our key markets that continue to grow quite strongly. So, again, as Robert has demonstrated, our operation is not solely UK/US. So I think we have taken all of that into account and we are satisfied that the revenue projection, and particularly as has been set out in the presentation that Keith gave you today, is a realistic projection of revenues for the next year.

I think the Middle East is certainly interesting. There has been quite a lot of activity there. I suppose when you are looking at consolidation, you are looking to consolidate with a business that compliments your own business. There is no perfect fit. When we are looking around the world today, there are markets that are clearly very attractive. The Middle East is a growth market for us, and we are doing very well in that market, and I believe we will continue to do so. But we have not identified any opportunities at this point for consolidation with a Middle East carrier. I didn't mean to exclude it.

The first list, the first chart we put together we thought would have everybody running, so it was really just to give you a flavour of the issues that we are looking at and to identify that the challenges in the markets are quite different. So we still require regulatory change around the issue of ownership and control to genuinely pursue cross border consolidation. That is still some time away, but I would like to think that we will see genuine progress in that in the next five years, particularly driven off the back of second stage negotiations between the EU and the US.

Question: Just two quick questions. The first, just in reference to your comment about the Iberia share price fall, in the event that a competitor of yours now potentially makes a move to Iberia from a different alliance group in particular, how important is Iberia for your access to South America, and would you be willing to maybe let that go if you are not prepared to take your stake higher?

The second question is regarding the cost benefits of T5. The chart that I think Keith presented earlier was quite helpful, but ends before you open the next satellite. Should we expect a further step change in those cost benefits in the following year from the amounts that we see in the chart there?

Willie Walsh: Okay. In relation to Iberia, I think it is fair to say that our presence in South America is light at the moment, and we do see that as a growth market. We have a number of options to serve that market. We can serve it over Madrid with Iberia, and to be fair I think one of the criticisms that Iberia have had of British Airways is that they don't believe we have been feeding enough traffic over Madrid. Part of the reason for that is, the other option we have is to serve that market through American Airlines, and we have tended to favour that, principally because we get the transatlantic revenue as opposed to the London-Madrid revenue in a situation like that. So we do have options in terms of access to South America.

The other option we have, and definitely an option that we will pursue is to serve that market directly ourselves. Now that is not possible – well, it is possible today, but becomes much more so with the arrival of 787. We see the 787 as being an excellent aircraft to serve that market directly out of London, and we do see growth opportunities there. We are increasing our flights to South America. We have in recent years served Sao Paulo direct and then onwards to Rio de Janeiro and Buenos Aires. We have recently increased the number of flights to Sao Paulo, but we are now also flying direct to Rio and clearly we look to fly direct to Buenos Aires. I think there are other opportunities for us to serve the market directly.

As I said, Iberia has a good relationship with us. We have a lot of respect for the management team there. We work well together, we have got a good joint business. We have clearly identified that there is an opportunity for us to do more work with Iberia and I believe that that is something that would make sense for us to pursue, but we do have options, and clearly one of the options that we definitely will be pursuing will be further direct services from London to South America.

Oh, sorry, and T5, my apologies. The thinking in relation to the second satellite is that we should not expect to see a step change. What will be different about the second satellite is for the first period of operation we will have to serve the stands around that satellite by bussing from T5, so that is clearly something that will be eliminated once the satellite building itself opens.

So we will have the stands available to us. The T5 complex has I think 60 stands in total. There is the possibility, as I said, to change the T5C complex to have 12 air-bridge served stands instead of the planned 10 stands at the moment. That does require a change to the plans. There is a change to the capex programme associated with that, so we have had some discussions with BAA and CAA in relation to that.

My preference at this point would be to accept a short delay on the delivery of T5C in the interests of the longer term benefit, which would be to have more air-bridge served stands on the T5 complex and better A380 serviced stands on T5C. So the options at this point are opening a ten-stand facility without modification for the A380, probably some time in the May, June, July period of 2010 or opening a 12 stand facility with better A380 service stands for summer 2011. As I said, my preference would be to accept that one year delay. I think that gives you an indication as to what you should expect in terms of cost benefit. It is not a step change. There is inefficiency in terms of bussing, but it is not a step change.

Question: A question on premium transfer, or transfer in general for that matter. If you are competing largely with Air France/KLM and Lufthansa, it is very hard for us on the outside to understand what the unit cost differences are in offering that product. From your point of view, and obviously you don't have private access to their numbers either, but when you look at the competitive ability to offer a transfer product, do you think you have a cost advantage for someone who is going to Lyon or a second city on the Continent, or do you think that you are at parity with Air France/KLM and Lufthansa? How do you look at that on a cash basis?

Willie Walsh: I have to be honest with you, we don't have full parity in relation to their costs. It is difficult for me to answer that one, but instinctively I would feel that in a T5 environment, and particularly in the steady state T5 environment, we should be at parity with those competitors.

I think the big issue for us is that premium transfer is a valuable market and it makes sense for us, given the environment that we have in T5 to put a bit of focus on that. And it is interesting. What we have found is that it is mobile. We have had evidence of that. They understand the advantages of an efficient transfer operation, and you don't tend to have to market it. You don't tend to have to spend a lot of money to get this. It does tend to be aware of the advantages of transferring over to another hub.

I think it is a market that works well for us today in an environment that is very difficult, because everybody here I am sure has experienced T1 to T4 transfer. T5 to T5 transfer is light years ahead, and with the premium facilities that we have, and with the premium product that we have on board the aircraft, I think we are in a healthy competitive position with certainly our European hub competitors.

George is giving me the signal that we need to wrap it up. I am sorry that I can't join you on the tour of T5 this afternoon. I think you are genuinely going to enjoy it, so can I just thank you for your questions and thank you for your attention this morning. I hope you enjoy the tour and I hope you enjoy the presentations later on.

Corporate Responsibility

Silla Maizey

Good afternoon, everyone. It is like looking down the aisle of a packed 757! Normally you want to sit at the front, so I am surprised most of you want to sit down the back today, but there you go! We are not bringing out the champagne today, maybe later on.

I am going to talk today about corporate responsibility. As Willie said this morning, my previous job was head of procurement, and my background is finance, so I am an accountant by profession. I have been in Corporate Responsibility now since November. I am going to take you through some things that we have been working on with the team, and things that are important, and we can take some questions after Jonathan has come forward.

Corporate responsibility at British Airways is about four things. I am sure all of you appreciate that nowadays corporate responsibility is one of *the* most important things that you will hear about, and as a community you should be asking about it too. It is part of the Companies Act requirements that companies behave in a certain way, and it is very important that you understand the strategies that companies are deploying around corporate responsibility. What I am going to tell you here today is what that looks like to British Airways, and the things that dominate us in terms of our corporate responsibility strategies.

It is under four pillars: it is about environment, work place, the market place, and also our communities. We work with one of the NGOs in this space, a company called Tomorrow's Company, and their founder, Mark Goyder, summed it up most clearly. In the sentence you can see at the bottom:

> "Yesterday's society issue is today's customer issue and tomorrow's shareholder issue".

That is why you will see when McKinsey surveyed CEOs, 60% of them said that these were strategically important issues, and 61% said that done properly, this can boost profits.

Since I have been in the role in November, and in fact, I am very pleased to have Jonathan Counsell with me today because he is responsible for the T5 development here and he joined me a couple of months ago. Together we have been working on the strategy for our corporate responsibility, and it is under these four key headings. What we do in the market place, that is about suppliers and sustainability in our supply base, so it is about our ethics and responsible supply chain. It is about how we face and treat our customers, and our customer well-being programmes. It is about what we do in our community, our corporate philanthropy, so that is the strategies we deploy around the world. We have 130 projects that we deliver across the world with our community programmes.

But for British Airways, it won't surprise you to know that the environment and what we do around our environmental strategies are most focused at this current time, and will be for many, many years. The climate change issue facing organisations is one of the deepest and longest issues that we will face. We know how to deal with rising oil prices, we know what to do with security, we know how to manage events and event shocks. But this is new to many of us, and what I will tell you today is how we intend to manage our way through this.

Just to put things into context, you will probably know all of this, I am sure, but aviation is a part of the whole emissions programme for the world. If you just look at these charts, transport is 14% of global emissions, that is the whole transport space. You can see the others. The main one is land use and agriculture, a huge part, and that is around deforestation and use of agriculture. Other ones that would be obvious, power generation, 24%. If you move into the 14% that is transport, that is how it is split out. You have freight trucking, 23%; buses, cars – a huge one, cars, at 45%. Air travel is 12%. It is 14%, and 12% of that 14% and aviation is 1.6%. These numbers come from the Stern Report, they are not ours, they are Lord Stern's.

To put it into context, we are very often described as the villains of climate change, and even Sir David Field, who was the Government Chief Scientist, says that that is a very unfair label, but that is what aviation gets labelled as.

This is our climate change programme. There is a set of core, coherent activities that underpin our climate change programme at BA. First and foremost is improving fuel efficiency, and I will tell you how we do that, but at $100 a barrel, it makes economic and environment sense to focus on that deeply and in the long term.

Measuring our carbon footprint: things like in this building here, this is brand new building, and one of the things that we will need to do with BAA is see how efficient this building is and measure its carbon footprint. As many other organisations are doing, we are doing that, and carbon footprinting across the whole of our buildings. We know very specifically what our fuel usage and our emissions around fuel for aircraft are, but we are working through how we manage and calculate our carbon footprint for the rest of our programme. I will talk to you about carbon offsetting, which I am sure you all do. A very important part now for aviation is emissions trading. We are part of the policy debate, we engage heavily and strongly with Defra and with the DfT. We work with the industry bodies, with IATA, and we have Geoff Poole, one of our colleagues from IATA with whom we work very closely. Industry associations, AEA and also with Sustainable Aviation here in the UK.

It is very important for us as an industry to work together on a number of these things. We cannot solve these issues on our own. There are some areas that we will lead, and we will take a leadership role. There are some areas where it is right and proper that we do this as an industry. We have very good relationships with our industry colleagues, and we also look at things like carbon neutral growth. IATA have a plan right now at satisfying an objective of seeing how we can grow carbon neutral. That is a very important piece of work, and you will hear a lot more about that in the coming months. I think IATA will be delivering some programmes on that that you will hear about soon.

What we are very keen on here in BA is understanding some of the other aspects in terms of the world that we operate in. We are investing in some projects that are supporting avoided deforestation, and we have also put some money into Cambridge University to understand what the upper atmosphere, non-CO_2 impacts are. You will hear lots about aviation, not only what is happening on the ground, what happens when we fly, but also the upper atmosphere, and that is the non-CO_2 effects, and that is contrails, formation of cirrus clouds. Science simply doesn't know enough about that, so we felt that we would invest and put some money behind how we would have workshops, and Cambridge University are doing that with us. We are very pleased about that.

For us at the moment, the two key issues are specifically around emissions trading, so it is aviation's entry into the EU ETS. British Airways was a firm supporter of aviation going into ETS. We feel it is one of the most fundamental ways in which we can contribute towards the climate change issue.

The second part, so just as aviation enters into ETS, the current scheme, which starts from 2012, the European Union are doing a review of the general ETS scheme. Just as we enter, there is a review of the current scheme. Again, we are actively involved in that debate on ETS.

APD, Air Passenger Duty. Again, we are in consultation right now with the Treasury in the UK about how we actually engage with them, from moving from a per passenger to a plane tax. It is a tax, they might think it is something else, it is most definitely a tax, and we are doing what we can to resist that. When ETS comes in, our view is that APD needs to go. The amount we pay for APD would cover our carbon emissions four times over in a year. A lot of money goes into that.

Carbon offsetting: we launched a new scheme, and I will talk more about that in a moment. We are looking at adoption of 10%. It has a huge role to pay. There were many sceptics about offsetting, and whether it contributes. Lord Stern would say that carbon offsetting has a very important role to play, not least of which it is about education and awareness of the whole climate change agenda.

Then for us, particularly here at Heathrow, a consultation finished on 27 February around capacity at Heathrow, that is the third runway, and also Mixed Mode which is the operation of aircraft on the runways that exist right now. That consultation closed, and our role in that is to ensure that we can provide evidence, along with BAA, to show how we have achieved the environmental conditions that were placed with the Government as part of the consultation around air quality and around noise. We have put evidence together to say that we are able to achieve those environmental conditions. The consultation has closed, and we will await the outcome of that later in the summer.

To talk about what we have done on fuel efficiency, in fact aviation as a whole is 70% more efficient than it was 50 years ago. But to talk very specifically about what we have done in British Airways is that if you look at when we started our efficiency programmes, and some might think that climate change and fuel efficiency is new, but we have been at this since 1990. We were one of the first airlines to publish our emissions results and what we do around the environment, but we have been looking at fuel efficiency since the 1990s. Because of our achievement, we have been able to develop a new target and we are targeting a further 25% improvement by 2025.

Those are fuel efficiency numbers. What we feel is important is that we engage in how we are going to deliver that. If you look at our emissions, when we look at how we would achieve a carbon neutral airline, our baseline of CO_2 will go up, because we are growing, as you heard this morning. But we are also producing from very efficient operations, we have placed orders for new aircraft that are highly environmentally efficient. We are also working on very effective customer engaging carbon offset schemes, and emissions trading will take that curve back down.

We have done the numbers, we know how to do it, and that is what our emissions programme looks like.

That is just a graph. What is most important is that we make this meaningful for our communities, for our staff, for our customers, for people like yourselves, and what we have done in our business plan for this year is to target an emissions target that is around corporate responsibility. We will state a number, and we have done that in CO_2 per passenger kilometre, that is the sort of thing that you will all understand. To give you a comparison, if you were to plot your own vehicle on that graph – there are lots of people moving in their seats right now – if you had a Range Rover, it is 352; if you had a BMW, it is about 173; and anyone driving a Toyota Prius [no hands], look at that! Jonathan, I told you! That gives you the numbers to show what happens, and an A380 at just 75g/kilometre, will be able to go into London free of Ken Livingstone's congestion charge!

This is about making this meaningful and coming alive, because the most important thing that we do in our business is to make this real to people, our staff, our communities and our customers.

Some of the things we can do around our own operations, because we can manage our operation ourselves, we work with BAA, with NATS, with other airlines to operate effectively in this space. We invest in systems that control and manage our flight planning systems, so that we can optimise the actual uplift of our fuel. We look at how we can push and hold, we have engine modifications that reduce the actual consumption as we are flying. We have done a lot of route shortening, so straightening routes with various air traffic control authorities around the world, so we have to comply with the most effective route. All this basket of initiatives contributes directly to both fuel efficiency and of course, emissions reductions. It is very important.

Again, as we descend down, as the flight comes to an end, we have looked at how we can do single engine taxis, and not to forget, our current consultation around Heathrow. There is a huge environmental efficiency about how the air traffic control and the holding stack can create emissions. So Runway 3 will assist that, so will Mixed Mode. Again, environmental contributions in terms of expansion: you will hear a lot about the other side of that story, you may hear less about the environmental positives that come out of Runway 3.

Carbon trading. I am sure a lot of you – may be not personally but certainly your industry – is extremely excited about the potential for the carbon markets. British Airways has been engaged in this for some time. We were the only airline that was engaged in the UK Emission Trading scheme. We have learned to deal with this, we know how to deal with it, therefore that places us in a leadership position in terms of how we can manage the ETS when it comes in.

We have learned a lot and been able to develop that. Our view is that how we deal with ETS will give us competitive advantage.

The important thing to take away from that is the whole point of the carbon markets and emissions trading is that if you don't cut your emissions and do something about it directly, you must pay for someone else to. How that whole piece works is vitally important, how companies behave and how they put strategies in place to manage the whole Emissions Trading Scheme is highly important to the future of organisations. Aviation is new to this, British Airways is not new to it.

Offsetting: for us carbon offsetting is a vital part of our climate change strategies. We have just launched a product, on 15 January. Our previous product was not easy to use. It was done through a third party in a punch-out through our website, and we had a lot of feedback. We took that feedback on board, and we changed it on 15 January. It has been very successful, it is early days, but it has been very successful. We sold more offsets in the first three weeks than we did in the whole year before.

We don't know if that is changes in behaviour or how fantastically easy our offset scheme is now to use. It could be the projects we have selected to invest in. We manage this scheme with Morgan Stanley. We are doing very well with Morgan Stanley on this programme, it is going very well. It is part of the Kyoto Protocol, we use the UN Clean Development mechanism projects. They are in China and Brazil, hydro electric and wind power in some of the poorest countries of the world. We are very pleased with how those programmes are going right now. For us, it is about engaging with our customers and the feedback has been very good for us.

Who wants to admit that they offset? I am sure lots of you do! Thank you very much, Robert, who works for British Airways! Offsetting is very important, and I want to draw your attention to how easy it is for you to do that next time you go on to BA.com website. Have a look. Lots of other airlines do it. There are many different ways in which you can offset, but please do take a look next time you go to our website. It is something that is very good to do.

There is lots of information, it shows how it is calculated. We use Defra figures, so we work very closely with Defra on how the calculators work and we fed those into BA.com, so we have put a significant investment behind this, and the feedback from our customers is that it is something that they want and that they are using. We are very pleased with that rollout.

Another thing that is very important in terms of our environmental strategy is what we do with waste management. We have declared some targets, and this building is going to give us a quantum change in how we deal with our waste management. We have a target of zero landfill, and we have targets around recycling. Why this building gives us the opportunity to really change how we do this is because it is BA and BAA together. It means we are able to segregate waste, we are able to put separated units in here, and we really looking forward at how we will be able to utilise the facilities that are here. We will not only have an increase in recycling and waste management; we believe there are genuine cost reductions that will come out of this. Handling waste is very expensive. Putting investment behind this, and using a fantastic building like this, is something that will give us both environmental saving and also, quite frankly, cost savings.

At the moment, we are also tendering for our new catering supplier for our aircraft and we are working with our procurement team. Paul Alexander is here, Head of Procurement. Paul is working at the moment with some suppliers to see how we can deliver an environmental change on board our aircraft. That is a key part of how we source our goods on board the aircraft. Again, areas where you will see recycling increasing, both with our current supplier and whatever happens with the new selection which won't be announced for many months yet, but an ideal opportunity again.

There is also a very large incinerator being built at Colnbrook, which is another one of our suppliers that we have a very good relationship with, Grundons. Because of that relationship, we are able to take a large proportion of the incineration programmes they have there. Again, our relationships are enabling us to deliver some more environmental credentials.

Here you are in Terminal 5. This is one of the most amazing environment stories. This building – one of the biggest in the UK – is going to be a fantastic environment story. The BAA guys – I don't think Jonathan is going to cover it because he is just talking about baggage – but a huge amount of investment has gone into this building and how it operates in terms of energy management, rainwater harvesting, the actual products and build that have gone into it, 85% of this building was recycled and managed in a very effective way. It is an incredible story. The things that are in here, if you sat on any of this furniture here, it is made out of sustainable programmes, a company called Amaryllis have sourced these goods for us. The panels behind you that you might think are wood, are made from recycled plastic milk bottles. Don't they look fantastic! You would think it was wood grain, wouldn't you?

In this building, there are loads and loads of things that we will do that support our environmental programmes. It is a very good story, very engaging for our staff, and we are very pleased to be able to operate out of a building like this.

Just a few things there on the list that show you what we have been able to do. We will be able to do a lot more, this is just the start of what we do here, so the products in the building, the way we operate and the energy that we will be able to manage this building, is going to give a substantial uplift in our environmental credentials and the way in which we manage our cost control through this building. Not only is it a fantastic passenger experience, but it will be a good financial experience and a good environment experience too. We are very pleased on all dimensions.

That is Terminal 5. What I would like to turn to now is some of the things that you tend to hear less of when we talk about environment, but for British Airways, corporate responsibility is also about some things that we put back. I run the Community Relations team that has been in British Airways and been very effective for many years. Some of the things we do here in BA, we support the boroughs around Heathrow. It may surprise you to know that one of the councils in which this airport sits, is one of the most deprived councils in the UK. We do a lot of work here because a lot of the communities are communities that we impact. We have a community learning centre where school children travel through, we have return to work programmes for a number of the women in the area, and we help engage with staff.

They also engage with our communities around the world. We have the UNICEF Change for Good programme, that I am sure you will have contributed to. That has been very successful for us. We have raised over £24 million for helping around 50 countries in the world, some of the poorest children in the world.

Then we have 130 projects that our staff and cabin crew deliver for us around the world. These are about sustainable projects, so they are things that you may well have heard of. They are very good programmes, our staff are very engaged with it, and part of corporate responsibility in any organisation is about engaging with staff and doing some of the things that are about sustainable programmes around the world in these areas that we travel to.

I want to leave you with the thought that corporate responsibility is on a number of dimensions, but latterly, just to leave you with a few thoughts. What we in British Airways, and what we do with aviation, the atmosphere doesn't have any preference at all. It doesn't really care whether we save a tonne of CO_2 here at Heathrow or in Bangalore or in Beijing. It doesn't really care whether it is from aviation or from agriculture or from power. What we all try to do is something towards the solution, and we want to stop talking about it as a problem and engage in activities that are pro-active about the solution.

The British Airways product is about connecting people around the world. Around 8% of GDP is from the travel industry, so it is vital to economies, it is vital to many businesses, it is vital to inbound tourism around the world, and it is about creating agriculture markets and giving access. Those are all the areas, in terms of wrapping around corporate responsibility at British Airways. This is our place, and this is what we do, and we believe that you can have a situation where you can grow, and you can grow in a very green environmentally and positive way for the community.

What I hope I have done here today is to give you a little taster of some of the things that we have been working at over the last few years.

I am going to introduce Jonathan from BAA, but just before Jonathan comes up, we are going to have a short video.

[*Video shown*]

T5 Baggage System

Jonathan Adams (BAA)

I hope you enjoyed watching that video, because I have enjoyed the last five years building it. One of the reasons why I am here today is that I now have a new role which is Head of Programme Management for IT in BAA. I am also retaining my responsibility to get the T5 project base finished, the operational readiness period finished, and go live, which is obviously coming up very shortly.

I am very busy at the moment, but I was very pleased to be here today, and the reason I was pleased is because I am incredibly proud of what we have done. If it seems as if I am trying to show off a bit, it probably is! One of the issues with me is that with baggage, I am always downstairs, so you don’t see me. The immense amount of work we have done beneath the façade here is an incredible feat of engineering, which I am sure will massively improve the product in the future.

Just going forward to what I am going to do today, I am going to give you a quick review of the history of where we have been here; take you through a bit about the baggage handling functionality. I am also going to set the context for where sit physically and geographically at Heathrow. It is very important because the size and scale of what we have done is something which is exciting. I will take you through the design of the system. I don't know how many engineers are here, probably not many, but if there are any, I think you will enjoy it, and even if you are not an engineer, you will be probably still be impressed by what you have seen.

I will give you a few numbers and some figures on how we are going to perform as well, which I am sure you will like. And take you through a summary at the end.

One of the things which is very important in terms of the history of this job is that the original user requirements or specification was done in 1996, so this has evolved over a long period through the public inquiry. One of the things that was quite instrumental is in 1998 British Airways were running the job themselves, and back in 1999 or 2000 it swapped back to being BAA. But what it has retained is very much a joint feel. This is an engineering system that has been pulled together by the two companies, and it has been jointly governed and designed which is probably one of the key differences of what you will find in this airport, this terminal, compared to other airports around the world. We have been very much in harmony.

The other key thing about baggage is – again for the technical ones here – the delivery of the baggage product is about the people, the process and the system itself. I am going to tell you about the system, and obviously it is very important because the quality of what you get is about the marrying of those three together, and again, the way we have collectively worked together between the airport and the airline will add a lot of value to the end product.

This is just to set the context. I hope you can all see it. This is a model, and the reason why I put this up here is to show you the scale of what you are sitting in at the moment. Here is T5A, the building you are in now, and you are probably just down <u>here</u>. T5B is the satellite building – you have probably been told that is as big as Terminal 4. T5C is just starting construction now and will be finished in 2010/2011, which will then give us the full complement of operation at the western hub, as it were.

You can see the M25 and the new link road which you came down, and you can see the runway. That is just to get a feel for where we are today. Bear in mind, the key issue when you move things through airports, you are generally moving people and bags. Again, just to give you a feel for one of the key challenges, the distance we are moving people.

This is a very technical picture, and I will not go through it in detail. Again, this is just to give you a feel for what is here. The check-in desk which you would have walked through, and they were the flow-through check-in desk, which were before you came through security, is probably what you normally see. I wanted to show this to you so you get a feel for what is underground. There is a massive screening consultation operation going on under here. There are bags stored down here, and the lines show the heads of stand delivery which I am going to talk about in a minute, but this is unique to Heathrow, unique to BA, and this is a unique selling point. The fact is we can deliver bags – not all the bags, but rushed bags – to the head of the stand direct. Again, I have not seen that in any other airport in the world.

Just to give you a feel technically through the system, you can see two tunnels between A and B, carrying high speed bag routes. You will see the mirroring in terms of design is all very important. It is about the resilience of the system. You have inherent redundancy and resilience built in right from the very original design. You can see the large sorters – two of those which cover the whole system. Again, to give you a feel for the resilience in the basic design.

What we are delivering here is an integrated departures and transfer system. We have the check-in, you have walked through that. Underneath that, the identification is very critical, actually bag-tagging. HBS - hold baggage screening - every single bag which either goes into the system here or transfers will be screened to make sure there is no threat involved. Then you have flight-sortation, which is basically where you decide where the bag is going. You have a transfer baggage system, which means that a lot of bags which may be coming in from the airport are put into the system at various points, whizzed through the system, screened, sorted and then sent out to another place. This is very important because the minimum connect time is critical for the operation, and this is where the system will be giving a 15-minute in-system time.

The Head of Stand Delivery – again, this is a unique system. When a bag is late, and the computer will know the bag is late, as soon as you check in, rather than sending it somewhere else, this will send it up directly to the Head of the Stand, right to the rear of the aircraft.

We have an out of gauge system, which has the ability to take abnormal sized packages. We have the arrivals system which is quite traditional. It is the standard system you will see at any airport with normal belts. You have the container storage system. That is a building outside which is an automated system. The management of all these containers that go on the aircraft is key to the efficiency of the airline, and here we have the container system which is fully automated and will give the airline the ability to move in a much more efficient way. We have an integrated control and management information system. Basically we know where every bag is at any point in time, and we have the ability to dig down and look at the management data to improve our performance, week in/week out.

Originally we had a demonstration system where we spent a lot of money two or three years ago.

I am going to whiz through these. I am not going to apologise for the detail; it is very important because it gives you the scale of what you have here. It is 18 kilometres of conveyor. You saw the conveyors in the video which is the traditional type conveyors, 18 kilometres which is from here to Windsor Castle and back. It moves at 1-2 metres per second, so it is walking pace. Heathrow Terminal 1 has 14 kilometres, Hong Kong 24 kilometres, so you can get a feel for the size and those are the traditional conveyors.

We have 8 kilometres of DCV, destination coded vehicles. These basically are those little carts you saw in the video, whizzing about. They are the ones which will give us the ability to move bags at speed if we have to move them between the two terminals, down to the satellite, and also if it is a rushed bag.

The most important thing to understand is that this is the same system that is in at Schiphol. It is slightly bigger and better. Schiphol has 4 kilometres and 650 carts; we have 8 kilometres and 825 carts. The key thing is that it is moving at 10 metres/second, about 25 miles an hour, so imagine the speed of those things. If a bag is rushed, the computer will put it in there, and send it Head of Stand or wherever it needs to go.

We have 1.6 kilometres of baggage sorter. Those two gigantic sorters I showed you earlier on, going round and round in the video, I think they are one of the biggest in Europe. They are very traditional, Boyner, a German company who have built sorters all around the world. What is important here is that there are two concentric ones, which means you sort and put a bag to any lateral, which is an output. The key issue is that you have redundancy for very tried and tested technology, something which we have used before at Heathrow everywhere, but also Boyner have done work like this all around the world. We are trying to mix very high quality, high technology work with tried and tested work, and probably what you will also see is that virtually everything we have done here has either been done at Schiphol or Heathrow or Frankfurt. It is bringing together those forms of engineering used elsewhere.

There are 27 hold baggage screening machines, very expensive they are! We also have a 4,000 position bag store. When I say ‘bag store’, that is not a pile in a corner of the room; that is a state-of-the-art system which individually you can put a bag in a little slot and withdraw it at the touch of a button, or without even touching a button. Again, that is by a company called Viastore and it is used in Argos. Again, we are trying to be very clever and use tried and tested technology.

I will just go on: 4000 tonnes of steelwork, 12 kilometres of network fibre, 256 PCs, and 1,300,000 man hours. Just to give you a scale of this.

What have I been talking about? You are in T5A now. Seeing that a lot of you work in the City, I have not gone to the East End, but T5A front door is by Cumberland Gate, along Oxford Street. T5B is down by Bond Street tube, and T5C probably half way to Oxford Circus. Then we have some remote stands. If you want to know why we have those high speed carts, it is to deliver that service over that geography.

I assume all of you have been passengers. One of the key things that you see is the check-in which you have walked through, and the Arrivals. What you don’t normally see – but you have been lucky today to see the video and also some of the drawings to show you what is behind the scenes – it is a massive factory, a processing plant. One of the key things that we have to deal with at airports is that bags don't come in the same size or shape, they are very different.

I thought I would take you through a few things that we have done at T5 – and at other terminals – but specifically to show you how we deal with the bags when they come in in different states.

Bags turn up, they could have a label missing, unreadable, they could have a bag message, an electronic message which may not have turned up or it could be wrong. At T5 we have a manual coding area, so a specific area in the basement where guys can take control of those bags and can reroute them very fast. You also have a problem bag area if you have any concerns, specifically built into the system.

Again, T5 is about managing that bag's condition.

I won't go into the detail of security, but you have Level 1, 2, 3 and 4. These are related to the screening process we have discussed. We have in-line hold baggage screening. At many other airports you will find you have hold baggage screening machines, but they will be almost separate to the system, and you have an inherent delay in the way things work. Here, it is all integrated into the computer system.

Tracking: we track any bag in the system at any time, we know where it is. Again, it gives us a great ability to deal with any security issues which may turn up.

We have all sorts of normal bags, semi-conveyable bags like golf clubs, out of gauge bags which could be all sorts of things turning up. We have an expanded gauge, we have an ability here to take bigger bags than normal. We also have out of gauge routes which are fast, and we also have lifts. We have the ability to deal with most things, but most importantly, in terms of time, bags turn up early, sometimes three hours early, in which case your bag will be sent to the bag store, which is a 4000 bag store, your Argos technology. We know exactly where it is, it is secure and in a retrievable slot.

If it turns up on time, it goes straight to two big sorters, and it gets distributed to one of the laterals which is where the men will put it into a can, and deliver it to the plane.

If it turns up late or very close to missing, that is where it gets put into one of those, we will immediately know that that is a rushed bag, and put it into a high speed network.

If it has missed and someone has turned up too late, we can reflight the bag. That means we can automatically put it on to the next flight. All these things are capabilities that this system has which is above and beyond anything else we are delivering, because it is all in one coherent place.

There are many other operational improvements. I won't go into detail. If you are not technically biased, I might bore you to death. One of the most important things you will find is when you walk through check-in. When you normally go to an airport and you take your bags and put it down, and then you have to turn around and go against the thousands of people who are coming towards you. It is very simple, but we have the lifts, you check the bags in and walk past. Instead of having to battle you way back against everybody, it is very simple – Frankfurt has the same system, so it is tried and tested – but you won't find it at any other UK airport, or Heathrow, so again it is a level of service which you won't be getting anywhere else, but other European hubs have been using it. It is a very simple thing, but will make a massive difference.

Recently I went with my wife and daughter to Gatwick. When it is busy and you turn backwards and go against the flow, it is a challenge. For me, that is one of the things where we have managed to make a big difference to the operation, but not necessarily using high technology.

Confidence: Right from the start, this was specified as a job in 1996, so you can imagine the amount of input and intelligence and operational savvy that has gone into specifying every part of this system. As I also said, the product which you get at the end of it is the mixture of the system with the people and process. What is very important – and I wouldn't underestimate the power of this – is the fact that we have done this together. In many other airports and hubs, you will find that things have been developed in isolation, so you have a wonderful airline working over here, and I won't say which airport, but I do know one very recently to the south and west of Europe which had an issue whereby clearly the airline and airport had both done their best but done them in isolation. That is one of the key issues with T5 and with

T5 baggage particularly, we are optimising each other's ability to deliver, and have done for years.

One of the key things is that we have done a great deal of modelling and simulation very early on, and we did a lot of analysis at what went wrong at other airports and what went well, Hong Kong, Denver for example. So an immense amount of historical research into what we had to do.

One of the things we did early, slightly before I took over the job four or five years ago, was to build a full test and demonstration model in a hangar at the far end of the airport. That was to test a lot of the way we were going to interface with the men. Obviously the way you work with the workforce is critical with baggage as you probably have heard.

One of the other things that is very important is, as we went through the presentation, you get a feel for a lot of this technology, although it is very good and very clever and very smart, it is used everywhere. It is used at Schiphol, Frankfurt, Heathrow Central. What we are doing, using the Argos type thing, is bringing together a collection of very powerful elements, marrying that with a very real focus on people and process and that is where we are going to get our little bit extra from.

Interface Test Facility: every single software interface has been tested off-site, not just for baggage, but for everything in this building. All the systems have been tested off-site. We built a separate interface test facility. If you are technically minded, and if you were a computer person you would be getting very excited about that, but what it means to the layman is about the level of risk management. It is not about bringing it here and trying it for the first time. It is about testing multiple scenarios off-site. Baggage were heavily involved in that.

The last thing is extensive testing and operational readiness. Since 28 September last year, so nearly six months ago, we have commenced operational readiness. We have been doing 12,000 bag tests twice a week. In fact, when you came in, you might have seen piles of bags. They are intentionally there. We bought those from either Montreal or Toronto. They are test bags. They are sprayed with anti-fire retardant and full up with all sorts of stuff, some are heavy, some have bricks, some clothes. They are proper test bags which have been running for the last six months, 12,000 bags, twice a week. In fact, last time we did 24,000 bags. If you want to get a feel for that, we put 24,000 bags in at one end, 24,000 bags coming out at the bottom in all different places, and we have to get them all back up again. We have 100 men who work for us who drive mini-buses! It is a major logistical thing.

The most important thing is that we have been doing this for six months. During the six months, we have been testing the system, stretching the system, trying to break it. We have broken it a few times and we have fixed it again. We have also been training a lot of people. This system has had an operational maintenance team, the final team has been on board since October last year. The crew who are going to man this big operation have been here practising for months and months, which is very important for confidence so that when we go live, we know what we are going to do.

If I can give you the summary of the objectives of this system. I have shown you the scale of what we've done, and obviously I am very proud of what we have done, and the immense challenges we have overcome, and we are finishing on time and on the day we said we were going to finish on six years ago. That is something in this industry. Not only are we going to finish on time, and not only have we come in on budget, the most important thing is the quality of the product we are delivering. Everything you have seen, the scale and complexity and technology and the testing, it is all about delivering the basic thing which is a bag, through the system, to time so that we have a minimum connect time between two flights of 45 minutes. We can have a 30 minute minimum check in time, and we plan to have the bag in this massive system, the 18 kilometres you saw, the two massive sorters. We can have a minimum in-system time of 15 minutes.

You mustn't quote those times to your friends to tell them they don't need to turn up until 15 minutes before the flight, because obviously this is the baggage clearing system part of the process, but that is what we have been driving for, and have achieved.

Capacity-related: this system will handle the entire STO (Single Terminal Occupancy) which is basically British Airways entire operation here.

Phase 2 volumes is the full loading this year. This whole system is also designed to handle the much higher transfer rates we are getting. At Heathrow particularly, and British Airways particularly, the original system when we were going to be between 20-40% transfer, now we are nearer 50%, this system will cope with that and cope with it well. In fact, the system has been conceptually designed back in 1996. What you will find is that there are lots of inputs for transfer bags all around the system. That is because we were working very closely with the airline years ago, we knew that that was one of the things that was fundamental to the success of the product.

We have a capacity issue with regard to early bags. Obviously people will be turning up early, and the 4000 bag store is fantastic for them. We also have an ability to handle the peak volumes in the day. There are 132 bill stations, 132 locations where men will be working to load planes.

We have a quality where we have a system target of less than 1:1000 bags not going exactly where they need to go at the right time, which is a very challenging target, but we are intending to do that and go better.

The other key thing is that we want to use this system to support British Airways change and evolve and improve their operational processes, obviously bringing T4 and T1 together here. The whole system is also about allowing them as an operator to improve.

Baggage and T5: the most important thing for me is that it is a unique combination of systems. It is a shame, you have seen two minutes of DVD and I don't think you get a feel for it. If we all had time and some boots and Hi-Vis jackets, I would like to walk you through the system, not the full 18 kilometres, just to take you from check-in down to the ramp. Then you could get a feel for what we have done. You can also get a feel for this unique combination of systems that we have put in here: check-in hoists, fantastic, flow through check-in. DCV transfer: to be honest, that is what gives the ability to fly these bags around the place if they are rushed bags. It is fantastic kit.

Head of Stand Delivery: that is something that British Airways asked for very early on. It is one of the key things they wanted to give them that unique selling point. When a bag is rushed, it can be delivered to the rear of the aircraft.

We have bag store, every individual slot we know where the bags are. Lateral based flight build, which is the ability to make the men work very efficiently. Integrated stillage for the big tins which go on the aircraft.

We are bringing together a lot of traditional technology, a lot of advanced technology which has been proven at other places. The reason we have done that is to meet a unique set of objectives. The geography is quite broad, the time challenges, the minimum connect time is critical for this airport and for the airline. We need to make sure that that is one of our key objectives, and to bring that altogether we have had to use this clever technology and develop it over the last nearly 10 years to make sure it is exactly what we want.

Finally for me, what the system gives us the ability to do, and what we have learned through the six months of operational readiness when we have been training the guys, this is the platform which will drive real step change, outstanding performance in baggage. This is our first step, there is a stairway to go up, and getting this in place and operating on Day 1 is the critical thing. This gives us a chance to improve the overall baggage product as we move forward as a joint operation.

I am happy to take questions. I will just say, there is heightened security today because the Queen is coming next week. For obvious reasons, we are not told they are going into heightened security status, it would defeat the object! I apologise but hope you will understand the reasoning behind it.

Question: It was a very interesting presentation and I admire your confidence and wish you good luck with it in the coming year. Just being an industry cynic, you mentioned Amsterdam, Schiphol, a number of times, and I have flown with KLM in the past, and there have been some pretty impressive baggage problems over at Schiphol, and I don't know whether that is still the case. It made me a bit nervous when you said that some of the technology has been used here.

Secondly, without having any knowledge of the hoists which you said are used in Frankfurt, that seems to me, while beneficial from a customer point of view, to be an additional step in the process. Is there a theoretical situation where all these hoists could break and the baggage can't be got down and everything starts backing up?

Jonathan Adams: Taking the first question on Schiphol, you are probably referring to some time ago. Schiphol used to have a lot of issues. What you will find is that some things they have put in place to overcome those issues are things like the DCV. They have addressed some of their performance issues by using some of the kit that we are now using.

Secondly with the lifts, to be honest, we have been hammering them for six months. Six months ago, I thought we would have had some issues. We have six months of hammering them and we have had no issues with them.

Worst case scenario, if there ever was an issue – that is just one row of check-in. We have the traditional check-in which I should have showed you. When you walk out again, you will the flow-through check-in, but if you don't want to go to that, there is check-in all the way in the two arches at either end and along the back, so you are never going to lose capacity. The other thing is that we have the ability to check-in any bag at any place and send it to any other place, which no part of this airport or anyone else has. If you lose a corner of check-in, it doesn't matter, because you can check in all the flights for there right at the far end of the terminal and go to the same output. We have great resilience.

On the lift, we have had six months of hammering them, and had no problems. I admit personally I was surprised about that.

Question: If everything goes as planned with the baggage system here in T5, you could make an argument that gives British Airways an advantage versus other carriers flying into Heathrow. I am wondering if you know from a BAA perspective what efforts are being undertaken in other parts of Heathrow that would make this advantage less distinct.

Jonathan Adams: That's our impression for a project management engineer! I just deliver the project, but Heathrow East which is a new terminal being built to provide the capacity and the level of service at that end of the airport, has some really good ideas for baggage. We have a baggage tunnel. T5C is being built and the baggage tunnel is being built, so that DCV system will extend to T3. We have a major rebuild of T3, a major refurbishment of T4 going on now. Admittedly you can't really start to unlock the rest of Heathrow until you get T5 up and running, but there are plans between now and the next quinquennium to spend £500-700 million on baggage.

Silla Maizey: …. Terminal 5 will be ahead for years and years and years!

Jonathan Adams: We have spent five years building this, so it won't be done overnight.

Silla Maizey: I'll get a job in sales as well!

Question: Still on baggage, you say you ran 24,000 bags through it last week, what sort of volume do you expect in the first few weeks of the handover, and then when all BA operations have moved across, what is your average weekly capacity that you are expecting?

Jonathan Adams: I think it is 60,000 a day. One of the things you have to understand is that when we run the 12,000 bags through, we put them through in two hours. What we try and simulate is peak flow. We spend two hours thrashing the system to simulate the peak of the day. Obviously for a lot of the day, it will just be ticking over. To be honest, logistically, we couldn't do it, because all those bags would have to go down and come back up again, you physically couldn't do it. It is about trying to simulate the peak. I think it is 60,000 for the first go.

If you want to look at the peaks, which we probably won't get in the first few weeks, the system is designed to take a capacity of 4,800 bags per hour check-in, in a 15 minute peak. Transfer input is very high as well, 6,000 bags per hour in a 15 minute peak. The whole system is designed around taking those peaks, and to be honest, we tried to break it and test it hard at those peaks.

Question: This is a question for Silla. You talked about the voluntary offset scheme that BA provides. I don't know whether you have the data, but do you know what the average cost of offset is relative to the average ticket price?

Silla Maizey: It depends where you are going, but on average, if you went to San Francisco, it would be about £12 to offset. If it was to a European destination, it is a couple of pounds. It is very cheap thing for you to do when you fly BA!

Question: I was just wondering what it is going to cost when it is compulsory.

Silla Maizey: It is voluntary!

Question: Nothing is voluntary when it is worthwhile forever!

Silla Maizey: It is a voluntary scheme, and the reason why it is voluntary, and we also decided to put it in as what is called an 'opt in', because we feel this is about personal values, this is not about saying that anyone should do something. We very carefully said that it is something for our passengers to choose to do if it is want they want to do. This about your own personal values.

Some of our corporates are coming to us and asking how they can do this as a company-to-company. That is a very different dialogue because they are saying they want to do this for their company, and that is a different conversation, but individually it is about how you feel about these things. That is why we don't do them on board the aircraft, we do it so it is in the privacy of your own dialogue with BA.com, so you can make your own choice. We didn't feel it should be mandatory because that is not how we want to treat our customers. The dialogue with the corporates is different because that is about what companies want to do. Quite often, companies' own CR policies – a number of you in the room here, we are in dialogue with your organisations about corporately how we can put schemes together that can offset globally. That is a very different dialogue.

Who knows? If the UK Government decides to make it mandatory, then of course we would comply.

Question: A follow-up question coming from a different angle. When the ETS scheme comes in, how will you pass on that cost?

Silla Maizey: That is mandatory. At the moment we are working through a lot of the detail because there is a lot of conversation about how much you can pass through, is it a cost that can be passed through or not. We are doing some analysis on the price sensitivity because it is about all airlines engaging in ETS. Our view is that airlines are very competitive, it is a very competitive pricing structure, so how much of it we'll pass on, we don't know. We have done some sensitivity analysis, but that will be mandatory.

Question: What is your best guess at the moment?

Silla Maizey: I don't know, I can't tell you.

George Stinnes: With that, let me bring the event to a close. Thank you for taking the time to visit our new home today with us. [*Travel arrangements*]

[*Conference concludes*]