

November 2007 Issue 39

BRITISH AIRWAYS 

OVERVIEW

THE NEW MAGAZINE FOR BRITISH AIRWAYS SHAREHOLDERS

INTO THE FUTURE

THE CLEAN, GREEN FLEET TAKES SHAPE

FLYING HIGH
BA ANNOUNCES
RECORD RESULTS

**COUNTING
DOWN TO T5**
BEHIND THE SCENES
AT HEATHROW'S
NEW TERMINAL

COMPETITION
WRITE IN TO WIN
A BARBADOS
HOLIDAY

INCORPORATING THE
**2007 HALF-YEAR
FINANCIAL REPORT**

www.bashareholders.com

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Welcome to the second issue of *Overview*, the new magazine for British Airways shareholders. Inside you'll find details of the half-year financial report, plus comments from the chairman, CEO and CFO.

In addition, we take a close look at BA's new cleaner, greener fleet of planes and hear from Silla Maizey, the airline's head of corporate social responsibility. We also look ahead to the opening of Heathrow's Terminal 5 and get the inside story of BA's latest advertising campaign.

We value your thoughts and opinions at *Overview*, so please feel free to drop us a line – you could even win a holiday in Barbados (see page 29).

Tim Hulse, Editor

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SHAREHOLDER DISCOUNT INCREASE

We are offering an increase in the shareholder discount for bookings made during December 2007. If you book online at www.bashareholders.com you will receive a 15 per cent discount rather than the usual 10 per cent discount.

To obtain your shareholder discount, you must book online at www.bashareholders.com. This supports British Airways' strategy to drive bookings online, reduce costs and simplify processes. Benefits to you include: no booking fee, clear and easy booking process, guaranteed lowest fare available, making bookings at a time convenient to you, managing bookings, for example, by adding meal requests, hotels and car hire at a click of a button. If you don't have access to your own computer, there are a large number of locations that offer internet access, such as internet cafés and public libraries. Online developments, both in sales and servicing, are integral to BA's future.

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(as of November 2, 2007)

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The Summary Financial Statement does not contain sufficient information to allow as full an understanding of the results of the group and state of affairs of the company or the group and of their policies and arrangements concerning directors' remuneration as would be provided by the full annual report and accounts. Shareholders who would like more detailed information may obtain, free of charge, a copy online at www.bashares.com or by writing to British Airways Shareholder Services at our Registered Office.

Certain statements included in this edition of *Overview* may be forward-looking and may involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of the Company's business and financing plans, expected future revenues and expenditures and divestments. All forward-looking statements in this report are based upon information known to the company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. It is not reasonably possible to itemise all of the many factors and specific events that could cause the company's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy.

Fuller information on some of the factors which could result in a material difference is available in the Company's Annual Report and Accounts for the year ended March 31, 2007, which is available on www.bashares.com.

WILLIE WALSH

questions and answers

OVER TO YOU

We want to hear your views. Write to us and you could win a holiday in Barbados. See page 29

What's your take on the results?

It's always a pleasure to report on a good set of results and these are a record for the six months. Profits are up and costs are down and subject to a record second half we are looking forward to acknowledging the patience and loyalty of our shareholders with the return of a dividend. At the same time we have every possibility of achieving our ten per cent operating margin.

What do you mean when you say you are looking for a transformational deal, as quoted in the media?

The work that we have done strengthening our business leaves us well placed to approach potential transactions from a position of strength. Our core business, based in the best travel market in the world, leaves us uniquely positioned to lead consolidation as the airline industry deregulates in the future.

You've had six years of rigorous cost management and a changing world map for BA. Is this a new and more expansive era?

What we've done in recent years was absolutely right. We've pushed for greater efficiency and we've tried to simplify the business. We've strengthened the balance sheet, we've tackled the pension deficit, we've regained investment grade credit rating, and our cost base is much better.

So it's nice to be able to start talking about expanding the network because we can quite honestly say this is about profitable expansion. For some of our competitors, a growth strategy hasn't always been a profitable growth strategy. Growing a business that is profitable and sustainable is more difficult, but I believe we are in a position to do that now.

Where are the big growth opportunities?

South America for one, given the way the economy has improved in recent years.

Shareholders might think, "You've done all the hard bit on cost control – now you're on a spending spree."

The market is growing at 3 to 4 per cent a year: we're not trying to outgrow it. But destinations we've had to pull out of or

couldn't go into now become options for us. We have become more efficient and we have got aircraft today that are more flexible. The average seat cost on the A380 is better than the B747-400 and the B787 is significantly better than the B767.

Why did you decide to choose the Airbus A380 and the Boeing 787?

We believe both Airbus and Boeing got it right. Within our network there's definitely a demand for a large aircraft such as the A380, and then the B787 adds so much flexibility to the fleet.

The A380 will work very well with high density routes. The best example is Hong Kong, where we have three B747s departing in an hour. The B767 was a good aircraft but very restrictive in terms of its range, so the B787 will allow us to open up new destinations that we couldn't attempt

efficiency, they give us significant gains. The A380 is 17 per cent more fuel efficient and therefore 17 per cent less CO₂-emitting than the B747. With the B787 it's even greater still – 30 per cent more fuel efficiency. In terms of nitrous oxide emissions, the A380 is ten per cent lower than the B747.

I can genuinely say that we're playing our part. We've given a commitment to improve fuel efficiency by a further 25 per cent on top of what we've already done and these new aircraft will help us to get there. But it's not going to be just about the new aircraft – we'll also need to work on our operating procedures.

So I think that we can demonstrate to people that this growth is reasonable in the context of the way the market has grown, but it's responsible growth in the context of the environmental challenge we face.

But you are still looking at flying more people to more places...

Yes, but you've got to balance the economic benefit of air travel against the environmental impact. The bottom line is that aviation is a significant contributor to and facilitator of economic growth and these aircraft I believe provide that balance.

We had the camp for climate action at Heathrow, with 1,000 people protesting. But in Shannon you had 5,000 people protesting because of a decision by Aer Lingus to stop flying three times a day to Heathrow. People recognise the impact to the local economy as a result of the loss of that kind of activity. You're talking about tens of thousands of jobs at risk, tourism being devastated, the region struggling to attract foreign investment.

There's talk about you beginning flights to Europe direct from the States.

We've called it Project Lauren. It's a big challenge – it's not easy getting a project like that up and running in the time that we're talking about.

It changes the paradigm of the air industry, doesn't it?

It does. The perception of Open Skies was that this represented a negative to BA. You didn't hear anybody talking about the

"Aviation is a significant contributor to and facilitator of economic growth"

today – new destinations in Asia, South America and even North America. I think this is a very exciting time for us and it will give us a lot more flexibility.

Growth comes at an environmental cost, doesn't it?

I have said all along that this would be top of our agenda. We've proven that now. We said the environmental performance of the aircraft would be the key criterion. We've picked the quietest aircraft. The noise profile of both the A380 and B787 on arrival and on departure are excellent. In terms of fuel



LIZ HASELL

positives. But we've already demonstrated that there are some. People ask, "Why do you want to fly from Europe to North America?" And I answer that what I'm trying to do is fly from North America to Europe. We've got a strong brand and a great reputation in the USA. We're trying to take advantage of that to provide customers from the US with the opportunity to experience the BA service to other points in Europe.

The new operation won't be an all-premium configuration. But what we do better than

most is provide premium longhaul services. So there will be a flat bed product – something customers in the US who have experienced our service into London are really looking forward to.

Talk about Iberia rumbles on. Remind us what the benefit for BA shareholders would be if a deal went through.

We have an excellent relationship with Iberia. It's a good company with a strong management team and it's the market leader in Latin

America, which we see as a growth market. Together BA and Iberia can be stronger. Clearly we've got to look at how we use the resources that are available to us. Partnering with the likes of TPG and our Spanish partners to acquire Iberia is a better option for us than BA making an independent bid.

And remember the value of that ten per cent stake in Iberia today. It's been an excellent investment. We spent just under €180m acquiring that stake and today it is worth somewhere between €350m and €450m.



MARTIN BROUGHTON

CHAIRMAN'S NOTEBOOK

BREATH OF FRESH AIR

Views from the chair on the AGM, Open Skies and a new Prime Minister

At the AGM there were a few questions about the volatility in the share price. One questioner – I think he may have been a former pilot – said he was suffering from the effects of turbulence without having left the ground! It's a fair question.

Share prices are affected by external factors every bit as much as company performance. In our case it's Open Skies. Until it's up and running, concerns about our stronghold being attacked are bound to persist. But whereas the market has focused on the risk to us at Heathrow, we've focused on what we can do – operating from New York to different European destinations, for example. Open Skies is an exciting development for us.

And these are exciting times for us in general. We've agreed working practice changes. The fleet is being upgraded. We're halfway through the Club Class upgrade, with First not far behind. Terminal 5 is within touching distance. That's not to say the turbulence is all behind us, but everything in the box has been ticked. In the three years I've been chairman, I can finally say we've gone from shrinking the business – cutting back on this, this and this – to growing it. We've had a long taxi out to the runway and we're now ready to hit the throttle.

The enquiry into the new runway at Heathrow will be interesting. Does the Government want to do it? Yes, they do. That's a very good place to start from. Will they maintain a degree of urgency when the naysayers pile in? I'm less sure. We can easily become a pawn in a political game and a victim of short-term electioneering.

The Conservatives have been rather worrying. At present we'd be more optimistic with a Labour Government than a Conservative one. Take the runway. The Conservatives don't know where they are. They want to be green, yet want to be consumerist, want to clamp down on infrastructure growth, yet want to be pro-business. They're left trying to find a way of making Runway Three an exception.

We have the opposite problem with Gordon Brown. He says pretty much all the right words. He talks about lighter regulation, he talks about competitive tax, he talks about open markets. But the delivery does not always match the words. On public service reform, where we at the CBI sensed Blair was strong and Brown was not, we feared we'd

go backwards – and those fears have been justified to some extent. But when the CBI director-general put that point to Brown at the Labour Party Conference, the PM was mortified. He demanded any evidence and said he'd deal with it immediately.

Ruth Kelly has been a breath of fresh air at the Department of Transport. Take the one bag rule. From the day she came in she recognised its absurdity. She said, "You're telling me there's no security benefit. Please get on and change the policy and I want it done now." The political will has changed and I'm pleased that she recently announced measures to allow an easing of the hand baggage restrictions in the New Year.

In the three years I've been chairman, I can finally say we've gone from shrinking the business to growing it

Can you talk about environmental responsibility and Runway Three in the same breath? Of course you can. Globally, aviation contributes to 8 per cent of GDP – more in the UK – and to 1.8 per cent of emissions. So it's a dumb thing to do to cut back on aviation. You want extra capacity, managed responsibly. If you look at Heathrow at the moment, there's an awful lot of waste stacking planes. With a new runway you don't have to increase the number of flights to match the increase in capacity.

Part of my job is representing the consumer. I've always been in consumer-related brands. I'm not turned on by the hardware piece. A lot of people in the business are – I want them to be! – but I am turned on by the consumer experience. With Terminal 5, upgrades in Club and First, plus the European routes, and then the new planes coming in behind, we are improving the customer experience: that's where the long-term future profitability lies.

Relations between British Airways and BAA have improved markedly. The appointment of Sir Nigel Rudd as chairman was very good news. On his first day he and I had breakfast in Borough Market before he went in to meet the team. That sent the right message. Nigel recognises, just as we do, that there is an umbilical chord between us. We need to focus on the 80 per cent we agree on rather than the 20 per cent we disagree about. We need to work together to improve the consumer experience. That's an attitude we've been dying to hear out of BAA. Before, the word 'consumer' didn't enter their vocabulary very much – except as a retailer. ■

KEY FIGURES

Revenue down **0.8 %**
 Costs down **3.7%**
 Operating profit **£556m**
 Pre-tax profit **£593m**
 Operating margin **12.5%**
 Earnings per share **41.7p**

KEITH WILLIAMS



BEHIND THE FIGURES

TOWARDS A BRIGHT FUTURE

Some excellent results for the half year mean that the outlook is a very positive one

These are record first half results, with operating profits of £556m and pre-tax profits of £593m, and are the reward for all the efforts that we made last year to tackle the cost base of the business. Overall costs are down 3.7 per cent this half year when compared to last year – and fuel costs were down 3.5 per cent.

However, fuel remains a major business challenge and in recent weeks we have seen the fuel price soar to record levels of over \$90 a barrel. And, although our fuel bill in the first half of this year was slightly down against the same period last year, overall for the year we expect our spend to be up around £100m for the year and top £2bn for the first time.

The revenues for the first half were broadly unchanged from last year. A major impact was exchange – around a third of our sales are dollar-based and we have sales in other currencies that were also weak against sterling. Revenue would otherwise have been up 2 per cent.

These first half results put us in a strong position to move towards our goal of a ten per cent operating margin for the year and support our aim to restore the dividend for the end of the year. No dividend is being proposed for the half year.

The results are also pleasing when looked at in the context of the problems faced at Heathrow over the summer. In order to deal

with the weak infrastructure and increased security measures, we added additional resources at the airport and the number of our employees supporting the customer at Heathrow has reached unprecedented levels.

We are also working on the move to Terminal 5 early next year. The capital investment on Terminal 5 remains on track at some £330m. We are also making investment at other airports around the world and in new products in the air. Also, of course, there is the recent aircraft order of Boeing 787s and Airbus A380s. In all, we have a programme that will invest some £5bn on the customer proposition between now and 2014.

In October, we negotiated bank commitments of \$1.7bn to finance the first part of this programme – covering all aircraft to 2011 – successfully raising the finance despite the difficulties that have existed in the financial markets generally. It was also welcome to see the company being returned back to investment grade status with the credit rating agencies, having being “junk bond” status for the last four years.

These all act as milestones in the half year. The outlook for the full year still looks very positive despite concerns over a slowdown in travel following the recent uncertainties in the financial markets. Our goal remains to increase profitability to a ten per cent operating margin and to restore the dividend for the full year.

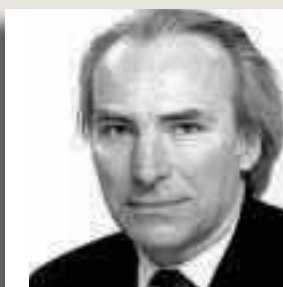
ADDRESSING THE ISSUES

Since the last *Overview* in June, BA shares have been hit by a number of factors, some affecting the wider markets and some specific to BA. Two global issues immediately spring to mind. Firstly, the oil price. Brent crude prices have risen from \$68 a barrel in May up to a current \$92. Secondly, the collapse of the sub-prime mortgage market in the US precipitated major concerns for the wellbeing of the US and the global economy. Jitters over the scale of the problem and its longer-reaching impact have shaken the markets periodically since July. Despite these fears, most airlines have reported reassuring passenger data and financial results, and our current view of our premium markets supports our drive towards a ten per cent operating margin this year.

We have also spent some time with our major institutional investors, understanding and addressing their concerns. The

transition into Terminal 5 has been a major talking point. Many of these investors travel regularly through Heathrow and experience its shortcomings firsthand. While everyone recognises T5 as a major opportunity, there has been concern about whether it truly will be a step-change in operational performance for us. In the last two months, around 100 top investors have toured the building, to universal excitement at the prospects that it holds both for BA as a company, and for themselves as travellers. Also on their minds is Open Skies, with other airlines unveiling new services at Heathrow. We are never complacent about the impact of new competition, but we have explained the rationale behind our view that the new services will not deluge the market between London and the US. We will update you on the impact of these new services in the next edition of *Overview*. ■

AIRBUS



ANTHONY HILTON

QUESTIONS OF CONSOLIDATION

Deregulation has changed the face of the airline business in the US. In Europe, however, things are different

A visitor to the United States after a gap of 30 years might wonder where all the old names have gone. A generation ago the US domestic airline market was split between at least a dozen carriers all of more or less equal size, strong regionally and competing in a desultory way outside their heartlands. Then came airline deregulation and the arrival of low-cost carriers. It transformed the US airline business, ruthlessly exposing the weakest franchises and allowing the best to expand vigorously. Today the industry has consolidated into four huge carriers and a raft of much smaller localised competitors. People can fly to every city in the union, but their choice of airline is often smaller than it was.

Europe has yet to see that change. Most carriers started as state owned national airlines because flying rights between countries were negotiated government to government on a reciprocal basis and fares were fixed in the same way. Carriers had monopolies or near monopolies in their home countries and limited scope to expand or compete internationally. Europe as a result had a proliferation of small regional airlines which

made less and less sense as international and intercontinental air travel expanded. Eventually governments got bored with the losses of their national flag carriers and privatised them in order to get efficiencies – a move which certainly sharpened up the industry. But still the structure limited how far this could go.

The old system remains under pressure, but it is nowhere near crumbling. The EU has created a single market, which means airlines can fly where they like within Europe and this has opened the door to a flood of new, mainly low-cost entrants cherry-picking their routes. But the freedom stops at the EU's boundaries, which means it lives uneasily with the traditional national airlines who fly beyond Europe's borders on routes still allocated by inter-governmental agreement.

It is too early for consolidation aimed at taking out capacity

Those rules also stipulate at least 51 per cent national ownership of the carriers on a specific route, which is why, when Air France and KLM got together five years ago and Lufthansa and Swiss more recently, it was not consolidation in the accepted business sense of the word – where brands disappear and capacity is rationalised. In this case the brands live on and the services have increased, so what in fact has been created is something which is more than an alliance, but much less than a merger.

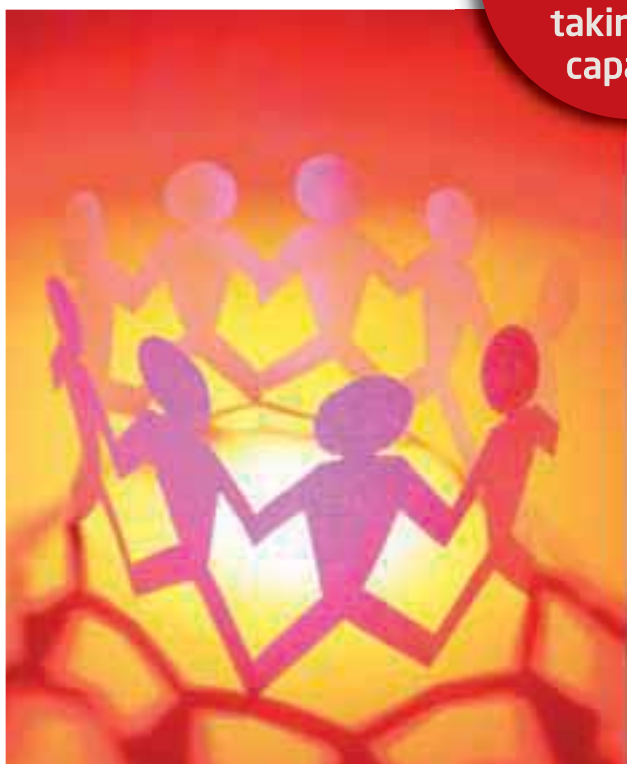
Contrast this with what has happened in the low-cost liberalised sector. Ryanair took over Buzz, repainted the planes and the brand disappeared. Likewise Go quickly went when it was bought by easyJet.

Closer to home this has implications for British Airways' long-standing stake in Iberia, which gives it a ringside seat in discussions involving a private-equity driven bid for the Spanish carrier. It is impossible to determine the outcome, but again we can say it will not be consolidation. If or when it happens, it will most likely bring incremental change, simply because of the ownership restriction.

There is, however, a further issue. The growth in air passenger numbers and the addition of new routes in Europe as fares have come down shows there is still huge growth in the market. That suggests that while many airlines clearly need to get more efficient, it is too early for consolidation aimed at taking out capacity either in Europe or between Europe and America. Rather, what is needed is fewer brands, so while the logic of globalisation is that the long-established national airlines will consolidate into perhaps three groups which would then seek a close American partner, it may well have to be achieved through these super alliances rather than by creating a single unified business.

The airline industry has never been like any other business, and will not be for a long time to come. ■

Anthony Hilton is a business commentator



SIMON
CALDERAIRLINE
PROPHET

Three decades ago a BA chief executive foretold how the internet would revolutionise travel

Did you see the internet coming? I certainly had no idea how a worldwide web of computers would so comprehensively transform our lives – and, in particular, revolutionise the business of travel. But one man foresaw with crystal clarity how automation could interact with the sale of air tickets:

"I can envisage do-it-yourself reservations where the prospective passenger consults a TV display to see what is available and at what price, and then makes his own booking entry into the computer," he said.

When I tracked down this quote, the first thing that amazed me was the year. The use of "his own booking" (as if female passengers were incapable of independent action) carbon-dates it to at least a generation back. In fact, the exact date was 1978: yes, three decades ago, someone divined precisely how the typical 21st-century traveller would use technology to transact with "his" airline.

Today, when I want to book a flight, I go straight to the airline website, such as ba.com, view on screen "what is available and at what price", and then make my "own booking entry into the computer". And I bet you do, too.

The next thing that astounded me was the source of the quote. The dreamer was named Ross Stainton, and at the time he was chief executive of British Airways. In 1978, the airline world was changing rapidly, with the first longhaul "no-frills" operation in the shape of Laker Airways challenging the existing airlines across the North Atlantic: British Airways, Pan Am and TWA (only the first of which has survived and thrived). In a world where air travel was steadily being democratised, the traditional model needed attention.

According to Mr Stainton: "We shall need separate, very simple check in facilities for discount passengers, and the fare will entitle them only to a straightforward end-to-end journey with no stopovers."

You can almost see the bosses of the low-cost airlines jotting down those observations. Yet it turns out that the prophet of the "no-frills revolution" was the man in charge of BA, which at the time was still years away from escaping state control.

Three decades on, British Airways has staged its own internal revolution, and the airline is at the forefront of offering low-cost, high-quality air travel to customers whose primary concern is price.



The
worldwide
web and
travel are
made for
each other

And at the heart of that transformation is the internet.

The worldwide web and travel are made for each other. It's like a global dating agency: the internet enables millions of consumers, each with disparate needs, to hook up with hundreds of different suppliers of airline seats, rental cars and hotel beds. Online booking and travel management cuts costs dramatically: at one stage, not too many years ago, British Airways spent more each year on distribution – issuing and processing tickets, and paying intermediaries – than it did on putting fuel in its aircraft. And the internet also confers power upon the traveller, which is priceless.

Ten years ago, it was only reservations staff and travel agents who had access to an airline's complete repertoire of flights and fares. Today, the typical traveller books himself – or herself – on board a flight, administers subsequent changes, such as switching dates or pre-paying excess baggage, and checks in online. Oh, and can you just remind me how

I'm going to get my boarding pass, Mr Stainton?

"Ticket issue, at least for simple journeys, may be a matter of pushing a credit card into a slot and getting back a pre-printed ticket, probably incorporating a boarding card, with a passenger seat number printed on it."

Goodness: the prophet Ross even foresaw the check in process for millions of travellers at Terminal Five when it opens next March.■

Simon Calder is travel editor of The Independent

SKY

With the order of a new fleet that puts passengers and the environment first, British Airways is powering ahead of its competitors. Max Kingsley-Jones reports

The cabin of the Boeing 787 is bristling with new technology

November 2007 **OVERVIEW**

HIGH

British Airways will have a new flagship from 2012 when the first of its Airbus A380 super jumbos begins plying its longhaul network from Heathrow. It will be the first UK airline to fly the A380. BA signed a deal in September for up to 19 of the 525-seaters as part of its largest aircraft purchase for a decade, which also included orders and options for 42 of Boeing's all-new widebody, the 787 Dreamliner, due to begin arriving in 2010. All the new aircraft will be powered by Rolls-Royce Trent engines.

The planes' arrival will signal the start of a major transformation for BA in terms of emissions, noise and operating economics, and the A380's great girth will also open up opportunities for →



Airbus A380

→ a new level of innovations for customers.

Based on the manufacturers' list prices, the order is worth \$8.2bn (£4.1bn), although British Airways negotiated a discount on this figure. The airline has already arranged debt finance to cover all firm order deliveries to the end of 2011.

The two new types will replace 20 of the airline's 57 747-400s and 14 of its 21 767-300ERs. The manufacturers have been given some breathing space to tidy up their product offerings in the 300-350-seat 'big twin' class as British Airways has deferred its selection of a replacement for the remainder of its 747-400 fleet to early 2009.

Commercial director Robert Boyle concedes that the addition of two new longhaul types to the fleet adds complexity in the short term, but he is confident that it will be a cost-effective solution in the long run. And while the orders are structured to enable the airline to grow its longhaul capacity by up to 4 per cent per annum, he says that the

mix of firm orders and options means it has "the flexibility to manage capacity in line with demand".

While both selections are significant, it was the decision to reject the latest iteration of the faithful Boeing 747 and finally endorse Airbus's 'gentle giant' that grabbed most of the headlines. Boyle says it was "a hard call right up until the end" as the smaller but less risky 747-8 held several strong cards.

From the start, BA had ruled out splitting the ultra-large-aircraft component of the order so there was an almighty head-to-head tussle between 747 and A380 salesmen in what was a 'winner takes all' competition. The nod ultimately went in Airbus's direction as its overall package was "the best in terms of economics and environmental performance," according to Boyle.

"The 'economics' side of the equation encompasses our calculation of the revenue we could generate from the two aircraft as well as their unit-cost performance," he

explains. "We also factored in the benefits of the slot efficiency that the A380 offered as the bigger aircraft."

The A380's all-new design, as opposed to the derivative approach taken by Boeing for the 747-8, gave it an advantage in noise performance. "This was a significant factor for us in the context of Heathrow expansion," says Boyle.

Another key factor is that the A380's extra cabin space provides "more flexibility to innovate and provide better comfort for our passengers," says Boyle – something the airline was able to sample first-hand when senior executives were invited to fly on the A380 demonstrator as part of the evaluation.

"The cabin was noticeably quieter than existing aircraft and is very wide, giving a spacious feel," says Boyle. But, despite its size, the A380 does not feel like the 'big cavernous bus' some people had feared, he adds. "In fact, the double-deck configuration makes it feel smaller than the long-fuselage,



THE FACTS

30 per cent less fuel burn
per seat than the B767.

46 per cent less NOx
emissions than the B767



Boeing 787 passengers will know they are in for a very different flying experience from the moment they set foot through the door. Large windows and a high ceiling give an airy feel to the cabin, which Boeing says has an unparalleled level of tranquillity for an airliner



THE FACTS

17 per cent less fuel burn per seat than the B747-4.
10 per cent less NOx emissions than the B747-4



The unprecedented amount of space available on the A380 has led to innovative cabin concepts such as this onboard boutique. The wide upper deck offers comfortable twin-aisle seating arrangements and there's plenty of room for premium-class passengers to stretch out

single-deck widebodies on offer."

Despite losing out to the A380, Boeing was consoled by its success at the other end of the evaluation, where its 787-8/-9 family beat off an Airbus offering of A330s and A350s.

Because the campaign at BA began over

Airbus was "the best in terms of economics and environmental performance"

a year ago, Boeing was able to keep some early 787 delivery slots open, and it was this availability that gave it an upper hand in the 767-replacement evaluation. "Our requirement was for deliveries to begin in 2010, and the A350 wasn't available until 2013," says Boyle. "So Airbus proposed a blend of A330

interim aircraft bridging to A350s."

The A330 first entered service over a decade ago and the need to include this older-technology design in its bid gave Airbus an intrinsic disadvantage that it could not overcome. "Airbus competed extremely aggressively but faced a hurdle in terms of the efficiency of the A330 against the 787, and the transition costs of an interim aircraft," says Boyle.

The final part of the evaluation – the selection of a 300-350-seat 'big twin' to replace the remaining 37 747-400s, as well as to cover growth requirements through the second half of the next decade – was left open to enable the competing products to be better defined, says Boyle.

"We had the 777-300ER up against the A350-1000, and we didn't feel that the latter was sufficiently defined for us to be confident to order the aeroplane," he explains. "We also wanted to see with more certainty what Boeing's response to the

A350-1000 would be."

While the 350-seat A350-1000 is the main focus of the Airbus offering for the next campaign, it will also include the smaller A350-900, says Boyle. From the Boeing stable, he expects candidates to range from "evolutions of the 777-300ER to something more radically new" as well as the proposed 787-10 stretch.

This will be a crucial order for both manufacturers, and by delaying the decision, British Airways finds itself among a core group of potential customers defining the next generation of longhaul widebodies from Airbus and Boeing.

For now, Airbus and Boeing have each come away with a significant order from a blue-chip customer, while BA has secured a very competitively priced package for a new longhaul fleet that should be earning money through to the middle of this century. ■

Max Kingsley-Jones is deputy editor of Flight International

Boeing 787



www.bashareholders.com

OVERVIEW November 2007



The soothing cabin architecture of the A380

TRAVELLING BY 21ST-CENTURY JET

Max Kingsley-Jones experiences the roomier, quieter and more eco-friendly new members of the fleet

British Airways' two new longhaulers are genuine 21st-century airliners, with the latest in passenger comfort integral to their design from the start.

The A380's interior designers have an unprecedented amount of space to play with. When I flew on one of the A380 development aircraft, I found that the soothing cabin architecture combined with larger windows resulted in a more airy environment than today's airliners. The main deck's girth gives the impression of being in the hull of a ship, with the side walls unusually bowing outwards. This space is put to good use – the A380's seats are wider and offer increased comfort.

The aircraft has a far more intimate feel to it than its gigantic size might suggest, thanks to its unique double twin-aisle passenger deck configuration. There may be over 300 people on the main deck, and another 200 on the upper, but once aboard you'll find few clues that another deck even exists.

Each deck is served by a dedicated cabin crew team, and it's easy to move between decks, thanks to stairways both fore and aft. And there's plenty of extra space. There are 'break-out zones' on both decks in the cross-aisles between the doors and the spaces on the upper deck either side of the stairwell are used as cosy seating areas.

Once the aircraft is on the move, the cabin is considerably quieter than those of existing airliners, with even the increased engine noise at take-off being barely perceptible in certain parts of the cabin. The quietness continues right the way through the flight – Airbus says the A380's cabin noise levels are a whopping 5dB lower than the 747-400.

Getting on and off the giant is drama-free thanks to multiple air bridges serving both main and upper decks. Heathrow's new Terminal 5 – which will open for BA's exclusive use in March 2008 – already has 14 A380-compatible stands and talks are under way with Heathrow's operator BAA about expanding its A380 facilities ahead of the 2012 introduction.

The Dreamliner might not share the A380's dimensions, but Boeing nonetheless promises to revolutionise the passenger experience on its new jet. Although the new airliner has not yet flown, I have had a taste of what it will be

The A380's cabin is considerably quieter than those in existing airliners

like to travel on the 787 in Boeing's interior mock-up at its Seattle marketing HQ.

Wider seats and aisles are complemented by clever sculpting of the interior panels, LED lighting and large, 48cm-high windows, creating a light and airy feel to the cabin. And the windows themselves are bristling with technology – the traditional pull-down blind has been replaced by an electrochromatic windowpane that can be dimmed, much like a pair of 'reactolight' sunglasses. Clearly Boeing, like Airbus, intends passengers to feel as if they have boarded a 'spaceship'.

The new longhaul fleet also brings with it some impressive environmental credentials, providing significant improvements in fuel

burn and emissions over the aircraft being replaced. The former is key to BA's aim of improving fuel efficiency by 25 per cent between 2005 and 2025. According to Airbus, the A380 burns 17 per cent less fuel per seat than the 747-400s it will replace. Its CO₂ emissions are 23 per cent lower – it produces less than 75g of CO₂ per passenger per km, which Airbus says compares very favourably with the 2008 target set by the EU for car manufacturers of 140g per km.

The 787's fuel burn is 30 per cent better per seat than the 767, and Boeing says that CO₂ emissions are 26 per cent lower. Nitrous oxide emissions are also significantly improved – the A380 is 10 per cent better per aircraft than the 747-400, while the 787 offers a 46 per cent improvement on the 767.

Both aircraft have much lower noise footprints. According to official ratings, both the A380 and the Dreamliner produce a quarter of the noise of the 747-400. And according to Boeing, the 787 is a staggering 60 per cent quieter than its predecessor.

Although a decision on which routes either new aircraft will serve will not be taken until closer to delivery time, British Airways says that the A380's likely destinations include Los Angeles, San Francisco, Singapore, Hong Kong, Johannesburg and some of the Indian routes.

Significantly, the flagship Heathrow-New York JFK route is not in the early plan, where frequency is more important – the airline currently operates eight flights a day using a mix of 747s and 777s. However, the route will be considered if customer demand for the A380 is strong enough, says BA. ■

WWW.AVIATION-IMAGES.COM, COURTESY AIRBUS AND BOEING

THE FIGURES

SUMMARY CONSOLIDATED INCOME STATEMENT

For the six months to September 30, 2007

£ million	2007	2006 Restated*	Better/ (worse)
Most of our revenue was earned from our main business, airline operations			
Income from passengers flying on our services, plus excess baggage and fuel surcharges, was	3,871	3,877	(0.2)%
Freight and mail carried on scheduled services including fuel surcharges brought in another	290	318	(8.8)%
Added together, that gave us a total traffic revenue of	4,161	4,195	(0.8)%
Income from other airline related activities earned	295	297	(0.7)%
This gave us a total Consolidated TURNOVER of	4,456	4,492	(0.8)%
Our expenses comprised:			
Pay, pension contributions and other employee costs	1,069	1,151	7.1%
Depreciation, amortisation and impairment of fixed assets	351	356	1.4%
Charges for hiring the aircraft we fly on operating leases	33	42	21.4%
Fuel and oil costs (net of hedging)	983	1,019	3.5%
Engineering and other aircraft costs	222	208	(6.7)%
Airport landing fees and air traffic control charges	269	274	1.8%
Handling charges, catering and other operational costs	492	476	(3.4)%
Selling costs	183	199	8.0%
Currency differences	(2)	23	nm
Accommodation, ground equipment and IT costs	300	302	0.7%
In total, therefore, our overall Consolidated operating costs were	3,900	4,050	3.7%
This gave us a Consolidated OPERATING PROFIT of	556	442	25.8%
We took into account our fuel derivative gains/(losses)	15	(25)	nm
Finance costs amounted to	(81)	(71)	(14.1)%
Finance income amounted to	56	63	(11.1)%
Financing income and expense relating to pensions amounted to	26	(8)	nm
Retranslation credits on our currency borrowings amounted to	1	9	(88.9)%
The net profit on disposal of fixed assets and investments during the year was	13	49	(73.5)%
Our share of the profits in our associated companies was	5		nm
Income and charges relating to fixed asset investments were	2	12	(83.3)%
This produced a Consolidated PROFIT BEFORE TAX of	593	471	25.9%
Then we adjusted for tax totalling	(106)	(69)	(53.6)%
This produced a PROFIT AFTER TAX from Continuing Operations of	487	402	21.1%
The loss from Discontinued Operations (including tax) was	(2)	(80)	97.5%
This produced a Consolidated PROFIT AFTER TAX of	485	322	50.6%
The Consolidated PROFIT attributable to shareholders was	478	315	51.7%
Part of our profits are owed to a minority shareholder in one of our subsidiaries	7	7	
	485	322	50.6%

EARNINGS PER SHARE

The standard measure of a company's profitability is calculated by dividing profit attributable to shareholders by the average number of shares in issue during the period. On this basis, our earnings per share on continuing operations were:

-basic	41.7p	34.8p	19.8%
-diluted	41.3p	34.4p	20.1%
Our earnings per share on discontinued operations were:			
-basic	(0.1)p	(7.0)p	(98.6)%
-diluted	(0.1)p	(7.0)p	(98.6)%
And our total earnings per share were:			
-basic	41.6p	27.8p	49.6%
-diluted	41.2p	27.4p	50.4%

nm = not meaningful

*The income statement for the comparative period has been restated to disclose the discontinued operations separate from continuing operations

SUMMARY CONSOLIDATED BALANCE SHEET

As at September 30, 2007

£ million	September 30 2007	March 31 2007
The Consolidated tangible assets comprised:		
Our fleet	6,067	6,153
Property	959	932
Computers, ground and other equipment	277	272
The Consolidated intangible assets comprised:		
Goodwill	40	40
Landing Rights	152	139
Software	29	33
Together, these represented our intangible and tangible assets, of	7,524	7,569
In addition, we had invested in other businesses	130	125
The market value of financial assets that are available for sale was	95	107
We had pension benefit assets of	109	116
Amounts receivable by us after more than one year were	40	28
Assets held for sale were		8
Our current assets, mainly money we are owed, our "cash in hand" and stock, represented	2,916	3,431
Therefore our total assets equalled	10,814	11,384
The money invested in the British Airways Group comprised:		
Our called-up share capital, some 1,151.2 million 25p shares	288	288
Treasury shares	(9)	(10)
Our reserves	2,455	1,933
	2,734	2,211
Amount due to a minority shareholder in one of our subsidiaries	200	200
Together our total shareholders' equity and minority interest were	2,934	2,411
We owed to creditors amounts due after more than a year which included:		
Interest bearing long-term borrowings of	2,767	2,929
Our pension liabilities	478	1,142
Provision for deferred tax	1,032	930
Other provisions and long term liabilities of	431	347
So the amounts we owe after more than one year are	4,708	5,348
We also owe creditors amounts due within one year which included:		
Most passengers book, and pay for, tickets in advance. This money, and amounts owing to creditors that are payable within one year, totalled	3,151	3,571
Current tax payable	21	54
Therefore our total shareholders' equity and liabilities equalled	10,814	11,384

The summary financial statement on pages 15 and 16 was approved by the Directors on November 1, 2007

Willie Walsh Chief Executive Officer
Keith Williams Chief Financial Officer

OPERATING AND FINANCIAL STATISTICS

AIRLINE SCHEDULED SERVICES	For the six months to September 30, 2007	Difference on a year ago*
Passengers carried (000)	17,854	(0.4)%
Revenue passenger kilometres (RPKs) (m)..... <i>The number of passengers carried, multiplied by the distance they flew in kilometres</i>	59,336	(0.7)%
Available seat kilometres (ASKs) (m)..... <i>The number of seats available for sale, multiplied by the distance they flew in kilometres</i>	75,705	0.5%
Passenger load factor (%)..... <i>The percentage of seats available that were actually purchased</i>	78.4%	(0.9)%
Revenue per RPK (p)..... <i>How much we received on average from each passenger for every kilometre flown</i>	6.52	0.5%
Tonnes of cargo carried (000).....	380	(1.8)%
Aircraft in service (as at September 30, 2007).....	245	(38)
Average manpower equivalent (MPE)..... <i>The number of employees adjusted for part time workers and overtime</i>	42,024	2.8%
Productivity (in terms of available tonne kilometres per MPE) (000).....	275.4	1.7%

*Difference is calculated on restated prior year statistics.

BUSINESS REVIEW

Our key business objectives focus on four themes, the first of which is Bringing Terminal 5 Alive. T5 will open on March 27, on time and on budget. An exhaustive six month trial of all the new processes and equipment is underway to ensure T5 will be a flagship for the UK and a showcase to welcome the 2012 Olympics.

Our second theme redefines our customer promise under the banner of BA Basics and Brilliance – ensuring consistent high quality service 24/7 and brilliance where it counts. Punctuality and baggage performance remain a challenge at Heathrow, where facilities are old and overstretched. Heathrow was designed to handle 45 million passengers but today looks after 67 million passengers per year. Both these key areas will be improved significantly when we move to our new home in T5 but, in the meantime, we remain focused on improving our current performance.

Our recent longhaul fleet order is fundamental to our third theme of Investing in Growth. The order for 12 Airbus A380 aircraft and 24 Boeing 787 aircraft and options for a further seven A380s and 18 B787s, allows for replacement of older aircraft and sustainable, profitable growth. A key factor in our choice of these aircraft was their environmental performance and they score highly on every measure. They are cleaner, quieter and more fuel efficient.

We have announced we are ending our franchise agreements in the UK with GB Airways and Loganair. The franchise model has outlived its purpose in the UK, although this decision does not affect our overseas franchisees, which continue to provide valuable feed traffic and brand exposure in areas we cannot serve.

Our environmental credentials are being scrutinised as never before. We have taken climate change very seriously for a long time. More than a decade ago we were the first airline to set a target for improving fuel efficiency and we led the way in advocating carbon trading.

We have set a new target to improve our aircraft fuel efficiency by 25 per cent by 2025. We have also made improvements to the accessibility of our online passenger carbon offset scheme on ba.com and will announce further improvements in the coming weeks. On waste minimisation we aim to recycle half of our waste and phase out use of landfill by 2010.

To cut emissions and save fuel, nearly half our aircraft now taxi to the terminal with one engine shut down. In readiness for the move to Terminal 5, we have taken delivery of 38 new airport buses, which comply with the latest Euro 5 exhaust emission standards.

We are committed to ensuring our people and our processes reflect our responsibility to the environment. To support our commitment we have appointed Silla Maizey, former Head of Procurement, as our new Head of Corporate Social Responsibility.

Our final and most enduring theme in recent years has been achieving a competitive cost base. Improving cost efficiency and eliminating waste in our business is key to delivering our target of a ten per cent operating margin, which we are on track to achieve by March 2008.



COMMERCIAL THINKING

BA's latest commercial, featuring its staff serving members of the public on the Sydney harbour front, marks a significant change of direction for the airline's advertising strategy. Mark Jones reports



There's an old and reliable marketing rule that goes like this: *it doesn't matter how good your advertising is – if the product isn't right, it won't work.*

In the 1980s, British Airways rewrote that rule. The company's advertising agency, Saatchi and Saatchi, created the slogan 'The World's Favourite Airline'. The claim was based on a complicated calculation of the number of international passengers flown. Rival airlines would go on to make several unsuccessful attempts to challenge its veracity in the courts. But whether it was literally true wasn't what mattered: the bigger question in the minds of →



→ consumers was, is this claim credible?

For here was this huge corporation, recently privatised and still trying to get used to the idea, flying the flag for Britain, a country whose own citizens (let alone anyone else) didn't think very highly of its companies and their standards of service. Here, surely, was a classic case of an advertising/product reality gap.

Far from being apologetic, the advertising set about reinforcing the claim with some of the most big-budget and bombastic ads ever seen on UK screens: Manhattan landing in London, the 'winking eye' ad featuring a cast of thousands, crew transformed into superheroes.

John Hegarty, an ex-Saatchi man by then running his own agency, remembers admiring the advertising hugely. "The World's Favourite Airline was a fantastically audacious thought," he says. "And it really did give the airline a vision, something to strive for. It drove the brand."

In time, the claim did not look as audacious as it seemed at the outset. The airline really was beating its competitors on levels of service, global reach and profitability. You could say it wrote a new marketing law: set your expectations high through the advertising and your people will live up to them.

But no campaign, however successful, lasts forever. Companies and markets move on, and the seismic movements British Airways had to face as we entered a new century were at the upper end of the corporate Richter scale.

The airline faced intense pressure: from below as the no-frills airlines took off, and from above as its longhaul competitors invested in new fleets and products. Then 9/11 happened and any thoughts of continuing those grandiose brand statements were forgotten. The focus was on survival.

The focus of the marketing effort switched to what the industry calls 'tactical advertising' – price-led promotions and



By 2007, BA was finally ready to unveil a long-term successor to 'The World's Favourite Airline'

Above: the current BA campaign uses real staff to get its message across.

Below, from left: bold 'masterbrand' ads such as 'Manhattan lands in England' and 'the winking eye' from the 1980s were replaced more recently by price-led promotions and specific brand campaigns

offers. The brand had withdrawn into its shell. In a harsh security and financial climate, the 'masterbrand' values – the overarching expression of what BA is about – had become "reliable and reassuring". That mantra was true to the airline, right for the times, but hardly the inspiring vision Hegarty talked about.

BA chairman Martin Broughton admits he was "uncomfortable" with the price-led campaign, while accepting the rationale. "I understood the need for it because out there was a view that we're expensive. We needed some very direct advertising messages to contradict that view.

"But we shouldn't be competing on price, we should be competing on value. If the brand promise remains a price promise: you finish up going down a route where you can't command a premium."

In 2005, the airline began to think about a return to the kind of high profile, brand





building advertising Broughton favours. They brought in a new agency, Bartle Bogle Hegarty, chaired by John (soon to be Sir John) Hegarty. The appointment caused a stir well beyond the Soho confines of the advertising industry. BBH had made its name as a champion of cool through its work for Audi, Levi's and others – and is itself named as one of the business world's 100 coolest brands. How would it get on with an institution such as BA?

The agency was itching to put its ideas into practice. But first there was an old problem: that advertising/product mismatch. Just as BBH took over, BA entered one of those periods of turbulence that hit it from time to time. This one was prolonged and largely unforeseeable: new security restrictions led to Heathrow chaos, aircraft were grounded by a radiation scare, there was a threatened strike by cabin crew, and the airline had to tackle one of the biggest pension deficits in the FTSE

100. The price-led advertising went on: the vision thing would have to wait.

By the middle of 2007, the skies were clearer. With the financial state of the company secure, new working practices agreed, new planes on the way and the keys to Terminal 5 in its pocket, BA was finally ready to unveil a long-term successor to 'The World's Favourite Airline'. (Two previous slogans – '21st-Century Air Travel' and 'The Way to Fly' – had been quietly let go.)

"Once they were no longer able to use The World's Favourite Airline, they lost their distinctiveness," says Hegarty. "There was a sense of waiting for the next thing."

The new big thing was this: *upgrade to British Airways*.

"We felt the airline needed a new philosophy that worked against competitors at the very top and the very bottom. Wherever you are on the airline it should feel like an upgraded experience," Hegarty explains. "We did some research and found

that what people want in a time-starved, busy world is extra value. It's what Starbucks does: don't just sell a cup of coffee – sell an experience."

But with so many airlines claiming a superior service, where could BA genuinely claim a difference? Answer: through its people. The commercial that finally screened last September showed a scene in Sydney harbour with BA staff interacting with the public, serving drinks, helping, being themselves. And they really were themselves: neither the staff nor the people milling around on a sunny Australian day were actors.

"BA told us that it just wanted to talk about its people," says Hegarty. "They really make the difference. We've gone away from big chest-beating corporate ads about bringing the world together. People want more intimacy – a feeling that they matter, they count."

"The idea was simple: demonstrate the level of service you get in the air, but show it on the ground. We shot it for real. We just said to the crew, go about there and engage with people. And it was wonderful. We got some wonderful reactions".

Some of Sir John's friends in Soho have reacted less favourably. It goes with the territory, he believes: "Whenever you do something for BA, you are going to be under amazing scrutiny. I think some people wanted us to produce a big ad, like 'the eye'. But that was 1988. Times have changed."

And, for the people who matter, consumers and the man at the top of BA, the new strategy is already working. Willie Walsh, not known for his fondness for spending big bucks, is a strong advocate of the upgrade commercial. "The campaign reinforces all that people have come to expect from BA, that commitment to a quality service," he says. "I'm delighted with it. It's a real positive that we can use staff rather than actors to portray the professional image of BA. I think it's come across very well." ■



BBH/ADVERTISING ARCHIVES

FLYING IN, PRICING OUT?

The Rt Hon Brian Wilson, chairman of FlyingMatters, appraises aviation's contribution to climate change



In August 2007, some ten million passengers took off from Britain's airports. Around half of them were setting out on their only airborne journey of the year. If they had all stayed in bed, global carbon emissions on the day would be reduced by 0.1 per cent.

If, as seems more likely, they had got in their cars instead or used the myriad electrical appliances in their homes, even that sacrifice for the environment would be cancelled out. And at what cost? The vast majority of these ten million would have been denied one of their year's highlights, tourism economies would collapse and the 700,000 jobs in the UK that are dependent on aviation would rapidly become redundant.

Three essential messages should focus the debate if constructive, deliverable strategies for aviation are to be pursued. First, there is the undisputed fact that aviation contributes to harmful emissions and hence to climate change. That contribution must be rigorously quantified, reduced and included in emissions trading schemes on a European and global basis.

Few people realise that today's jet engines are 70 per cent more fuel efficient than the first jet engines. Manufacturers know that is not enough: they will improve fuel efficiency by a further 50 per cent by 2020. Not only is this good for the environment – it makes good business sense, too. Airlines want planes that are cheaper to run.

Airports are also working hard to reduce the emissions associated with ground operations. Changes to air traffic control across Europe could in themselves bring an emissions saving of around 12 per cent by simplifying routings.

Aviation worldwide contributes two per cent of carbon emissions and the Stern Report predicted that this will rise to six per cent by 2050, mainly through inevitable growth in economies such as China and India. In the UK, aviation is expected to grow at five per cent per annum, the habitual rate since the 1970s. While it is not

Q&A: SILLA MAIZEY

Silla Maizey, BA's former head of procurement, is the airline's first head of corporate social responsibility

WHY HAVE YOU TAKEN ON THIS NEW ROLE?

My personal motivation is that I have been with BA for 28 years. For the last eight years I was head of procurement and I thought it was the best job in the company, if not the world. But I needed a change.

When Willie Walsh created the role of head of corporate social responsibility (CSR), it seemed even better. It was a chance to apply all my talents and experience to an entirely new challenge.

SURELY THEY ARE VERY DIFFERENT ROLES. ONE IS HARD-EDGED AND PRECISE. THE OTHER IS SOFTER AND MORE WOOLLY.

WHAT RELEVANT SKILLS DO YOU HAVE?

CSR is not about wandering around being nice to people. It's about implementing very specific detailed policies throughout

the entire company – just like procurement. And it's about service delivery, building relationships and putting people in position to deliver the best – just like procurement. I'm an accountant by training so I have the persistence and forensic thoroughness needed to make CSR work at BA. But in business things don't just happen because you order them to. I also have a really broad personal network within the company that is crucial to making the role a success.

CAN YOU GIVE AN EXAMPLE OF HOW YOUR PERSONAL NETWORK WILL HELP YOU?

Yes. Take fuel emissions. We have improved fuel efficiency by 28 per cent since 1990. Our target is to make further efficiencies of 25 per cent by 2025. To do that, we have ordered 12 Airbus A380s and 24 Boeing 787s, which are more fuel-efficient. CSR was involved in that. We'll have to negotiate with air traffic control to reduce holding

"CSR is central to the future performance of our business"

within our gift to significantly curb the global growth in flying, the UK can give leadership on both emissions trading and technological innovation, in which we are particularly strong.

The second crucial message is that Draconian measures directed against aviation are politically undeliverable and therefore an unhelpful diversion. No movement, however zealous, can impose its will upon the population on an issue that affects them so directly. Any political party that is sucked into representing the pressure group rather than the electorate at large will either pay a heavy penalty or, at the first whiff of grapeshot, retreat at a rapid rate of knots.

The third message is that progress on all environmental issues depends on maintaining a sense of proportion rather than the kind of green faddism that selects a particular target and then tries to attach the world's ills to it. Forty-four per cent of carbon emissions come from electricity and heat, 18 per cent each from industry and road transport. Intellectual consistency has to be applied to carbon-reduction measures across all sectors, rather than those selected as easy targets for high-profile campaigns.

Aviation is now more available to people who were previously priced out of it. Research commissioned by the anti-aviation group Airport Watch showed that 51 per cent in the UK did not fly at all in the past 12 months, while a quarter flew only once or twice. Just 7 per cent made more than seven air journeys and almost half of them were from the top income groups, suggesting near-immunity to fiscal measures. Overwhelmingly, the victims of such measures would be low-income, occasional flyers.

Climate change is one of the biggest challenges we face, which is precisely why we need public policy solutions that work for all of us

and which do not disproportionately impact on low income families or ethnic minority communities, who more than most, rely on affordable air links to maintain links with friends and families.

Many parts of Britain are now benefiting from air services that give them direct links with the rest of Europe, without having to pass through the London airports. These routes would be the first victims of any attempt to price people out of flying. That would be a serious setback for the regions for which these links are now essential, as well as guaranteeing further congestion at the major hubs.

And it's not just in the UK that airports are key drivers of regional economies. Destinations in some of the poorest regions of Europe are now served by UK operators. Those regions are steadily building their economies on the back of such airlinks. Should we now remove the very thing which has made them economically viable?

Tourism is just one industry that relies on airlinks. Many businesses cite airlinks as a key factor in deciding on locations for their businesses and inward investment. Much of the debate around Heathrow simply highlights just how important this gateway is if the City of London is to retain its pre-eminent status as a world financial centre and which benefits the UK as a whole.

The aviation industry is obliged to take part in any worthwhile initiative that can contribute to desirable environmental objectives – and these should include a mandatory EU-wide emissions trading scheme. Equally, the environmental movement should work with the industry, trade unions and consumer groups to understand what is at stake and how shared objectives can, in part at least, be achieved within a comprehensive drive towards Stern's objective – an economically sustainable programme to combat climate change. ■

Draconian measures directed against aviation are an unhelpful diversion

times and taxiing on the ground. We'll be involved in those talks. We'll have to train staff in energy efficiency. CSR will be involved in that too. So addressing just one measure needs company-wide knowledge and contacts.

A CYNIC MIGHT SAY THAT CSR IS JUST GREEN-WASHING – A SUPERFICIAL CHANGE DESIGNED TO CONCEAL THE UGLY TRUTH BENEATH.

CSR is not window dressing and it is not a sideshow, it is central to the future performance of our business. Take the vitally important new runway at Heathrow. We will not get that unless we can demonstrate that we are hitting targets for air quality and noise pollution with our aircraft. That is a CSR issue. I report direct to Willie Walsh, the CEO, and he chairs the company CSR board that develops our CSR

strategy. I think that shows BA's genuine commitment.

SO DO YOU HAVE YOUR OWN BUDGETS?
Of course, and they are not part of the marketing spend. They are in an entirely separate, dedicated pot.

HOW MANY PEOPLE DO YOU HAVE WORKING FOR YOU AS HEAD OF CSR?

We have a very small team of about 15

hugely skilled experts in noise, air quality, environment, climate change, community relations and so on. They will work throughout the company ensuring that every single area of the business is involved.

AND WHAT IS YOUR STRATEGY?

We have a framework for CSR called Respecting The World. It is implemented in six key areas: our carbon footprint; waste; noise and air quality; work practices;

customer wellbeing and community. We aim to leave stakeholders with the knowledge that BA is a responsible airline that strives to put back what it takes out of the world.

LAST YEAR BA SPENT £6.3M ON COMMUNITY PROJECTS. WHAT WOULD YOU SAY TO THE SHAREHOLDER WHO ASKS WHY YOU ARE GIVING AWAY HIS OR HER MONEY?

This is an important question. We do these things firstly because they are the right things to do. But there are also concrete commercial benefits. For instance, we believe that there is a direct connection between investing in communities and them using us as an airline of choice. In addition, CSR is becoming a cost of doing business. Whenever we pitch for a big corporate travel account these days, one of the key questions we are asked is what is our CSR policy?

WHAT IS YOUR GREATEST CHALLENGE?

Well, partly just implementing our policies. But timelines are very long in the airline industry and the pace of change is accelerating. So the biggest challenge is making sure that all these things happen early enough for us. ■



PHOTOGRAPH

T5 PREPARES FOR TAKE-OFF

As the clock ticks down to the unveiling of British Airways' new exclusive home in Terminal 5, Richard Goodfellow looks at the final preparations for the grand opening on 27 March, 2008

The world's busiest international airport is undergoing a massive transformation and few customers will have failed to notice the glistening glass of Terminal 5 as they fly out or touch down. In the meantime, Heathrow continues to operate at maximum capacity, with at least 1,200 flights departing or landing every day.

During just a handful of hours beginning at 11pm on the evening of Wednesday 26 March, a huge, intricately planned operation will take place to enable hundreds of flights to be transferred to Terminal 5 from

Terminals 1 and 4. This will involve moving dozens of aircraft, more than 2,000 pieces of ground equipment and 150 lorry loads of kit – not to mention thousands of staff. Everything must be in position so that the terminal is fully operational and ready to facilitate the departure of the first sets of flights when dawn breaks. Making sure that each aircraft parking stand has the right numbers of each piece of ground equipment required – not one too few and not one too many – has to be planned to the last detail. ➔



→ And it's not just the aircraft and ground equipment that have to be in the right place at the right time. Alarm clocks will be going off from 3am onwards on March 27 around the Heathrow area as hundreds of early shift workers make their way to the terminal. For many of them it will mean a slightly different route to work and a very different working environment.

While the final five hours of moving are vitally important, it is what is happening in the final five months before that overnight move to prepare the airline for its new home that is absolutely critical. Numerous streams of work are under way across the airline, all with the same overriding common theme – to make Terminal 5 ready for opening both operationally and commercially.

One of the highest profile areas is the running by airport operator BAA and British Airways of more than 70 proving trials involving 15,000 volunteer 'customers'. Trials are taking place two or three times a week and are designed to test every aspect of how the building handles customers at each stage of the travel process. Sometimes there are 50 volunteers performing a relatively simple task, while other trials involve up to 2,000 people along with their bags.

Some trials will test the slightly different way of checking in. One of the key principles of Terminal 5 will be simplicity and it is expected that more than 80 per cent of customers will either check in by using the internet up to 24 hours before departure or



"If we don't find faults with the building, then we are clearly not testing it hard enough"

by using one of the 96 kiosks at the Terminal. Currently around 55 to 60 per cent of British Airways customers at Heathrow use the internet or a kiosk to check in. This is increasing all the time and some of the trials will look at those customers who feel comfortable using the kiosks as well as those who need reassurance.

Other trials will look at how customers flow between the four major entrance points to the check in concourse and between the kiosks and more than 90 fast bag drop desks, where luggage is tagged and put into the baggage system. It is envisaged that fast bag drop will mean just that and there will be minimal queuing at every desk. But, unlike at the existing terminals at Heathrow, the fast bag drop desks allow customers to flow naturally past the side of them – a bit like a supermarket check-out desk. No more doubling back on yourself and fighting the flow of traffic behind you.

Once again, seeing how 2,000 people – many of whom have been chosen for the trials precisely because they don't fly very often – react to walking forward rather than trying to double back as they do in existing terminals will be highly informative to the planning teams.

After dropping their bags, customers will make their way through security. Terminal 5 has two security search areas – North and South. The Northern security area is twice the size of the Southern as it will also handle



Far left: the glittering glass of Terminal 5 is already a familiar sight for Heathrow travellers. This page: a computer generated image shows the spacious airside departures area

all transferring customers who are arriving. Airport operator BAA, which manages the airport's security, will carefully monitor any queues and also customer flows into and out of the area. Test, retest and test again will be the motto in the coming months.

"If we don't find faults with the building, then we are clearly not testing it hard enough," a senior BA project manager told me. "Previous successful airport openings have had six months of testing before they open their doors. We have insisted on having that amount of time as part of our preparations. These proving trials will be critical in the success of Terminal 5 and will allow BAA and ourselves to gather very useful information."

Another critical aspect is making sure as many staff as possible have been around Terminal 5 and understand their role in making it a success. All 6,500 Heathrow Customer Services staff will spend at least four days of staff familiarisation and training within the new terminal in the next five months. Some sessions will focus on customer service, others on operational processes, others on welfare issues such as catering, rest areas and transport links.

Customer service teams will get to experience the £60m lounges complex and understand the enhanced comfort and convenience which those passengers flying in First, Club World or Club Europe can expect. Baggage and ramp teams will get to experience every aspect of the state-of-

the-art baggage system running under and around the building. Hundreds of thousands of "dummy" bags have already been loaded, unloaded and then loaded again into the system during the past twelve months. Many, many more will go through the system before opening.

Engineering and cargo staff will also work around the outside of the building and each needs to be sure of how they will integrate with the ground crews. Teamwork is at the heart of the plan.

Terminal 5 will also mean a new way of working for the airline's 15,000 Heathrow-based pilots and cabin crew. Rather than reporting for duty in the Compass Centre on the nearby Bath Road and being bussed through perimeter fence security control posts, they will instead report for duty direct into Terminal 5.

The next five months will also be spent putting the finishing touches to the building

itself. Fit out and decoration teams fill the terminal on a daily basis as they prepare the 140 shops and restaurants for opening day. A few are already finished and hidden away behind purple coloured hoardings, while others are in the final stages.

And after more than 50,000 construction workers have been working on the project, there's also the world's biggest spring clean to organise. Every floor must be polished, every desk wiped, every window cleaned, every carpet vacuumed. Not to mention a detailed police and security sweep of every part of the building to ensure that the airside borders are secure and aligned with the rest of the airport.

A worldwide customer communications campaign to not only promote Terminal 5 but also give customers detailed information about their travel plans is also gathering pace. This will involve a wide range of advertising, letters, emails, text messages, information packs and videos, and a new dedicated Terminal 5 website linked to ba.com, as well as presentations to key customers and stakeholders.

With its improved baggage performance, better punctuality and reduced queuing, Terminal 5 will form the heart of British Airways' enhanced customer service ethos in the years ahead. And after ten years in the planning and five years in the building, the waiting will finally be over at 4.30am on Thursday 27 March, when the terminal doors open for the first time. ■

If you fancy a glimpse behind the scenes, it's still not too late to join one of the trials for the New Year. For every volunteer taking part in a trial, a £1 donation will be made to Marie Curie Cancer Care. Volunteers will also be entered into a monthly draw to win free British Airways flights. All the relevant information on how to register can be found on www.baa.com/terminal5

LETTERS

Over to you...

TALK TO US

Do you have something to say? Email overview@cedarcom.co.uk

GROSS EXAGGERATION

Thank you for Willie Walsh's informative answers given in *Overview*. However, I do feel that the probable effect of aviation upon the environment is becoming grossly exaggerated. The UK Inter-Governmental Panel on Climate Change has given its expert opinion that at present aviation contributes 2 per cent of all man-made CO₂ and it projects that this will rise to between 3 per cent and 4 per cent by the year 2050. These figures show that even if all flying were banned, the effect upon the environment, and thus global warming, would be insignificant. Surely this should be emphasised in our publicity.

JOHN L COX, DFC, FRAES

BALANCED ARGUMENT

I enjoyed the piece on emissions trading by Alan Buchanan. *Overview* was an excellent read offering a range of balanced arguments on the issue of the environmental impact of flying. I look forward to the next issue.

DR AMRIT JUDGE

MORE ON EMISSIONS

Thanks for the *Overview* magazine. In the article on emissions, George Magnus states "...air travel emits about the same CO₂ per km as an average car...". This is quite surprising. Is it per plane or per passenger and what are the actual figures?

TREVOR CARBIN

George Magnus replies:

Like so many things in this CO₂ and climate change space, you pay your money and take your choice. Here's just a modest amount of obfuscation:

1. The Federal Aviation Administration has calculated that the energy used to carry one passenger for one mile is greatest in SUVs, pick-up trucks and transit buses. Car and commercial aircraft came out about the same (see *The Economist*, June 8, 2006).

2. A study by the European Commission, undertaken by the Dutch consultancy CE Delft, thought otherwise. They said longhaul flights of more than 1,500km were 50 per cent worse than petrol cars for each passenger-km. Shorthaul were three times worse. But if they were using the most fuel-efficient and greenest cars as a comparison, which is most probable, then the comparison is statistically loaded and not appropriate anyway, since no car will substitute for a longhaul flight. False comparison, in other words, unless it is proposed to ban longhaul flights altogether.



3. For what it's worth, average cars do about 25-45mpg or 9-16kpl, which translates as roughly 260-145 grammes of CO₂ per km. Large cars and SUVs do about 10-25mpg (3-9kpl), which equates to about 500-250 grammes of CO₂ per km. Longhaul flights do 12-30 mpg (8-12kpl), or roughly 330-210g of CO₂. On this basis, there's nothing to choose and I thought "about the same" was appropriate.

4. The National Energy Foundation has a CO₂ calculator on its website at www.nef.org.uk/energyadvice/co2calculator.htm. The website makes the point about how hard it is to calculate aircraft emissions depending on distance, type of class travelled, short or longhaul and so on.

The bottom line, though, according to EU, FAA and IPCC estimates, is that aviation accounts for not much more than 12 per cent of transportation's CO₂ emissions and transportation is about a quarter to 30 per cent of the total – which means the aviation share is about 3 per cent. The IPCC estimate is 2 per cent. Given the rough and ready nature of many of the climate change industry's estimates and the enormous scope by both the aviation and road lobbies to exaggerate their cases, the 'average' guesses (since there's no absolute proof) look good enough to me.

FAIR TRADE POLICY

I enjoyed the first issue of *Overview* and particularly the article 'Why Fly?'. I feel that British Airways is doing a lot towards

minimising the effects on the environment but I also feel that emission control is only half of the story.

What is the policy of the company with regard to Fair Trade? Could we not make it a requirement of food suppliers to provide, where possible, fairly-traded refreshments. What about the employment policies in countries particularly at risk of exploitation? Whilst I appreciate BA is not a social service, as a shareholder I would like to be assured that all employees in vulnerable countries are treated fairly, with appropriate pay, terms and conditions. How often are checks made to ensure exploitation does not take place?

CATHERINE SYKES, WEST MIDLANDS

Deborah Ancell, manager, BA corporate responsibility, replies:

BA is concerned about welfare in its supply chains and in the developing world in particular. We have a set of Responsible Procurement Standards that specify supply chain labour rights and we are currently undertaking a comprehensive review of the countries that source products and their suppliers. Whenever contracts are renewed or opened, we make ethical procurement part of our terms and conditions. To learn more, visit www.britishairways.com/travel/csr-community/public/en_gb.

THE WRITER OF THE BEST LETTER IN OUR NEXT ISSUE WINS A WEEK'S HOLIDAY IN BARBADOS, COURTESY OF BA HOLIDAYS. SEE RIGHT FOR MORE INFORMATION



FIND BLISS IN BARBADOS

The 'Little England of the Caribbean', Barbados retains its colonial past – with cricket, horse-racing and polo matches – yet it still has enough West Indian flavour to feel exotic. A fusion of traditional English charm and a vibrant, modern Caribbean culture create a truly unique experience.

Here you'll find a congenial climate, pink-tinged sands, big blue seas and a rolling landscape. The dramatic scenery of places like Harrison's Cave, with its network of limestone caverns and subterranean waterfalls, make it a perfect Caribbean hideaway. However, you're never far away from afternoon tea on the terrace of a 17th-century plantation home or a stroll through the botanical gardens at the Flower Forest.

Barbados may be a small island, but the friendly Bajan people are big on charm, and there's no better way to end your day than with a glass of Mount Gay Rum or dancing to the calypso beat.

ESSENTIALS

Time difference: -4 hours
Flight duration: 8 hours
45 minutes direct
Flight: British Airways from
London Gatwick (daily)
Currency: Barbados Dollar
(US Dollar widely accepted)

IDEAL FOR

Couples and families
Golf enthusiasts
Those looking for
sophisticated charm,
cosmopolitan chic
and internationally
acclaimed restaurants



COLONY CLUB
HOTEL · BARBADOS

COLONY CLUB HOTEL

Set within seven acres of beautiful tropical gardens on the 'Platinum' West Coast of Barbados, Colony Club blends old-world charm with first class service. The hotel has 96 fully refurbished bedrooms offering modern facilities and stylish interiors, each with its own balcony or patio. An array of sports facilities are available along with four wonderful lagoon pools and a choice of delicious dining, such as Lobster and Jazz nights under the stars.

THE PRIZE

British Airways Holidays and Elegant Hotels are delighted to offer the writer of the best letter a seven night Caribbean holiday for two, on Barbados, including bed, breakfast and dinner (on one night) at the 4★ Colony Club. The prize includes direct flights for two with British Airways plus return transfers to the hotel.

www.elegant-hotels.com

British Airways Holidays offer an extensive range of accommodation in Barbados as well as around the world. For reservations call British Airways Holidays on 0870 243 3406 or visit ba.com/holidays for further information.

IT WAS 21 YEARS AGO...

...that Terminal 4 opened at Heathrow Airport



On 1 April 1986, Their Royal Highnesses the Prince and Princess of Wales visited Heathrow airport to open the new £200m Terminal 4, which a week later became the home for then newly-privatised British Airways. Prince Charles declared the terminal "magnificent".

Terminal 4 was built to house all BA's longhaul services and flights to Paris and Amsterdam. On 11 April, a massive exercise, known as Operation Overnight, saw BA move 2,200 members of staff and equipment including almost 1,000 vehicles. The first passengers used the facility the following day, experiencing innovations such as the complete segregation of arriving and departing passengers.

Terminal 4 was built away from Heathrow's three older terminals, to the south of the southern runway and pioneering noise-reduction features were employed in the terminal to minimise the impact on local residents

When BA shifts its operations to Terminal 5 in March, SkyTeam airline alliance members and non-aligned airlines will move into the vacated Terminal 4. ■

Prince Charles and Princess Diana are shown a model of the new terminal by Sir Norman Payne, then chairman of BAA



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IN NEW CLUB WORLD YOU'RE IN CONTROL. IF YOU WANT TO EAT BETWEEN MEALS, YOU CAN HELP YOURSELF FROM THE NEW CLUB KITCHEN. IF YOU WANT TO SLEEP, PUT UP THE PRIVACY SCREEN AND STRETCH OUT ON OUR 25% WIDER BED. OR IF YOU JUST WANT TO BE ENTERTAINED, YOU'VE OVER 200 OPTIONS TO CHOOSE FROM. THE FACT IS, YOU'RE NUMBER

1

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WE'VE CUT DOWN DRINKING



ON OUR PLANES. SINCE 1990, WE'VE IMPROVED FUEL EFFICIENCY BY 28% ACROSS OUR FLEET. THIS HAS ENABLED US TO SAVE MORE THAN SIXTY MILLION TONNES OF CARBON EMISSIONS. BUT WE WON'T STOP THERE. BY 2025, WE'VE COMMITTED TO IMPROVE EFFICIENCY BY A FURTHER 25%. BECAUSE DRINKING LESS CAN BENEFIT EVERYONE

E