

The way we run our business

Commercial

Our Commercial team is responsible for managing revenue and pricing, sales, marketing and distribution, as well as planning our fleet and network.

Revenue Management monitors and controls the sale of seats to improve our overall profitability. It also sets the pricing structure to ensure that, in all the countries across our network, we offer the right mix of prices and a flexible range of products.

Our sales force develops and maintains relationships with key customer groups and intermediaries using account management teams around the world. Product information, fares and schedules are distributed either through travel agents using global distribution systems, direct through the contactBA call centres and, increasingly, through our website, ba.com.

Our Marketing and Distribution team develops, designs, delivers and promotes our products and services. This team sets our distribution and booking channel strategy, including managing ba.com and relationships with the major global distribution systems. It also includes the management of our subsidiaries, British Airways Holidays and Air Miles.

Fleet Planning develops our fleet strategy. It determines when we need to acquire or dispose of aircraft to ensure we have the right fleet to meet our network requirements. Network Planning develops our schedule to maximise network profitability, plans the requisite infrastructure and manages our slot portfolio across the network.

Engineering

Our in-house engineering function manages and maintains our fleet of aircraft and provides limited services to other operators.

Our main base is located on the east side of Heathrow airport, where aircraft management, technical and support staff are located. The main base has extensive facilities to service and repair our Heathrow-based fleet. We have a second, smaller maintenance base at Gatwick to support the fleet based there. Heavy overhaul facilities for Boeing 747, 767, and 777 aircraft are located at Cardiff, Wales, and at Glasgow, Scotland, for Boeing 737 and Airbus A320 family aircraft. In addition, we have component overhaul facilities in Wales and London.

We retain a significant in-house engineering capability to support our fleet, but we also outsource maintenance where it is higher quality or more competitive to do so.

Flight Operations

Our Flight Operations team is responsible for the safe operation of our fleet and is responsible for the recruitment, training and support functions for our pilot community. Approximately 2,900 of our pilots are based at Heathrow, with a further 350 based at Gatwick.

To ensure we operate our aircraft as safely and efficiently as possible, a team of technical experts works closely with the aircraft manufacturers and our own engineers to create and maintain the policies and standards to which we operate our aircraft. Flight planning specialists create the routing, performance and briefing material for our 400 departures per day.

Within Flight Training we run 14 full-flight and four fixed-base simulators. We provide all of our own training requirements, but also generate revenue by selling simulator facilities to other airlines, corporate customers and the general public. A team of fleet-specific training managers is responsible for the management of all recurrent and conversion training.

Operations

Our Operations team is responsible for the planning and control of the worldwide operation, with ultimate accountability for network punctuality and baggage performance. It is responsible for the planning of ground resources and of both flight and cabin crew. The team is also responsible for operational scheduling of aircraft, ensuring they are available to fly the schedule and, with Engineering, for maintenance. Control of this operation is particularly important when the schedule is disrupted, for example, due to weather conditions. At such times it is our Operations team that decides how to reschedule aircraft, crew and resources.

Operations also incorporates British Airways World Cargo (BAWC), responsible for our cargo network. The majority of cargo is carried in the holds of passenger aircraft, with the

Business review continued

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balance in third-party freighter aircraft. In the UK, BAWC has handling facilities at Heathrow, Gatwick and Stansted airports. With the exception of the US, all overseas handling is subcontracted.

Customer Service

The Customer Services directorate was created in November 2007 as part of our commitment to upgrade the customer experience. The new directorate brings together all staff involved in the customer journey, including contact centres, customer relations and passenger services on the ground and in flight.

At our main hub, Heathrow, our passenger services team is responsible for check-in, boarding and special services including assistance for children travelling alone and passengers with disabilities. The worldwide airport solutions team ensures the same level of service is provided by our third-party agents at airports around the network.

Throughout 2007/08, customer service staff prepared for our move to Terminal 5. These preparations included, amongst other things, improvements at our contact centres to support increased online check-in and training on new processes and systems in the terminal.

Information Management

IT is increasingly important to us. It is helping us to reduce costs, simplify our processes and automate complex manual tasks. Our website, ba.com, provides customers with the ability to book and check-in for flights online and, thanks to recent developments, now also provides revenue from ancillary sales.

There has been significant investment in IT at Terminal 5. This includes both infrastructure to run the terminal and systems to ensure passengers are 'ready to fly' before they reach the airport. Self-service check-in will eventually reduce queues and significantly improve the airport experience for our customers.

IT has transformed the way all our staff interact, thanks to our Employee Self Service (ESS) programme. Almost all our staff now use ESS every month and the system will eventually become the place where everyone can find the information and systems they need to do their job.

IT also plays an important role in helping us manage our environmental impact. The power used by our data centres has remained the same despite a big increase in the number of processors we use. Our new notebook laptops are 70 per cent more power efficient and personal computers are automatically powered off overnight. Whenever we dispose of PCs and laptops we follow 'Waste – Electrical & Electronic Equipment' (WEEE) principles and we donate reconditioned PCs to charities we support in the UK and overseas.

Key alliances

Qantas

Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational cooperation between ourselves and Qantas on all flights that serve markets between the UK/continental Europe and Southeast Asia/Australia. This cooperation provides our customers with improved flight departure times, routings and value for money, and means we can offer the very best of customer service to all passengers. In June 2005, the Australian Competition and Consumer Commission extended permission for us to cooperate in this way for a further five years, valid from February 2005.

We continue to work with Qantas to coordinate sales and marketing activities worldwide. We share all costs and revenues on the JSA routes, providing both companies with an incentive to improve the joint business.

American Airlines

We currently codeshare with American Airlines on points behind and beyond our respective US and London gateways. We now place our code on more than 120 American Airlines routes, whilst American Airlines applies its code to more than 80 of our routes. However, we continue to compete with American Airlines on North Atlantic routes.

We have recently announced we are exploring opportunities for cooperation with American Airlines and Continental Airlines.

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Iberia

Under the Joint Business Agreement (JBA), on the Heathrow-Madrid and Heathrow-Barcelona routes, our cooperation with Iberia provides customers with improved schedules and value for money. Together with Iberia, we codeshare on more than 30 domestic and international routings.

During 2007/08, we joined a Texas Pacific Group-led consortium which considered making an offer for the equity of Iberia. However, the consortium eventually decided not to make a formal offer. During the year, we increased our shareholding in Iberia from 9.95 per cent to 13.15 per cent.

Alliance and codeshare relationships

At March 31, 2008 the **oneworld** alliance included 10 airline members: British Airways, American Airlines, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Malev, Qantas and Royal Jordanian. Aer Lingus left the alliance on April 1, 2007, although we have maintained our bilateral codeshare relationship with the airline.

The **oneworld** alliance offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

In addition to the above activities, during 2007/08 we maintained codeshare relationships with **oneworld** members, Cathay Pacific, LAN, Malev, Japan Airlines and Finnair.

In terms of relationships outside the **oneworld** alliance, we have maintained codeshare relationships with bmi, Brussels Airlines and Flybe. The relationships with Flybe and bmi were formed during the year, following the sale of BA Connect and termination of the BMED franchise respectively. Additionally, Caribbean Airlines and TAAG place their code on our services to Port of Spain and Luanda.

Franchising

As at March 31, 2008, we operated with three franchise partner airlines: Loganair in the UK, Sun Air in Scandinavia and Comair in South Africa. These three carriers carried 2.3 million passengers during the year to 38 destinations (including 24 destinations not served by our own network) in the UK, continental Europe, and Africa. In addition to providing connecting passengers to our own mainline services, the franchisees pay a fee to us and also pay for any services we provide to them.

BMED and GB Airways also operated under franchises for part of the year, prior to the termination of our agreements with them. The latter arrangement was terminated on March 28, 2008 following easyJet's acquisition of 100 per cent of the share capital of GB Airways.

In October 2007, Loganair announced that it will cease to be a British Airways franchise operator from October 2008. We expect to maintain a codeshare relationship with Loganair when the franchise ends.