

Corporate governance statement

This corporate governance statement forms part of, and should be read in conjunction with, the Directors' report set out on pages 54 to 58.

The Company is committed to high standards of corporate governance. The Board is accountable to the Company's shareholders for good corporate governance. The Company has adopted the code of best practice set out in Section 1 of the Combined Code as amended from time to time and appended to the Listing Rules of the Financial Services Authority (the 'Combined Code') as its corporate governance statement.

In accordance with the Listing Rules, the Company is required to report firstly on how it applies the principles of the Combined Code and secondly to confirm that it has applied the Code's provisions or, where it has not, to provide an explanation. The following section outlines the way in which the Company has applied the main and supporting principles in the Code.

The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

As a unitary Board, all directors are involved in, and responsible for, the development of the Company's strategy. The non-executive directors review the performance of the Company with the executive directors on a regular basis. The Board delegates certain of its functions to committees consisting of non-executive directors as detailed within this section. The Board of the Company routinely meets eight times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the Company, and for these purposes the Board has drawn up a schedule of matters reserved for Board decision. Broadly, the Board has reserved to itself major strategic and financial decisions, including investment and divestment decisions, approval of significant alliance or codeshare partnerships and capital commitments of greater than £10 million. The Board has also drawn up a schedule of matters which must be reported to it. These schedules are reviewed at least annually. A statement of the directors' responsibilities in respect of the financial statements is set out on pages 54 and 55 and a statement on going concern is given on page 55.

The Board is led by the Chairman and the executive management of the Company is led by the Chief Executive. Their respective roles are more fully described in the corporate governance section of the Company's website bashares.com. Of the 11 members serving at the year end, excluding the

Chairman, two were executive directors and eight were non-executive directors. The eight non-executive directors are drawn from a diversity of business and other backgrounds, bringing a broad range of views and experiences to Board deliberations. Maarten van den Bergh is the Board's senior independent director. The Board has included eight fully independent non-executive directors throughout the year under review. Although they are eligible for non-contractual travel concessions in addition to their fees, this is not considered to affect their independence.

All directors receive regular information about the Company so that they are equipped to play as full a part as possible in Board meetings. Papers for Board and Committee Meetings are typically distributed in the week prior to the relevant meeting. All Board members have access to the Company Secretary for any further information they require. In addition, the Secretary ensures that the Board members receive an appropriate induction and further training as necessary. The appointment and removal of the Secretary is a matter for the Board as a whole. Non-executive directors are encouraged to visit the Company's operations and to speak to customers and employees. They are also encouraged to attend the annual investor day to meet major shareholders. Independent professional advice would be available to directors in appropriate circumstances, at the Company's expense. All directors are required to submit themselves for re-election every three years. New directors are appointed to the Board on the recommendation of the Nominations Committee. The Committee is responsible for ensuring that there are adequate succession plans to maintain the appropriate blend of skills and experience both on the Board and in the Leadership team.

In addition to the Nominations Committee, the Board has three other specific Board Committees: Audit, Remuneration and Safety Review. Each of the Committees meets regularly under terms of reference set by the Board. Copies of these are also available on bashares.com. Every Committee has authority to take external advice as required. A Standing Committee, consisting of the Chairman or senior independent non-executive director, one executive and one non-executive director, is also available when necessary. The work carried out by each of the four specific Committees is described in their respective reports.

The Board receives briefings on changes in regulation or law, as circumstances require. A significant example of this is the process the Board and the Company have gone through during the year to ensure that the Company's decision-making processes take account of the changes to directors' duties made in the Companies Act 2006. As a result, management is now required to ensure that factors such as the impact of proposals on relationships with suppliers or on the environment are taken into account in order to ensure the long-term success of the Company.

Corporate governance statement continued

The Board receives regular feedback on investors' views. As part of its commitment to ensuring that the Board presents a balanced and understandable assessment of the Company's financial position and prospects, an external review of the Company's investor relations function was carried out during the year. Feedback from this exercise was used to ensure the information given to those attending or watching the annual investor day in March 2008 was appropriate to their needs.

The Company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chief Executive, the Chief Financial Officer and the Chairman as well as annual institutional investor events. The presentations from these institutional investor events are also available to private shareholders through the Company's investor relations website, bashares.com. The annual investor day in March 2008 was attended by every member of the Board and major investors were given the opportunity to discuss corporate governance matters with non-executive directors in one-to-one meetings. Private shareholders receive the Company's shareholder magazine twice annually and are encouraged to attend the annual general meeting and to express their views by completing and returning a freepost 'Issues of Concern' card, the main themes of which are reported to the Board and responded to in the Chairman's address at the annual general meeting. Since 2000, all voting at the annual general meeting has been by way of a poll to ensure that the views of all shareholders are taken into account.

Towards the end of 2007/08, a performance evaluation of the Board, its committees and individual directors was undertaken through a questionnaire and one-to-one interviews by the Secretary. The results of this exercise were presented to, and considered by, the Board. The Chairman and non-executive members typically meet without any executives present on at least two occasions during each financial year. At least once a year, the non-executive members of the Board meet under the chairmanship of the senior independent director to review the performance of the Chairman, taking account of the views of the executive directors.

Throughout the year, the Company has complied with all relevant provisions set out in Section 1 of the Combined Code.

Internal control

The directors are responsible for, and reviewing the effectiveness of, the Company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding: (a) the safeguarding of assets against unauthorised use or disposition, and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable and not absolute assurance against material misstatement or loss. The Company has a Statement of Business Principles applicable to all employees. The Company also has a Code of Business Conduct and Ethics which applies to all employees. These are two of a number of Standing Instructions to employees of the Group designed to enhance internal control. Along with the Finance Standing Instructions, these are regularly updated and made available to staff through the Company's intranet.

A clear organisational structure exists, detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and awareness of controls, and identifies appropriate training requirements. Action plans are prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the Company can meet its future management requirements.

Information systems are developed to support the Company's long-term objectives and are managed by a professionally staffed Information Management department. Appropriate policies and procedures are in place covering all significant areas of the business. During 2007/08, the Company has worked to enhance controls in relation to IT risks.

The business agenda is determined by the business plan (see pages 34 and 35) which represents the operational and financial evaluation of the corporate strategy, setting out the

agreed targets for financial return and service standards, identifying and prioritising improvement opportunities to deliver those targets, and the agreed capital and manpower requirements. The business planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The business plan is approved by the Board on an annual basis.

A comprehensive management accounting system is in place providing management with financial and operational performance measurement indicators. Detailed management accounts are prepared monthly to cover each major area of the business. Variances from plan are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Leadership team to discuss performance with specific projects being discussed as and when required. Throughout 2007/08, the Capital Investment Committee was instrumental in maintaining tight control of capital and external expenditure and headcount. All major corporate projects are audited regularly.

Corporate governance remains key to the business. The Company continues to review its internal control framework to ensure it maintains a strong and effective internal control environment. The effectiveness of the framework has been under regular review by the Leadership team. The Group will continue to comply with the Combined Code on corporate governance and the UK Listing Authority rules.

Business controls are reviewed on an ongoing basis by the internal audit function which operates internationally and to a programme based on risk assessment. The department is managed by professionally qualified personnel with experience gained from both inside and outside the industry. A risk-based annual audit plan for the calendar year 2007, which provides assurance over key business processes and commercial and financial risks facing the Company, was approved by the Audit Committee in November 2006. A further risk-based audit plan for the first six months of 2008 was approved by the Audit Committee in January 2008 to cover the transition phase to a 12-month audit plan from July 2008 to June 2009.

The Audit Committee considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board. Where weaknesses are identified, the Audit Committee ensures that appropriate action is taken by management. No significant failings or weaknesses were identified during 2007/08.

Risk management approach

The Company has put in place a structure and process to help identify, assess and manage risks. This process has been in place throughout the year to which these statements apply and up to the date of their approval.

The Risk Group consists of the Leadership team and the Heads of Internal Control and Risk Management. Meeting quarterly, it reviews the Company's key risks contained in the corporate risk register and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Group also provides policy and guidance to those responsible for managing the individual risks, and to the departmental risk leaders. The management of each major area of corporate risk is subject to review by an appropriate 'assurance body'. This includes a review of the controls in place to mitigate the risks and the further actions being taken by management. The Risk Group reports bi-annually to the Audit Committee to assist the Board in the management of risk in accordance with the revised guidance for directors on the Combined Code (June 2006).

The Board carried out a risk review in December 2007 in preparation for its review of the annual business plan at its meeting in January 2008.

During 2007/08, the Company has continued to monitor any staff concerns about possible improprieties relating to financial reporting or other matters. This can be in confidence through a third-party helpline if the staff member so chooses.