

**BRITISH AIRWAYS**









Waterside (HAA3),  
Harmondsworth  
London,  
UB7 0GB, England  
United Kingdom

Phone: +44-0844-493-0787

75-20 Astoria Blvd.  
Jackson Heights,  
NY 11370 USA

Phone: 347-418-4000  
Toll Free: 800-247-9297  
Fax: 347-418-4204





**British Airways (BA)** serves about 150 destinations in some 75 countries from hubs at London's Heathrow and Gatwick airports. The carrier operates a fleet of more than 240 aircraft, consisting mainly of **Airbus**  and **Boeing**  jets. **BA** extends its network via code-sharing relationships, chiefly with **AMR's American Airlines**  and other members of the Oneworld global marketing alliance, such as **Iberia**  and **Qantas** . (Code-sharing allows airlines to sell tickets on one another's flights and thus offer passengers additional destinations.) Among Europe's flag carriers, **BA** is outranked only by the combined **Air France-KLM**  and by **Deutsche Lufthansa** . Network airline, or long-haul, passenger and cargo operations account for the vast majority of **BA's** sales. The company also offers regional service, both within the UK and between the UK and continental Europe, through **BA Cityflyer** .

Long-haul operations are seen as the key to the company's success, and in July 2008 **BA** announced that it had entered merger talks with longtime code-sharing partner **Iberia**, Spain's #1 airline and a leading provider of service between Europe and South America. The **British Airways** and **Iberia** brands would be retained if the companies are able to complete a deal, which likely would involve the creation of a joint holding company that would own both carriers. The new entity would join **Air France-KLM** and **Lufthansa**, which owns **SWISS** , as an operator of multiple national flag carriers.

At the same time, **BA** and **Iberia** have formed a joint business agreement with **American Airlines** for service between Europe and North America. The deal, which would require approval from antitrust authorities, would go beyond code-sharing and enable the carriers to cooperate in setting prices and schedules. Announced in August 2008, the proposed alliance is not dependent on the completion of a **BA-Iberia** merger.

Before the **Iberia** merger talks were made public, **BA** in June 2008 moved to augment its transatlantic service by launching a new carrier, **OpenSkies** *open skies*. The start-up, which began operations by flying between Paris and New York, was inspired by the Open Skies treaty between the US and the EU, which allows European airlines to serve city pairs that don't include their home countries and enables US airlines to directly serve more European destinations. **OpenSkies**, which uses a custom-configured Boeing 757 from the **BA** fleet, hopes to simultaneously differentiate itself from its parent and benefit from BA's strong brand and deep pockets. To strengthen **OpenSkies**, **BA** in July 2008 paid about \$107 million for French startup carrier **L'Avion** , which uses two 757s to provide business-class service between Paris and Newark, New Jersey. **L'Avion's** operations are being integrated into those of **OpenSkies**.

**BA** reached a long-awaited milestone when it began moving its Heathrow operations into a new facility, Terminal 5, which opened in March 2008. The new terminal is seen as a major step up both for passengers and for employees; functions such as security and baggage handling, for example, will be easier to manage. Not all the bugs had been worked out of the new baggage-handling system when Terminal 5 opened, however, and **BA**, its passengers, and its reputation for customer service suffered as a result. Hundreds of flights were canceled during the first week of Terminal 5's operations because of problems with the baggage system.

Along with its efforts to succeed at Terminal 5, the company has been working to cut costs throughout its business. The goal is to eliminate unprofitable operations in order to focus on core long-haul offerings. Toward that end, the company sold most of the operations of its money-losing **BA Connect**  regional business to rival **Flybe**  in 2007.



<b>BA Key Numbers</b> (fiscal year-end March)	
<b>2007 Sales (mil.)</b>	\$16,663.0
<b>1-Year Sales Growth</b>	12.5%
<b>2007 Net Income (mil.)</b>	\$596.5
<b>1-Year Net Income Growth</b>	131.7%
<b>2007 Employees</b>	43,501
<b>1-Year Employee Growth</b>	(12.9%)

- Number of employees decreased to half that of the top 2 competitors
- Sales equal half that of top 2 competitors
- Net Income equals half that of top 2 competitors

<b>Top Competitors</b>			
	<b>Air France-KLM</b> (March)	<b>Lufthansa</b> (December)	<b>UAL</b> (December)
<b>Sales (mil.)</b>	\$30,773.2 (2007)	\$26,186.8 (2006)	\$20,143.0 (2007)
<b>1-Year Sales Growth</b>	18.9%	22.4%	4.2%
<b>Net Income (mil.)</b>	\$1,089.5 (2007)	\$1,059.4 (2006)	\$403.0 (2007)
<b>1-Year Net Income Growth</b>	--	97.5%	--
<b>Employees</b>	106,700 (2006)	93,541 (2006)	55,000 (2007)
<b>1-Year Employee Growth</b>	4.5%	1.3%	(3.5%)

## MANAGEMENT

### Willie Walsh

#### Chief Executive

Willie Walsh joined the airline in May 2005 as Chief Executive Designate, succeeding Rod Eddington as Chief Executive on 1 October 2005. He is an honorary Board Member of Flight Safety International. He is Branch President of the Heathrow Branch of the Royal Aeronautical Society, an honorary Member of The Aviation Club and a Member of the Chartered Institute of Logistics and Transport (UK). Willie is married with one daughter. His interests include all sports with a particular interest in soccer, rugby and motor sports. [Bio](#)



### Keith Williams

#### Chief Financial Officer

Keith graduated with first class honors in history and worked in a number of financial positions in the UK and overseas before joining British Airways in 1998. Previously Treasurer he was appointed Chief Financial Officer on 1 January 2006. He is married with two children and has a keen interest in history and archaeology as well as sports. [Bio](#)



### Robert Boyle

#### Commercial Director

Robert Boyle joined the airline in 1993, working in the Corporate Finance team. He became General Manager Network Planning in 1998 and also became responsible for Fleet Planning in 2002. Robert was appointed to the airline's Leadership Team as Director of Commercial Planning in June 2004, he was appointed Commercial Director in October 2006, he is responsible for the airline's global sales, marketing and distribution plus fleet and network planning. He was one of the five senior managers who prepared the airline's recovery plan 'Future Size and Shape' in 2002 and is a trustee of the BA pension fund. Robert studied mathematics at Cambridge University and has an MBA from INSEAD in France. [Bio](#)



### Paul Coby

#### Chief Information Officer

Paul Coby joined the airline in 1997, having held various senior civil service positions. He was appointed Chief Information Officer in September 2001, responsible for the operation and development of all BA IT and systems. [Bio](#)



### Garry Copeland

#### Director of Engineering

Garry Copeland held various positions in the road and rail transport industry before completing an MS at Cranfield Institute of Technology. Following a period of research in aero engine technology, he joined the airline in 1989, and held various positions including Chief Powerplant Engineer, and GM Engineering and Quality Services. He was appointed to the role of Director of Engineering in September 2006, in which he is responsible for the maintenance and engineering of the BA aircraft fleet. [Bio](#)



**Tony McCarthy**



**Director People & Organizational Effectiveness**

Tony McCarthy joined the airline in December 2007 from Royal Mail, one of the UK's biggest employers and where, as Group Director, People & Organizational Development, he was a key member of the senior management team leading the company's successful turnaround. Prior to joining the Royal Mail, Tony spent almost 25 years with BAE Systems and held a range of top level HR roles, including the post of Group HR Director. Tony has a track record built on success and experience. He is chair of the Centre for Performance Led HR, a group of HR academics and top practitioners, and recently became vice president of the Chartered Institute of Personnel and Development. [Bio](#)



**Roger Maynard**



**Director of Investments & Alliances**

Roger joined British Airways in May 1987 as Vice-President Commercial Affairs North America, based in Washington DC. He subsequently moved to New York to take up his appointment as Executive Vice-President North America with responsibility for the co-ordination of British Airways' entire operation in North America. He was appointed Director of Investments and Joint Ventures in December 1995, in late 2000 Alliances was added to his portfolio. Roger is currently a director of Iberia and Chairman of British Airways Pensions. [Bio](#)



**Robert Webb QC**



**General Counsel**

Robert joined British Airways in 1998 having left the English Bar after 10 years' practice as Queen's Counsel and as Head of Chambers at 5 Bell Yard, London. This was then the leading set of Aviation Chambers at the UK Bar and Robert was then described as "the acknowledged guru of Aviation actions". Robert is a Bencher of the Inner Temple, a Fellow of the Royal Aeronautical Society, a Non Executive Director of the London Stock Exchange and of Hakluyt and a Director of London First. He sat as a Recorder from 1993 until 1998. [Bio](#)



## CORPORATE PROFILE

British Airways is one of the world's largest international airlines, carrying in its last financial year to March 31, 2008 over 33 million passengers worldwide. Also, one of the world's longest established airlines, it has always been regarded as an industry-leader. The airline's two main operating bases are London's two principal airports, Heathrow (one of the world's biggest international airports) and Gatwick. During 2007/08 revenue passenger kilometers for the Group rose by 0.1 per cent, against a capacity increase of 0.8 per cent (measured in available seat kilometers). This resulted in Group passenger load factor of 75.6 per cent, down by 0.5 percentage points from 76.1 per cent the previous year. In the same financial year, the airline also carried 805,000 tons of cargo. Over the year, Club World, the airline's longhaul premium brand, performed strongly, and despite a weak performance in the shorthaul premium Club Europe cabin, overall traffic in the premium cabins increased by 4.4 per cent. Longhaul non-premium traffic was weak from August 2007. British Airways Group fleet as at 31 March 2008 comprised 245 aircraft - one of the largest fleets in Europe. The fleet currently includes 57 Boeing 747s, 42 Boeing 777s, 21 Boeing 767s, 13 Boeing 757s, 69 Airbus A319/320/321s, 33 Boeing 737s and 10 smaller aircraft used in the company's regional business.

## FUTURE INDUSTRY OUTLOOK

Despite the recent downturn, the long-term outlook for the industry remains sound. The aircraft manufacturers and other industry bodies continue to project strong volume growth in the aviation industry, with passenger growth typically expected to average about 5% per annum. In view of the long run downward trend in airline passenger yields, such growth rates may not be sustainable indefinitely, if the industry is to regain financial viability. Trend growth rates will anyway slow gradually, as the major air travel markets mature. Growth will be slower in the more developed US and European markets, but faster in the less developed areas of airline operation, such as China and India. Falling airline yields have been instrumental in boosting air travel growth in the past, and future growth in passenger volumes will be restricted, if the downward trend in yields does not persist at the pace seen over the past decade or so. For instance, if cost trends are less favorable - for example because of factors such as rising fuel prices, congestion costs, and environmental restrictions, as well as higher security and insurance costs to counter the risks of terrorism - the scope for lower yields would be diminished, and this might reduce future growth trends. However there is room for favorable cost trends - such as the impact

BRITISH AIRWAYS

DOCUMENTS
<a href="#">Interactive Annual Report for the year ending March 31 2008</a>
<a href="#">Interim Management Report, First Half 2008/09</a>
<a href="#">Factbook 2006</a>



of the Internet on distribution costs and cost synergies from industry consolidation – to offset some of the upward pressures on prices and costs. An additional restraint on growth in *individual* travel markets is the increasing degree of capacity constraint - especially congestion of airports and air traffic control systems - although this should not significantly dampen the outlook for the airline industry as a whole. The face of aviation is gradually evolving. The long-standing financial and structural problems of the network airline industry have been aggravated by the recent downturn in air travel, and the inability over the longer term to pass on increased operating costs in the form of higher fares. This should add to the pressures for a widespread re-shaping of the industry, perhaps featuring a polarization between the major international networks on the one hand and regional, short-haul carriers (including the no frills airlines) operating point-to-point services on the other. However, government subsidies and bail-outs, foreign ownership restrictions and other constraints continue to slow the consolidation process, which many commentators see as essential for a sustainable solution to the industry's fundamental problems of excess capacity and poor financial returns. If radical restructuring of the industry's complex and outdated regulatory system seems inevitable, progress towards this goal will be slow, and major change still seems a long way off.

## **EMPLOYEES**

---

British Airways places great emphasis on 'Investing in its people' and training is seen as integral to this. It ensures that all staff are trained and competent to deliver a safe and secure service that fulfils the airlines customer proposition. Mandatory training includes safety and operational programs for air and ground staff to meet Joint Aviation Requirements, including refresher training to ensure that competencies are kept up to date.

In addition to the equal opportunities and diversity courses in support of the policy described above, health and safety courses are mandatory for all managers, and British Airways also focuses on training in good people management including effective performance management and personal capabilities.

The airline updates its training programs to meet changing regulations and also to reflect more effective and efficient learning methods. As well as classroom and workshop training, employees have access to over 300 eLearning courses available through the company intranet. This flexible form of learning provides courses 24/7, covering a huge range of subjects including a wide range of management and personal effectiveness skills, technical training particularly for IT staff and mandatory training for operational staff. The airline's Cranebank center, near Heathrow, is one of the largest airline training establishments in the world. Its flight crew unit houses 15 full flight simulators plus further sophisticated flight training devices.

The company has a comprehensive internal communications program to ensure employees are well informed about the business and the airline industry. The chief executive, Willie Walsh, hosts monthly briefings for managers from across the business to share information on company strategy and business issues. This information is then communicated through departmental forums thereby ensuring that each part of the business understands the company's goals and the part they play in delivering them.

The company aims to increase employee involvement in order to motivate people to deliver a significant business change agenda and to continuously improve business performance and customer service. In order to achieve these things it is recognized that everyone in the airline must have a shared view of business challenges and opportunities and must be able to feel that these are relevant to the role they play. A strong focus has therefore been placed on employee involvement.

The company is creating a dialogue with employees about the business strategy and vision. 'The BA Way' has been developed to describe the airline's vision, values, and goals and an 'Owning Our Future' workshop created, run by BA people for BA people, at which business challenges, 'The BA Way' and BA's key strategies and plans are discussed in detail. By the end of 2006, over 17,000 employees have attended 'Owning Our Future'.

As a key part of BA's comprehensive internal communication program, an emphasis is being placed on face to face communication and investment is being made in training for the people managers and supervisors who deliver this day to day. By the end of 2006, 350 people managers have attended the new face to face communications training course. A program is also underway to increase the visibility of key leaders in the business by supporting them in getting out into the business on a regular and, often, informal basis. This gives employees the opportunity not just to put faces to names but also to chat informally to leaders from parts of the BA business other than their own and over 250 of these sessions took place in 2005.

## **BRANDS**

---

The British Airways brand creates a certain expectation about the products and services that people will experience when traveling with the airline. The brand promise is a combination of both emotional and functional benefits, which manifest themselves through core customer propositions. The core British Airways propositions are managed within Product Management and are summarized below:



## First class



Customers traveling in the First cabin can be assured of the highest standards of service and attention to detail at every stage of their journey. The exclusive treatment begins as they speed through check-in into the calm sanctuary of the First lounge.

- Find out more about flying First

## Business class



Whether you're traveling for business or pleasure, BA's business class flights promise a smoother experience. On your next longhaul journey, arrive refreshed when you fly Club World - and enjoy unparalleled comfort, privacy and personal control. And if you're traveling on a shorthaul flight, Club Europe provides the seclusion and space you need to work, sleep or relax.

- Find out more about flying Club World
- Find out more about flying Club Europe

## Premium economy class



Treat yourself to a special trip by traveling in BA's premium economy cabin, World Traveler Plus. From friendly and efficient service to wider seats and more space on board, World Traveler Plus delivers the high standards you expect from British Airways. Make it your choice for a more comfortable, relaxing journey.

- Find out more about flying World Traveler Plus

## Economy class



Fly World Traveler with British Airways on your next longhaul flight and enjoy comfortable surroundings, friendly service and convenient flights to major cities - all for a price that's within your budget. On shorthaul economy class flights, expect value for money and low stress air travel when you fly Euro Traveler to Europe and UK Domestic within the UK.

- Find out more about flying World Traveler
- Find out more about flying Euro Traveler
- Find out more about flying UK Domestic



## STRATEGY

### **Background to the Current Strategy**

Over the last few years, British Airways has made significant changes in its business strategy. The changes are a response to developments in the market environment, which overturned some of the assumptions under which the company was developing its business in the mid-1990s. Opening up of the European market has seen increased competition as established airlines have expanded their networks and new low-cost competitors have arrived on the shorthaul scene. To date, the UK has experienced a more rapid growth of no-frills operators than any other major European market. The downturn in the global economy and the fall-off in air travel following September 11th have added to these pressures. The resulting deterioration in financial results made it even more urgent for BA to address the weaknesses in its strategy, as well as adjusting costs to match a lower level of demand for air travel.

### **Size and Shape and other cost initiatives**

By March 2004, the company had successfully completed its two-year Future Size and Shape program. The program consisted of cost reduction, business simplification and a major restructuring of BA's shorthaul market offering. The program impacted all areas of the business and helped to secure the survival of the company through the most turbulent times in the history of the aviation industry. In total, Future Size and Shape delivered cost savings of £869 million (versus a target of £850 million) and removed 13,092 manpower equivalents from the business (versus target of 13,000). Targets set for disposals and capital expenditure were also met. The 2004 – 2006 Business Plan targeted two further performance improvement programs. The first program targeted £450 million of savings to be achieved by March 2005. £300 million of these savings related to external spend and £150 million to the company's customer enabled BA project or 'ceBA' and other web initiatives. The £450 million saving was successfully delivered by March 2005. The second program targeted a £300 million reduction in employee costs – the company's biggest individual cost. A key strand of this program is to deliver working practice changes in line with the company's move into Terminal 5 in 2008. In addition, the program will be supported by a number of other initiatives such as finding a resolution to the company's pension issues, reducing absenteeism amongst the workforce, the recently announced reductions in management and a continued drive on simplification. This program was delivered in March 2007.



## **Current Strategy**

The legacy of Future Size and Shape and other costs initiatives lives on within British Airways today. In the absence of any material change to the challenging trading conditions the company has continued to face, the core themes of simplification and cost efficiency have remained critical priorities for the business. In addition, the company continues to focus on debt reduction. The long term sustainability of the company is dependant on its ability to build a competitive cost base. Management continues to target the delivery of a 10 per cent operating margin, through the business cycle. This is the level of profitability that the company believes it requires in order to be able to invest in its products and people, whilst delivering an appropriate return to its stakeholders. In March 2008, the British Airways operation was transferred to Terminal 5. Terminal 5 represents a major opportunity for the business. The infrastructure at Heathrow is commonly accepted to be inferior to that at the hubs of many of BA's European competitors. Terminal 5 allows some of this imbalance to be redressed. Successful delivery of the move into T5 is a critical factor in delivering the 10% operating margin. Tackling BA's pension deficit continues to be a key driver in making the cost base competitive for the future.

## **Fleet and Network strategy**

BA's strategy continues to reduce the company's exposure to unprofitable market segments whilst strengthening its position in profitable markets. On the longhaul network BA has recently grown a number of key markets (such as Hong Kong, Los Angeles and Lagos), expanded its presence in China (including starting services to Shanghai) and plan to continue its investment in India (adding more frequencies to key destinations, to build on its new services to Bangalore). On the shorthaul network a number of new routes, particularly to Eastern Europe, have been launched over recent times. British Airways currently has no wide-bodied aircraft on order but has 10 Airbus A320 family aircraft on order to replace older aircraft that are due to retire in 2007 - 2008. The average age of BA's fleet is 9.8 years for longhaul and 9.1 years for shorthaul. BA's oldest 747-400s and 767s are some 16 years old and, although there is no immediate need to replace these aircraft, BA will need to consider when and how to start replacement in the not too distant future. The decision to purchase new aircraft will continue to be a careful one. The need to match aircraft capacity and costs to the company's network and passenger demands will remain, but the company will only commit to aircraft expansion when the financial returns from doing so can be justified.

## **Product and Service Improvements**

Alongside this fleet and network strategy, sits an ongoing program of product enhancements aimed at increasing the attractiveness of British Airways to its core UK-based business customer base. British Airways is a "full service" airline. The success of its strategy therefore hinges on maintaining and enhancing the very high standards of customer service for which BA is renowned. 2006 will see the launch of a £100m million investment project to overhaul our existing club world offering, including a new in-flight entertainment system for all cabins.

## **The BA Way**

The BA Way brings together all aspects of the company's strategy and describes the airline's vision, values and goals. It comprises four main elements, including a formula for success. The success formula has five components – the best UK network; understanding the customers better than the competitors do; a powerful brand that people know and trust; a competitive cost base and working together as one team. To be successful the company needs to deliver on all of these measures.

## **AIRLINE ALLIANCES**

### **oneworld alliance**

- As a member of the **oneworld** alliance, BA offers an extended route network of around 700 destinations
- British Airways is a member of **oneworld** together with **American Airlines, Cathay Pacific, Finnair, Iberia, Japan Airlines, Lan Airlines, Malév, Qantas** and **Royal Jordanian**.
  - Find out more about **oneworld**

### **Franchise partners**

BA has relationships with independent airlines based in South Africa and Scandinavia that use the British Airways name, livery and flight code. They all operate to BA's high standards of customer service, quality and hospitality.

- Find out more about BA's franchises

### **Codeshare partners**

- BA also operates 'codeshare' routes with partner airlines
- BA offers codeshare services on selected routes with all oneworld member airlines as well as routes with **Aer Lingus, SN Brussels Airlines, bmi** and **Flybe**.



## BA Cityflyer

BA Cityflyer is a wholly owned subsidiary of British Airways and operates all UK and European services to and from London City airport.

- Find out more about BA's Domestic and European Services

## OpenSkies

Openskies is a wholly owned subsidiary of British Airways, which has been created to take advantage of the recently liberalized air service agreement between Europe and the United States.

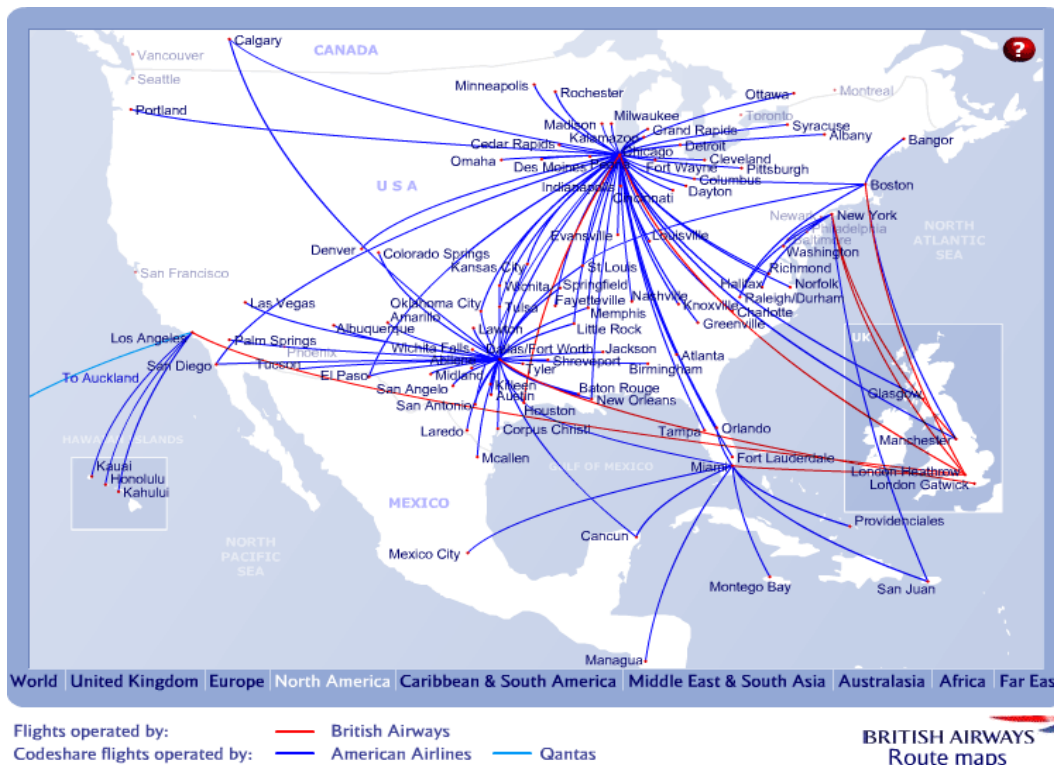
- Find out more about OpenSkies

## Executive Club and our airline partners

Members of BA's Executive Club will also receive a number of benefits when traveling with **oneworld**, franchise or codeshare partner airlines as well as partnerships with **Alaska Airlines**, **Aer Lingus**, **Brussels Airlines** and **Caribbean Airlines**. Benefits include the opportunity to collect and spend mileage.

- Find out more about earning miles

## Interactive Route Maps



## Responsible Growth

- Sustainable aviation and the economy
- Carbon footprint
- Noise and local air quality
- Community

