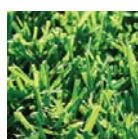




In Focus

May 2007

Valuation Results and Summary Funding Statement



This statement is intended to give members important information about the funding position of the Airways Pension Scheme (APS).

In the July 2006 In Focus we provided you with the first Summary Funding Statement for APS. To comply with the Government's timescales this was sent before the scheme funding valuation exercise had been completed although we were able to provide some indication of how the funding position had moved since the last formal valuation in 2003. Since that time we have sent updates, most recently in December 2006, to advise of the progress of the valuation process. We are now in a position to provide more precise information based on the formal valuation results as at 31 March 2006.

How is the Scheme's financial health and how does this compare with the previous valuation?

	2006	2003
Value of liabilities	£6,616m	£5,376m
Value of assets	£6,638m	£5,421m
Surplus	£22m	£45m
Funding level	100%	101%

The funding valuation results show that APS is in good shape. As the Scheme retains a small surplus BA does not need to pay any deficit contribution in respect of pensions already built up. Nevertheless, the Trustees have used their enhanced role under the Pensions Act to improve security for members' benefits further. They have negotiated and agreed an arrangement with the Company so that APS is provided with a guarantee, provided by a suitable external provider, to the value of around £230 million. The Trustees would be able to rely upon this facility under certain circumstances for example, if British Airways were to become insolvent. British Airways has no part to play in triggering the guarantee. The Trustees alone have the power to call on the funds if British Airways becomes insolvent.

The surplus has reduced since 2003. Should I be concerned?

On the surface the smaller surplus seems surprising given that, as the table opposite shows, the value of the assets of your scheme have increased over the three year period from £5.4 billion to £6.6 billion. The key to the reduced surplus is the movement in the value of the liabilities.

Valuation Results and Summary Funding Statement *continued*

Why has the value of the liabilities increased?

Whilst the value of assets is calculated by reference to the market value of the assets, it is necessary to make a number of assumptions in order to calculate the liabilities. These assumptions have been influenced by market conditions and changes to legislation and reflect a more cautious approach to future investment returns together with the expectation that pensioners will live longer than previously assumed.

- The expectation of future returns (the discount rate) has been lowered from an average of 5.4% pa in 2003 to an average of 4.5% pa in 2006. This lower projection reflects observed market trends. The Trustees are necessarily concerned not only with the expected return but the level of certainty of achieving that return. If actual returns exceed these expectations, the additional funding will provide further benefit security.
- Life expectancy has improved and we know we need to pay pensions for longer. For example a member who is age 60 is now assumed to live 2.2 years longer than was assumed for a member who was 60 in 2003. This adds extra costs to the Scheme.

As well as reflecting changes in market conditions, the funding arrangements were determined against the backdrop of new pensions legislation. The Pensions Act 2004 emphasises the need to be prudent when setting assumptions and for a heightened focus on what would happen in the event that BA was no longer able to support the Scheme (see the sections opposite concerning wind up).

Ongoing pension build up and active member contributions

BA will pay contributions of approximately £25 million a year to cover the costs of future pension build up for active members and will also pay the annual Pension Protection Fund (PPF) levy which is expected to be £0.8 million this year.

Is there enough money to buy out my benefits with an insurance company if the Scheme were to wind up?

The 2006 valuation showed that the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had ended on 31 March 2006.

The funding position on this basis can only be estimated as the Scheme may be too large to be bought out and the practical viability of this option would depend on how the insurance market evolves and on interest rates prevailing at the time. However, by making certain assumptions about how an insurance company might value your benefits the solvency position can be estimated. Insurers are obliged to take a very cautious view of the future and need to make a profit. Based on the position as at 31 March 2006 and using this approach, the 'overall solvency level' was 86%. This is the same level of coverage as reported at the 31 March 2003 valuation. However, the equivalent 2003 valuation was carried out using less cautious assumptions, so that the underlying position of APS has improved during the period between valuations, even before any account is taken of the £230 million guarantee facility. A solvency level of 86% does not however, mean that 86% of each benefit would be paid out in the event of the buy out as legislation requires us to pay certain types of benefit in full before other types of benefit can be paid.

No thought is being given to winding up the Scheme. This is just another piece of information that we hope will help you understand the financial position of the Scheme.

If BA became insolvent, would there be any alternative to winding up the Scheme?

Perhaps, although it is not possible to say for certain as at present the regulations are not clear. However, if it were possible to run the Scheme as a closed fund in the absence of Company support then it is very likely that the Trustees would move to a low risk investment policy investing mainly in Government bonds. Assuming that it were decided (and possible) to proceed on this basis the assets would, as at 31 March 2006, have covered 93% of the liabilities and this would be improved further when the £230 million guarantee (and any other amounts it might be possible to recover) was taken into account.

Would the Pension Protection Fund (PPF) protect my benefits?

The Government introduced the PPF in April 2005. The PPF is intended to ensure that pension scheme members receive a minimum proportion of their accrued benefits should their employer's business fail. Upon the insolvency of a company the trustees of a scheme can apply for admission to the PPF and if it meets the criteria for entry then the PPF will absorb the assets of the scheme and provide benefits up to certain prescribed levels. The pensions payable from the PPF could well be less than the full benefit earned in the scheme in question.

On a PPF basis, as at 31 March 2006, APS was 126% funded. This means that if the Scheme had ceased at 31 March 2006 it would not have been accepted into the PPF. The Scheme would therefore either have been run on as a closed fund or the possibility of buying out the benefit with an insurance company would have been investigated. Whichever the actual route chosen the level of benefits you would have received in this event would have been above the minimum PPF level.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk. Or you can write to the PPF at Knollys House, 17 Addiscombe Lane, Croydon, Surrey, CR0 6SR.

Has the Scheme's investment policy changed in the wake of the valuation?

The strategic mixture of investments changed with effect from 1 April 2006, with a reduction in the risk levels which anticipated the Scheme's investment requirements following the valuation. The new policy is that 21% is held in equities (of which 6% are protected by derivatives from falling below certain levels), 67% is held in bonds and the balance in property, cash and commodities instruments. As part of the valuation process, the Trustees undertook a thorough review of the investment strategy with the assistance of their advisers. It was decided that in broad terms the investment policy did not need to change further at this stage.

Have there been any payments from APS to the Company?

There has not been any payment to the Company from the Scheme in the period since the last Summary Funding Statement was issued nor at any time since APS commenced. The Scheme Rules do not provide for payments to the Company unless there is a surplus following the winding up of the Scheme.

Policy and Rule changes

How does the Scheme operate?

Employer and member contributions are held and invested in a common fund which is used to pay members' pensions. It is not held in a separate fund for each individual. The common fund is separate from the Company's assets.

The Pensions Regulator

Under the provisions of the 2004 Pensions Act the Pensions Regulator has the powers to:

- Modify the future benefit structure of the Scheme
- Impose contribution rates for employers and members
- Issue directions concerning the length of the recovery plan and the assumptions to calculate the liabilities

The APS funding plan has been submitted to the Regulator who has not applied any of these measures to APS.



Factor changes

As part of our valuation work, with effect from 1 April 2007 we have adopted new factors to convert one type of benefit to another - for example converting pension into 'tax free' cash at retirement. In broad terms members taking early retirement and converting pension for lump sum will receive more than the old factors would have provided. Conversely, those members who are taking late retirement (including crystallisation) will receive less than the old factors would have provided. These changes only affect those with options/benefits coming into effect after 1 April 2007.

Maximum contribution limit increases to 30%

The maximum limit for contributions to APS has increased from 15% to 30% of taxable pay. The new limit covers both normal contributions and AVCs. The new limit applies to contributions in respect of payments in the tax year starting 6 April 2007.

Drawing your pension while working for British Airways

Provided you are over age 50 it is now possible to draw your pension while remaining in employment with BA. To do this you must, after giving appropriate notice, opt out of the Scheme. Opting out of the Scheme is a significant step as it means that there is no further build up of pension for future service, no death in service lump sum cover and no facility to continue to pay AVCs. Consequently, careful consideration needs to be given to this option before any decision is taken. Once you have opted out of the Scheme you cannot rejoin it or any other pension arrangement (including NAPS) sponsored by British Airways.

Policy and Rule changes *continued*

(It is expected that Flexible Retirement arrangements - which will allow active members to draw part of their pensions while remaining an active member of the scheme - will come into operation some time during the next year. We will let you know details in due course.)

Variable Pension Option

From 1 April 2007 the Scheme no longer offers the variable pension option. This option was designed to provide those retiring before State Pension Age (SPA) with broadly the same level of income throughout retirement by giving a higher APS pension up to SPA and then a lower APS from thereafter so that the total stayed the same taking account of the State Pension. This change does not affect Pensioners who are already participating in the option.

Transferring benefits to another scheme

Until recently the Trustees would allow a transfer only in respect of all of a member's benefit to another arrangement. However, it is now possible to transfer just that part of the benefit which is in excess of the statutory Guaranteed Minimum Pension (GMP). This change is only relevant to members who are transferring benefits to an external pension arrangement which is not able to accept the GMP e.g. overseas or 'contracted-in' arrangements. The GMP part of the benefit will be retained in APS.

Anti-age discrimination issues

The Scheme Rules previously contained various conditions which were attached to options where the age of a member was relevant to their application. For example, members were required to take a medical examination if an option was being taken up within five years of Normal Retirement Age. The Trustees have agreed to amend the Rules to ensure that the same conditions (if any) apply to all members irrespective of the age of the member.

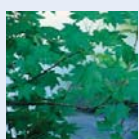
Member Nominated Trustees

New Regulations covering the appointment of Member Nominated Trustees (MNTs) will transfer the responsibility for election arrangements from employers to trustees. As a result the Trustees have undertaken a comprehensive review of current arrangements and have agreed that while most of the current arrangements should remain unaltered it is appropriate for some changes to be introduced. These are:

- An additional Pensioner appointed representative should join the Board. This extra Trustee, together with the additional Employer Appointed Trustee (EAT) required to maintain the 50:50 ratio of Trustees, will bring the APS Board up to 12 members.
- The Trustees consider that the level of training expected of Trustees has increased significantly in recent years reflecting increasingly complex legislative and investment responsibilities. This training can take several months to complete and the Trustees have decided to extend the Term of Office for Trustees from between three and three and a half years to between five and five and a half years in order that the Scheme can benefit from the significant investment in courses and training materials.
- The number of signatures required for a valid nomination will be reduced from 20 to 10 for all vacancies for MNTs.
- The new regulations require all Trustee functions to be open to all Trustees and as a result in future the Chairman of the Trustees, and also any Deputy Chairmen, will be chosen from all of the Trustees rather than from just the Employer Appointed Trustees as is currently the case.

It has been agreed with British Airways that in the normal course of events these changes will be in place for elections for the vacancies arising for Terms of Office commencing on 1 October 2007, including that for the additional Pensioner appointed representative. Nominations will be sought for this additional Trustee during the summer.

Trustees



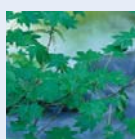
There has been one change to the Trustee Board since the last edition of In Focus.

Dr Andrew Sentance retired as an Employer Representative on 30 September 2006 and was replaced by Steve Gunning (Managing Director, World Cargo) on 2 November 2006.

The Trustees would like to take this opportunity to thank Andrew and to wish him well for the future.

There was also one election for a Member Representative during the period. Captain Cliff Pocock was reappointed, with effect from 1 October 2006.

General notices



Our next In Focus, to be published later in the year will provide a summary of the Scheme's Annual Report and Accounts.

Where can I get more information?

As always copies of current and past editions of 'In Focus', the full valuation report, the last Annual Report and Accounts and the current Statement of Investment Principles (explains how the money paid into the Scheme is invested) and other documents relating to the Scheme are available on our website at www.mybapension.com. We have also added the Statement of Funding Principles (which explains the funding approach in more detail) and the Schedule of Contributions (which shows how much money is being paid into APS) to the website.

Reminder

So that we can keep you updated on funding and other pension issues please ensure that we are notified of any change to your home address. If you have left or retired you will need to write direct to BA Pensions to update your address. If you are employed by BA, then the address details will automatically be updated when your People Online record is updated.

Important: You should consult a professional adviser, such as an independent financial adviser, before taking any decisions concerning your pension arrangements.