



In Focus

September 2008

Annual funding statement



Each year we write to provide you with an update on the funding position of the Scheme so that you can monitor how the Scheme's funding situation is evolving. One of the reasons for providing updates at regular intervals is to ensure you are aware of the key factors which might influence the results of the three-yearly formal valuation.

This year's annual summary funding statement shows that the Fund has not been immune from the effects of volatile investment markets and rising inflation expectations. It is not expected that the investment and economic environment will become more favourable in the period to the next formal valuation.

When we wrote to you in January 2008 we said that we would ask the Actuary to look at the funding position of APS as at 31 March 2008 and would report the findings of this review to you. We are now able to do that.

The last year has seen a significant change in global economic conditions and APS has, of course, been affected by these. However, because a significant proportion of the investments are held in bonds the funding level of the Scheme has held up relatively well when compared to the average UK pension scheme.

As part of the annual review the Actuary has taken account of the changes to the financial markets and expected long-term inflation rates. We now expect the real rate of return on investments to be lower than previously anticipated and as a result we have modified the assumptions used to value the liabilities. When we reported last year's annual funding position we confirmed that the level of funding was estimated to be 102% of the amount required to provide the promised benefits under the rules of the scheme (known as the 'technical provisions'). One year on having made the adjustments to our assumptions the funding level stood at 96.5%.

Funding level on a technical provisions basis	
31 March 2006	100%
31 March 2007	102%
31 March 2008	96.5%

Although the value of the assets has increased from £6,520m to £6,674m, the value of the liabilities (technical provisions) has also gone up. Based on an analysis of market conditions, the assumed future 'real return on investments' has been reduced. The effect of reducing the assumption in relation to future returns increases the value of the assets expected to be needed to meet the liabilities. (The Q&A section provides more information on how this works.)

Date	31 March 2007 (£m)	31 March 2008 (£m)
Technical Provisions (Liabilities)	6,398	6,914
Assets	6,520	6,674
Surplus/(Deficit)	122	(240)
Funding Level	102%	96.5%

Although the date of the annual update (31 March 2008) coincided with one of the lowest points for investors during the relevant period, indications are that the current financial year will continue to be difficult. This is likely to have implications for the outcome of the next formal valuation (as at March 2009).

As part of our valuation work next year we will need to look again at how life expectancy might have improved, reassess our views of the long-term investment conditions, the investment returns the Scheme is likely to achieve and the Company's long-term ability to support the Scheme.

In the meantime we will continue to monitor the Scheme's and the Company's financial positions and, when market conditions allow, we will consider taking action to improve the funding position of the Scheme over the long term without materially increasing the level of investment risk to which the whole Fund is exposed.

In previous annual funding statements we have reported on the funding level should the Company withdraw its support (e.g. in the event of insolvency) but with the

Trustees continuing to run the Scheme and to pay benefits from the Scheme's resources. On this measure the funding level has decreased from 95% to 91%. Previous updates have also provided an estimate of the funding level in the event that the Trustees bought out the benefits with an insurance company. The significant developments in the buy out market over the past 18 months mean that, at this stage, it is not possible to provide a comparable estimate of funding on this basis.

Annual Funding Statement - Q&A



How does the assumed rate of investment return affect the value of APS?

The assumed rate of investment return (or discount rate) is the figure used to convert the future cost of providing benefits to its present day value.

One way of looking at this is to imagine that you have an obligation to pay someone £1000 in a year. If for every £1 invested you will get a 7% return then you only need to invest £935 today to have £1000 in a year's time. If you assume a lower rate of return, say 5%, then you need

to invest more (£952), to have £1000 at the end of the year. The amount you need to put away today is the present day value of your £1000 liability. The lower the rate of investment return, the more you need to put away today to meet your future payment obligation.

What is meant by 'real' return?

A real return is the return on an investment, less the reduction in its value as a result of inflation. Real rates are important as they tell you what the net increase in value was after the effect of inflation, and many of the Scheme's liabilities will also increase as a result of inflation.

Annual Report & Accounts

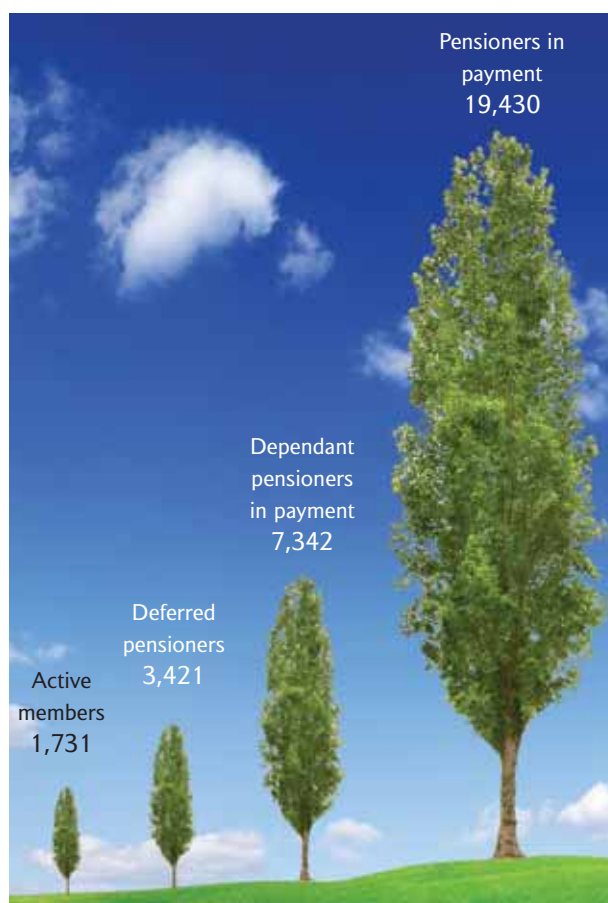
Our Annual Report & Accounts for the Scheme has been published and is available at www.mybapension.com under the 'Scheme documents' link. Alternatively a hard copy is available from Whitelocke House. The Annual Report and Accounts sets out in detail the Scheme's activities during 2007/08 and we summarise the main points below:

Monies in and out of APS

The chart below shows the income and expenditure of APS during the year

Money into APS	£m
Total contributions received	28.6
Transfers in	-
Investment income	174.6
Total income	203.2
Money out of APS	£m
Benefits	343.7
Transfers to other schemes	29.3
Administration expenses	2.4
Investment management expenses	4.7
Total expenditure	380.1
APS Fund value	£m
Value of assets as at 1 April 2007	6,520.0
Total income	203.2
Less total expenditure	(380.1)
Changes in market value of investments	330.5
Value of Fund at 31 March 2008	6,673.6

Scheme Membership



Trustee matters

Since we last reported to you there has been no change to the Trustee Board. However, following a ballot, Tom Mitchell was re-elected as a Member Nominated Trustee

for the Active Members. In addition, Stuart Scott was re-appointed unopposed as a Member Nominated Trustee for the Pensioners constituency.

Investment Matters

We have previously reported that we were holding 5% in cash awaiting suitable opportunities to move into appropriate bonds and intended to sell 6% of the Fund's equity holding to buy bonds. Markets were closely monitored to ensure that these transactions were made at a favourable time. The bond purchases which totalled about £700 million, were made in mid July 2007 before the falls in the equity markets. We have continued to

monitor and, where necessary, adjust the investment allocation of the fund and we issued a new Statement of Investment Principles (SIP) in May 2008 to reflect these changes. The most recent SIP, issued in July 2008, reflects amendments to the performance benchmarks. A copy of the SIP is available on our website or on request from the Secretary's office.

The diagram below sets out the actual asset allocation as at 31 March 2008:

Asset Category

Commodities 0.8%

Property 6.0%

Equities 15.7%

International 9.1%

UK 6.6%

Bonds & Cash 77.5%

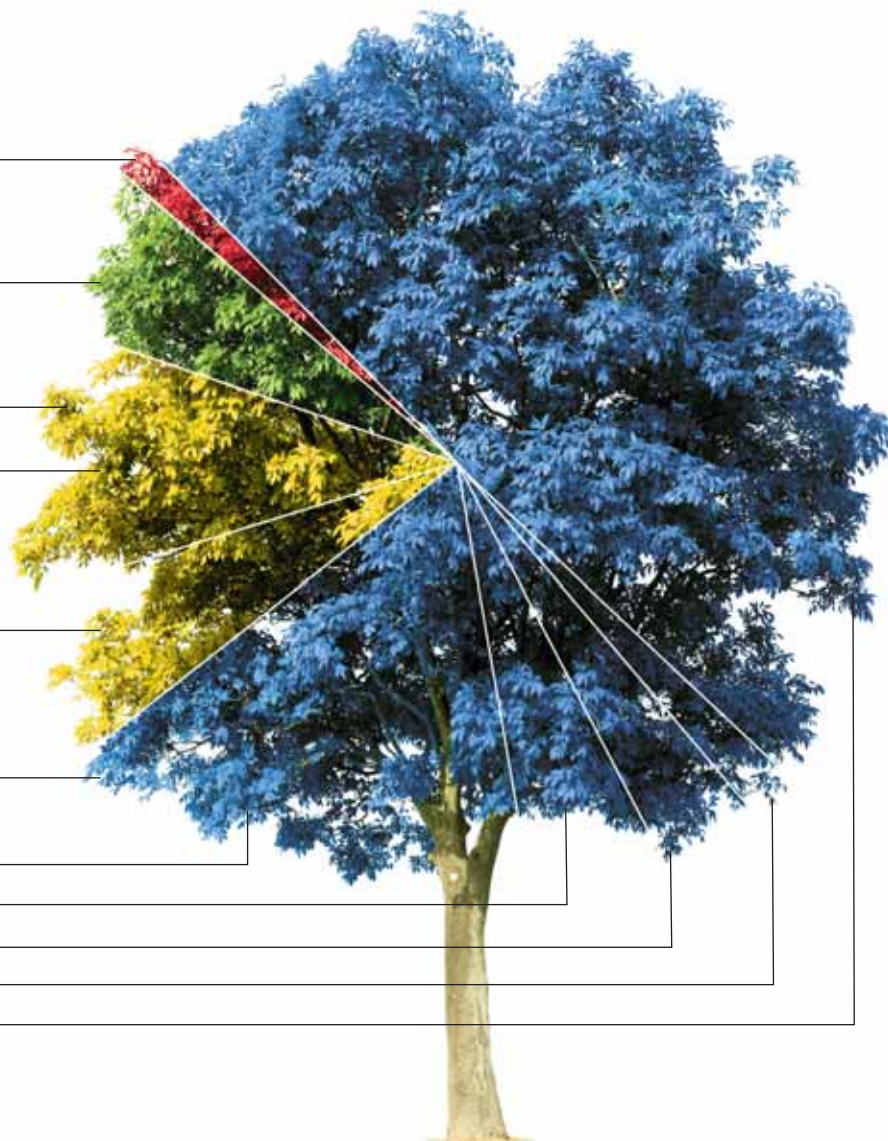
UK Fixed 12.1%

Overseas Index Linked 3.6%

Overseas Fixed 2.3%

Cash 0.7%

UK Index Linked 58.8%



Bonds & Cash 77.5%



Commodities 0.8%



Property 6.0%



Equities 15.7%

Investment Performance

British Airways Pension Investment Management Ltd (BAPIML) manages the APS funds. During the period under review the fund underperformed its target, returning 7.91% compared to a benchmark return of 8.04%. The underperformance was primarily due to the composition of the APS bond portfolio which contained bonds of a shorter duration than those in the performance benchmark. The Fund was underweight in low yielding, long duration bonds which had outperformed the benchmark. The decision to hold shorter duration bonds reflected concerns that longer duration bonds were expensive relative to historic measures. The longer-term performance is shown in the table below:

	APS %pa	Benchmark %pa
2008 1 Year	7.91	8.04
2006/2008 3 Years	8.92	9.15
2004/2008 5 Years	9.88	9.83
1999/2008 10 Years	6.11	6.01

Monitoring the covenant:

The BA/Iberia proposed merger announcement

Although the talks between BA and Iberia are at an early stage, the proposed merger is clearly a matter of interest to the Trustees who will need to understand the effect of the proposed transaction on BA's covenant. The Trustees, supported by their independent professional advisers, will work together with the Company to ensure that the Scheme's interests are taken into account.

The Year Ahead

As well as actively monitoring BA's covenant and the appropriateness of the Scheme's investment policy we are continuing to focus on Governance issues. We are concentrating on our training programme and ensuring we have the resources which will be required for future work. We will spend the autumn and winter months planning and preparing ourselves to carry out the 2009 funding valuation exercise.

As always I would like to thank my fellow Trustees for the work they have undertaken during the year and I look forward to working with them over the year ahead as we prepare for the valuation.

Roger Maynard
 Chairman of Trustees
 October 2008

Benefit Issues



Changing your employment status?

It is important that members who are considering changing their employment patterns understand the implications for their pension benefits. We are often asked questions about this, but usually not until after the change has occurred. If you are not sure how changes will affect your pension benefits and you need more information you should contact Whitelocke House before you finalise the change to your employment.

An important point to note for members moving to a part-time contract is that, although for the purposes of calculating the actual pension benefits full-time equivalent pay is used to determine the amount of pension, lump sum death benefit payments would be based on the lower part-time pay.

Members taking a drop in their pensionable pay (e.g. moving to a lower paid job) need to consider how this will affect their ongoing pension. Pension benefits are based on an average of the best two years' pensionable pay in the five years preceding retirement so drops in pay may affect the final pension amount.

Paying for spouse/dependant's cover?

We have changed our benefit statements this year to make it clearer whether or not a member is currently paying the higher level of contribution applicable to provide for a spouse/dependant's pension following their death. You should check regularly that you are paying contributions at the level applicable to your requirements.

Flexible Build Up Contributions

The contribution rates applicable for members who elected for higher pension build up have been increased this year. The new rates come into force at the annual renewal date which was 1 April 2008 for pilots, 1 October 2008 for ground staff members and will be 1 February 2009 for cabin crew members. The new rates are shown on our website [click on 'How do I get more?' > 'Put more into my BA pension']. Members contributing to this arrangement will be contacted prior to the new rate coming into force. If you wish to change your build up rate for the future you will need to let us know (forms for this are available on our website). It is also expected that there will be a further review of the rates during the next year.

A-Day Reminder!

You will recall that the Government introduced a new tax regime with effect from April 2006 covering the maximum benefits payable from occupational pension schemes such as APS. For those with higher earnings HM Revenue & Customs (HMRC) allowed protection of certain benefits earned under the previous tax regime. However, to gain protection the individual must apply to HMRC before 31 March 2009. In 2006 BA Pensions wrote to all high earners that might be affected by this protection issue to let them know of the new arrangements and this note is by way of a reminder to those that still need to register with HMRC. It is the individual member's responsibility to register, BA Pensions cannot do this on your behalf.

As mentioned in the August 2005 In Focus, from 6 April 2010 HMRC rules change so that the earliest age that a pension can be drawn moves from age 50 to age 55. In general APS members are protected from this change because the APS rules prior to the new legislation specifically provided for a member to take his/her pension from 50. The protection is subject to 'retirement conditions', as described in the legislation, which very loosely means that the member must have ceased employment with the Company and must be withdrawing all pension benefits held within the Scheme at the same time. Members will need to bear this in mind when considering their retirement planning.

Where can I get more information?

As always, copies of past editions of In Focus, the full Annual Report & Accounts, the SIP and the Statement of Funding Principles as well as other documents relating to the Scheme are available from our website www.mybapension.com or from Whitelocke House.

British Airways Welfare and Benevolent Trust

The Scheme occasionally receives requests for benevolent or compassionate payments. The Rules of the Scheme do not allow such payments, however there may be circumstances where the BA Welfare and Benevolent Trust can help. If you know of any BA pensioner or a dependant of a pensioner who is in need or distress then the Welfare and Benevolent Trust may be able to make their lives easier. The terms of the Welfare and Benevolent Trust enable it to help in one off situations. In 2006/07 grants totalling £78,000 were made for essential home repairs, such as a replacement boiler or a walk in shower. One-off grants have also been given for invalid chair power packs and stair lifts. You can make confidential contact through your pensioner contact or call Julie Peters on 0208 513 2528 or by e-mail to retirementsupport@ba.com