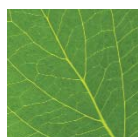




In Focus

A message from the Chairman of NAPS



The past year has been demanding and unusual in many aspects. Many of the provisions of the Pensions Act 2004 and Finance Act 2004 came into effect in April 2006 and over the course of the year the Trustees have spent a great deal of time ensuring that the Scheme complies with the raft of provisions contained within the legislation.

2006 actuarial valuation and the British Airways proposal

The 2006 actuarial valuation process is currently underway and it is clear from the work carried out so far that the deficit in NAPS has indeed grown from the £928m reported in 2003. This increase is despite the extra contributions British Airways has made since 2003.

The information so far is showing that life expectancy for NAPS members has increased. This reflects the national trend which has received much press coverage. This means that NAPS benefits will need to be paid for a longer period than previously expected and the Scheme will need extra money to pay out benefits at the current levels. If the necessary extra money is not available from either British Airways or from investment returns, future benefits may need to be reduced. British Airways has already made a proposal to staff and we are waiting to learn the outcome of those discussions. However, we believe that the final outcome of the actuarial valuation process is likely to include a mixture of both additional cash being provided by British Airways and reductions in future benefit build-up. We want to make it clear that we have not yet finished our work, but we believe it is important to let you know our thoughts as soon as possible.

What have we done so far?

Our Actuary has looked at the actual ages at which our deceased members, pensioners and their dependants have died and compared that information with the ages we had assumed would apply in 2003. There is clear evidence that all categories of beneficiaries are living longer and that the improvements in life expectancy are occurring quicker than previously assumed. So, even if no

future mortality improvements are assumed we still have increased liabilities in the Scheme when compared to what we thought likely last time. This is part of the reason why we have seen the deficit grow.

However, it is prudent to assume that life expectancy will continue to improve and so we need to build more caution into our assumptions to reflect this. Again, this will add significantly to the deficit.

We have also employed PricewaterhouseCoopers (PwC) to carry out a thorough investigation of British Airways' financial position - both in the short and longer term. In due course we will use this information to negotiate with the Company to secure the best deal for our beneficiaries so the detail of PwC's findings must remain confidential. However, in broad terms I can let you know that the independent advice we have received leads us to the following initial conclusions:

- British Airways needs substantial cash reserves to withstand the volatile nature of the airline industry. As a result it cannot afford to use all its cash reserves to pay off the deficit. To do so may well put the long-term viability of British Airways in jeopardy.
- Nevertheless it may be possible for us to negotiate with British Airways for a cash injection beyond that already specified in its proposals to employees.
- Independent projections of British Airways' cash flows indicate that on-going annual contributions from British Airways much in excess of the current levels may not be sustainable.
- There are other non-cash assets within British Airways which could provide security to the Scheme.
- Reductions to future benefits are likely to be required to help reduce the deficit.

What will we do next?

Changes to legislation mean that the Trustees, after taking appropriate advice, are now responsible for setting the assumptions used within the actuarial valuation process.

The NAPS Trustees must consider what assumptions to build into the valuation process to account for longer life expectancy and future investment returns. Perhaps an easier way of looking at what we mean by 'assumptions' is to ask how much caution we should build into our calculations. The more cautious we are, the bigger the deficit will be. While we do not want to be over-cautious we do, nevertheless, want to make sure your Scheme is as secure as reasonably possible. Getting this balance right takes time, but that work is in progress.

Once we have made our decisions we are required by law to reach agreement on those decisions with British Airways. During these discussions we will negotiate hard to secure your past service benefits and to minimise the effect of changes to future service. We have already set up a series of Trustee meetings for July, August and September to progress our actuarial valuation work and expect to begin negotiations with British Airways in September. We will provide you with a further update of events in the Autumn.

The Pensions Regulator (tPR- a new statutory body) is taking a keen interest in the work we are doing and has met representatives of the Trustees on two occasions over the last couple of months and more meetings are planned. We have shared with tPR the detailed advice we have received from our independent advisers and, although tPR will not comment on that detail at this stage, it has confirmed that the approach we are taking to the task is in line with best practice. More detail on tPR's specific role can be found on page 6. tPR has asked to be kept informed of developments during the period of negotiation with British Airways.

Board matters

As part of the Trustees' process of routinely reviewing Scheme advisers, the Trustees have formally appointed new auditors KPMG LLP to replace the previous auditors, Ernst & Young. The Trustees were content with the services supplied by Ernst & Young and the change was made in order to take advantage of additional resources that KPMG can offer in provision of information and advice. At the same time, changing auditors establishes a position of transparency and independence from the firm that audits British Airways' own accounts.

Details of all the Trustees who manage the fund on your behalf and their advisers can be found on page 4 of the annual report and accounts available on our website www.mybapension.com. Mr P Hogg, who has been a valued member of the Trustee Board since 2001 will be stepping down as an Employer Appointed Trustee on 31 August 2006 and will be replaced by Mr R Mehta. On behalf of the Trustees, I would like to thank Mr Hogg for the contribution he has made throughout his period of office.

The role of pension trustees has continued to evolve, not least as a result of the Pensions Act which has introduced formal requirements for trustees to have sufficient knowledge and understanding of pensions in all areas. As a result, the amount of time and expertise expected of trustees has increased and taking on the role of a trustee now represents a very significant personal commitment. My fellow Trustees have already demonstrated high standards and they have all undertaken significant additional training during the year in preparation for the legislative changes. Most Trustees have passed the examination qualifying them for the Pensions Management Institute Trustee Certificate of Essential Pensions Knowledge and I congratulate them on this achievement.

The year ahead

The principal area of work in 2006 will be reaching agreement with BA on the actuarial valuation and funding process and, in particular, the development of a recovery plan to deal with the deficit.

The Trustees will also continue their work on the numerous Regulations and Codes of Practice still being issued.

Finally, I would like to convey my gratitude to the Trustees and staff at BAPIML and BAPSL for all of their work during the year. As always, we welcome your views, so please get in touch, our contact details are on the back page.

Roger Maynard

Chairman of Trustees

July 2006

Investment update



In the August 2005 edition of In Focus we reported that there had been further improvements in the fund value of NAPS brought about by improvements in market conditions, but that these improvements needed to be set against any increase in liabilities. The investment climate remains healthy, with continuing economic growth and robust corporate profits in the general market place. The fund has produced positive returns in every asset class with strong performance in property and equity markets, especially overseas.

Once again however, improvements in Fund value must be set against any increase in the Scheme's liabilities. It is expected that the results of the 2006 three-yearly valuation will show that NAPS remains in deficit and that the deficit has grown. By how much will not be apparent until the formal results of the valuation are known in the Autumn.

The strategic mixture of investments held within NAPS which we reported in last year's In Focus has changed with effect from 1 April 2006 with 63% to be held in equities, 27% held in bonds and the balance in property and cash. This will be reviewed again as part of the 2006 valuation. The Trustees set parameters around this core mixture to allow the fund manager some discretion over the actual level of each type of asset held. (Within guidelines set by the Trustees, the fund manager uses their judgement to decide whether to hold slightly more or less than the amounts detailed above in order to maximise returns as market conditions allow.) The actual investment split at 31 March 2006 is shown within the summary funding statement on page 7.

Those members interested in the detail behind the investment strategy can review the Statement of Investment Principles (SIP), which is available on our website www.mybapension.com

The Trustees continue to monitor the performance of the Fund overall by comparing returns against a benchmark. The Trustees are pleased to announce that last year our in-house investment management team (BAPIML) outperformed the benchmark for 2005/06. They also outperformed the longer term benchmark over five and ten years, but slightly underperformed the three year benchmark due to poor performance in 2004.

Accounting for the Money

The overall value of NAPS reflects the amount of income received by the Scheme (such as member and employer contributions and investment income), the withdrawals made from the Scheme (payment of benefits, administration and investment expenses) and the market value of the Fund's investments at a particular date.

Monies in and out of NAPS

The charts below show the income and expenditure of NAPS during the year.

Money into NAPS		£m
Contributions received		303.9
Transfers in		2.0
Investment income		153.5
Other income		4.6
Total income		464.0
Money out of NAPS		£m
Benefits		148.8
Leavers		17.5
Administration expenses		5.9
Investment management expenses		3.7
Total expenditure		175.9
NAPS Fund value		£m
Value of assets at 1 April 2005		4,560.0
Total income		464.0
Less total expenditure		175.9
Change in market value of investments		997.9
Value of fund at 31 March 2006		5,846.0

Rule and policy changes



In the August 2005 edition of In Focus we explained Government reforms to pensions legislation most of which came into effect from 6 April 2006 or 'A Day'. This included an explanation of the new maximum limit on pension benefits that can be taken from all sources known as the 'lifetime allowance' (LTA). Since then there have been further changes to Scheme rules and policies to accommodate many of the changes introduced by the Government's programme of reforms.

Tax free cash

The Trustees have amended Scheme Rules to allow active members to take the maximum tax free cash lump sum permitted under the new legislation at pension commencement date. Maximum tax free cash is now calculated according to the VALUE of your benefits from all sources. Very generally the value will be 20 x your pension + your AVC balance and you can take 25% of this value as tax free cash up to a maximum of 25% of the available lifetime allowance (LTA). We explained the LTA in the last edition of In Focus.

If you are already in receipt of benefits from previous arrangements when you come to draw your BA benefit, these will have used up some of your LTA. Your previous provider will let you know how much of the LTA has been used up and when you retire from BA you will need to let us know the amount of LTA remaining for your BA benefits. Any lump sum taken from your BA benefits cannot exceed 25% of the remaining LTA.

The amount of cash is further affected by the options you take at retirement. This will be fully explained to you at retirement when details of your personal lump sum will be provided.

AVCs as cash

Legislation no longer requires schemes to provide AVC arrangements for their members, however the Trustees and the Company have agreed to maintain the BA AVC funds. They have also agreed to adopt the provision within the legislation that allows AVCs to be taken as tax free cash. Therefore you can now take your AVCs as tax free cash up to 25% of the available LTA even if you started paying AVCs after 8 April 1987. The Company retains the right

to remove this option for NAPS members who started paying AVCs after 8 April 1987, but any change would be subject to appropriate notice being given to the Trustees and membership and would only affect future AVCs paid after the notice period has expired.

FSAVC transfers

To preserve the security of existing benefits within the Scheme the Trustees have reviewed their policy on accepting transfers from Free Standing Additional Voluntary Contribution (FSAVC) arrangements and have decided to no longer accept transfers from such arrangements.

Death benefits

'A Day' legislation specifies that if you retire after 'A Day' and die on or after your 75th birthday, the total of any pensions payable to your dependants (including children's pensions) must not be more than the pension being paid to you in the 12 months prior to your death, otherwise your dependants' pensions will be reduced. Options selected at retirement which reduce the remaining pension payable to you, for example early retirement, exchanging pension for cash or taking the level pension option, could increase the likelihood of this happening because dependants' pensions are always calculated on your full pension before any options are applied. Members retiring after 'A Day' must bear this in mind when selecting any retirement options which reduce the amount of pension payable to them at any point. In order to reduce the likelihood of having to reduce dependants' benefits, the Trustees have decided that it would be prudent to restrict the Level Pension Option available at retirement to the 'single person's' rate only.

Protecting your 'A Day' benefits

There is still plenty of time for members with large benefits at 'A Day' to register with HMRC to protect these benefits. We have written individually to all members with large 'A Day' benefits in the BA Schemes, however if you have benefits elsewhere, for example with a previous employer or in a FSAVC arrangement, you may also wish to consider protecting these benefits if your total benefits exceed the LTA at 'A Day' or are likely to exceed the LTA in future. Further information can be obtained from the HMRC website www.hmrc.gov.uk/manuals/rpsmanual/index.htm or an independent financial adviser.

Changes for Civil Partners

Following the introduction of the Civil Partnership Act (CPA) along with changes to employment law both of which came into force on 5 December 2005, the rules have been changed to give same sex civil partners the same rights under the Scheme as a married partner. Of course under NAPS, if you do not have a spouse you have for some time, been able to register a partner or dependant to receive a 'survivor's pension'. Until December 2005 this benefit had been discretionary with the partner or dependant having to demonstrate financial dependency or interdependency. The Scheme rules now offer this as a right for civil partners as long as the relationship is still current when a member dies. Active members can fill in partner details via the 'people on line' system and members and pensioners should send original civil partnership certificates together with their partner's original birth certificate to Whitelocke House so that a copy can be held on their file.

Medical adviser to the Schemes

The Trustees have appointed BUPA as their medical advisers to assist them when considering such issues as ill health pension reviews. Scheme rules allow Trustees to review ill health pensioners to check whether they remain medically incapable of earning an income. If an income is being earned by an ill health pensioner in addition to their pension then a financial test can be carried out to establish whether the total income is greater than that which the pensioner was receiving from British Airways immediately before they retired. The Trustees have the power to suspend ill health pensions if either of these conditions are met. A phased project has commenced to review continued eligibility for ill health pensions based on continued medical incapacity and the financial test described above.

Taking trivial pensions as cash

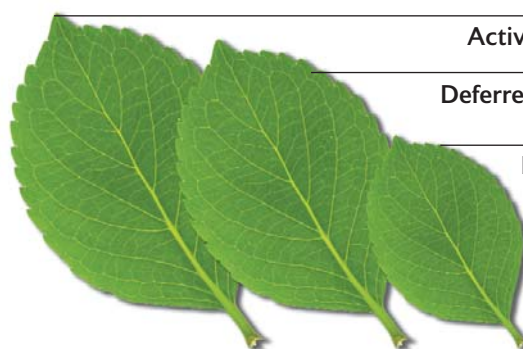
If the capital value of your combined pension benefits (i.e. the benefits you hold in the Scheme plus any other pension arrangements) does not exceed a maximum value it is now possible to exchange them for a one-off cash lump sum. However, certain conditions apply, you must be aged 60 or over but not have reached age 75; the lump sum payment can only be paid out in a specified 12-month period; you must have some available LTA; the capital value of your combined pension benefits must not exceed 1% of the LTA (which means for 2006/7 the capital value must not exceed £15,000) and most importantly all your pension benefits held in any registered pension scheme must be extinguished. Lump sum payments taken in these circumstances are treated as taxable pension income in the tax year the payment is made and will be subject to PAYE.

Variable accrual dates

In addition to paying AVCs, members can also boost their pension by paying for a higher pension build up rate. All members of NAPS have an annual opportunity to increase or change the rate that their NAPS pension builds up. Further details of the option can be found on the website www.mybapension.com click on: 'How do I get more?' > 'Put more into my BA pension'.

Scheme membership

	Active	33,528
	Deferred	20,520
	Pensioners	15,448
	(including	2,249
	dependent	pensioners)



Summary funding statement

The Government now requires that you are provided with information concerning the funding position of your Scheme on an annual basis. This section of In Focus is designed to meet those requirements and serves as your 2006 Summary Funding Statement.

How is my pension funded?

The contributions that are paid in to the Scheme by BA and members are invested in a range of investments such as bonds and shares which together make up the assets of the Scheme. These assets and the income earned on those assets are used to pay benefits when they fall due. The assets are held in one communal fund for the benefit of all NAPS members and are not held in separate funds for each individual member. Details of the assets held by NAPS as at 31 March 2006 can be found on page 7.

Funding position at last valuation

The November 2003 edition of In Focus reported the results of the last valuation. A copy of this document can be found on the www.mybapension.com website under the 'News' link.

The last Scheme valuation was in 2003. This valuation was conducted using an 'ongoing' valuation method which assumes BA will continue to pay contributions and existing members will continue to build up benefits. The results of this last valuation showed that the Fund was 77.4% funded, in other words there was sufficient money in the fund to provide 77.4% of the benefits. In monetary terms the deficit was £928 million. This

was the difference between the value of the liabilities (benefits that are due to be paid out now and in the future including benefits to dependants) - £4,112 million and the value of the assets (investments held by the fund) - £3,184 million.

One of the principal purposes of a valuation is to enable the Actuary to calculate the contributions that British Airways is required to make to the Scheme. In 2003 there were two elements to the contribution required from the Company; the contributions needed to pay for benefits due to be built up in the future for active members and the contributions needed to pay for benefits that had already been built up in the NAPS fund and continuing to pay out those benefits already in payment. As a result of the 2003 valuation BA's combined contribution rate was increased from £118 million a year to £223 million a year and for 2005/06 was £235 million.

The November 2003 In Focus also reported the funding position of the Scheme in the hypothetical situation of BA no longer supporting the Scheme. This type of valuation assumes that no further benefits build up, that no further contributions are received and all of the Scheme's investments are held in bonds. On this measure the funding position was 54% funded.

Changes to the scheme funding environment

Under the provisions of the Pensions Act 2004 the next NAPS valuation will need to comply with a new funding regime. The Trustees and BA will need to agree a scheme specific funding target and period for making up the deficit, taking into account BA's ability to pay and financial strength. The policy that is agreed will be set out in a Statement of Funding Principles.

The Pensions Regulator has published guidance on the requirements of the scheme funding legislation and sets out expected standards of conduct and practice. The Pensions Regulator has powers to supervise the funding process, intervene if agreement can not be reached and challenge agreements that are reached between trustees and employers. The Regulator's objectives include protecting scheme members' benefits and preventing schemes being transferred into the new statutory pensions 'safety net' - the Pension Protection Fund (PPF).

As explained in the August 2005 In Focus, the PPF is in effect an insurance scheme, introduced to provide a level of protection for the benefits of members of defined benefit schemes which are in deficit and where the sponsoring employer becomes insolvent. PPF benefits are on the whole lower than standard NAPS benefits.

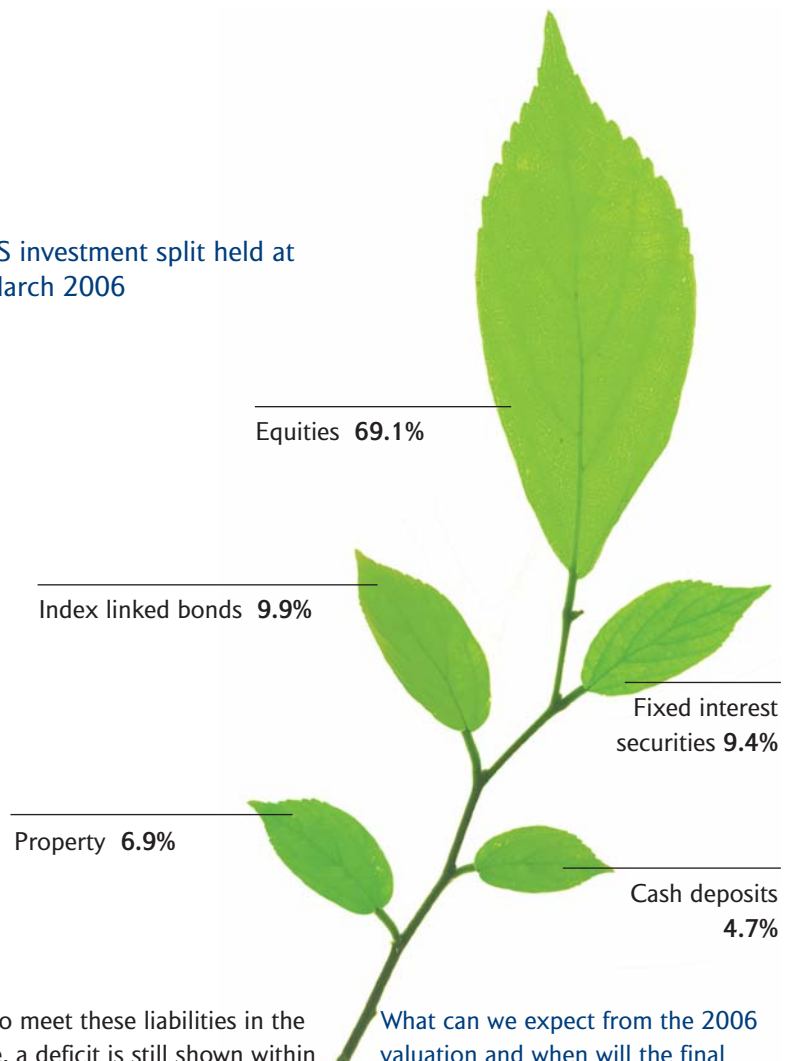
In order to reach agreement with BA, the NAPS Trustees need to understand the ability and willingness of BA to make good any shortfall in NAPS' funding. In accordance with the Regulator's guidance the Trustees have engaged PricewaterhouseCoopers (PwC) to help them investigate these issues.

Has the funding position changed since 2003?

The Trustees started preparing for the new funding framework in early 2005. They have undertaken a great deal of preparatory work, including rehearsing the valuation process using data drawn from a trial valuation exercise which rolled forward the 2003 valuation results to 31 March 2005. Although valid for the purposes of the rehearsal, the results of this trial valuation have been treated with caution as only market conditions were updated with all other assumptions being left unchanged.

In general terms, and subject to the limitations described, the 31 March 2005 trial valuation showed that the funding level had risen slightly, on an ongoing and discontinuance basis, but in cash terms the value of the deficit on the ongoing basis had increased to in excess of £1 billion. In other words the ability of the Scheme to pay benefits based on the assumptions used had improved but nevertheless the deficit position had worsened. This is because whilst the value of assets have increased since the last valuation so have the value of liabilities. When these increased liabilities are discounted back to today's value in order work out the contributions that need to be paid

NAPS investment split held at 31 March 2006



now to meet these liabilities in the future, a deficit is still shown within the Scheme and this deficit has grown. This was despite the increased level of contributions which BA had paid since 2003 and some improvements in investment markets, particularly equity markets, in the period to 31 March 2005.

The precise deficit in NAPS will not be known until the outcome of the 31 March 2006 valuation and will depend on the Scheme's experience since the 2003 valuation, the assumptions adopted for valuing the liabilities during the 'real' 2006 valuation process and the outcome of BA's NAPS proposal.

What can we expect from the 2006 valuation and when will the final results be known?

The 2006 valuation and funding process will be the first undertaken under the new funding framework. The outcomes will depend on a number of factors. These include:

1. The assumptions and methodology agreed by the Trustees and BA.

The key assumptions will be the discount rate used to value the liabilities in today's terms, which will be influenced by anticipated investment returns; and any changes to demographic assumptions particularly expectations about mortality and mortality improvements.

As part of the valuation process, the Trustees will conduct a detailed review of the investment policy of the Scheme. The current asset mix is shown in the chart on page 7.

The Trustees' investment policy is to maintain a selection of suitable assets which will generate income and increase in value so that, together with new contributions from members and BA, the Scheme is able to pay benefits as they fall due. Those members interested in the detail behind the investment strategy can review the April 2006 Statement of Investment Principles (SIP) on our website www.mybapension.com

2 Negotiation and agreement of the recovery plan to repair the deficit.

In broad terms the Regulator will usually wish to see a recovery plan that is designed to repair a deficit as soon as reasonably practicable, and in any case generally within ten years. The actual plan will depend on the particular circumstances of the scheme and the sponsoring employer.

3 The outcome of BA's proposal in relation to NAPS.

In March, after discussion with staff, BA announced proposals detailing how the current deficit position in NAPS might be addressed by changing the benefit structure within NAPS. One of the outputs of the 2006 valuation process will be to establish the level of contributions that would be required from BA to address both the deficit and to fund future benefit build up in NAPS. The Trustees will use this information together with advice from PwC regarding BA's current financial status to formulate a response to BA's proposal.

4 The Regulator's acceptance of the arrangements agreed between the Trustees and BA.

The Act has imposed a statutory deadline on when the funding process must be concluded. For NAPS the deadline is June 2007. The Trustees have drawn up a timetable to ensure that all elements of the funding process have been delivered before this deadline. The actual date that the process is concluded will depend on negotiations with BA and whether the Regulator is satisfied with the agreement that is reached between the Trustees and BA.

Where can I get more information?

We will notify members of the outcome of the funding process. As always, copies of past editions of In Focus, the full Annual Report and Accounts, the SIP and other documents relating to the Scheme are available on our website www.mybapensions.com

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 from BA you will need to write direct to BA Pensions to update your address. If you are employed by BA, then the address details we hold will be automatically 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.

Getting in touch

You can contact us by:
Email: enquiries@bapensions.co.uk
or follow the link in our website [click on 'Talk to us'].

Telephone: Call our Customer Service Team on 020 8513 2222 between 9am and 5pm.

Fax: Externally on 020 8572 6235 or internally on 32257