



In Focus

March 2010

An Update from the NAPS Trustees

In this edition of In Focus you will find:

- **Announcement of the new Chairman of Trustees**
- **A summary of the ongoing valuation discussions**
- **Headline information from our last Annual Report and Accounts as at March 2009**
- **General information regarding who looks after the Scheme on your behalf, and**
- **Updates on other Scheme issues**

Chairman of Trustees

A new Chairman of Trustees, Paul Spencer CBE, has recently been appointed to replace Roger Maynard who stepped down as Chairman last December, after the first stage of the valuation process. The role of Chairman of Trustees is a British Airways appointment and has traditionally been filled internally, with the individual taking on the duties alongside their day-to-day role within British Airways. Many schemes are now appointing an external independent trustee and, in line with this changing practice, the new Chairman is an external appointment.

Paul brings a wealth of experience to the role having served on the boards of several listed companies in both executive

and non-executive positions. He also currently holds appointments with the Boards of Trustees of the BT Pension Scheme, the BAT plc Pension Fund and the Rolls-Royce plc Pension Fund. The Trustees welcome Paul to the Board of Trustees and look forward to working with him in managing the ongoing needs of the Scheme.

The Trustees acknowledge with appreciation the expertise and leadership provided by Roger during his term of office. This included the first valuation under the new statutory scheme funding regime introduced in 2004 as well as the detailed work already undertaken in completing the first stage of the current valuation process.

The valuation process



We wrote to you in December to let you know that the first stage of the valuation process had been completed and that the preliminary results showed a funding deficit of £2.7bn as at 31 March 2009. The reduction in the value of NAPS assets, a consequence of the global economic downturn, was only partially offset by British Airways' deficit contributions which totalled over £1.2 billion over the period since the last valuation. In addition, the Trustees strengthened the assumptions made for the life expectancy of Scheme members and this increased the value placed on the liabilities.

The current valuation has an effective date of 31 March 2009 and there have been some signs of improvement in financial markets since that time. Although the precise

impact of market movements on funding depends on a range of factors, such as the actual types of investment held by the Scheme, the characteristics of the particular asset class and views about future levels of return on those assets, it is not expected that recent improvements will have had a material effect on the funding position. This is because changes in the market not only affect the value of the assets held by the Scheme but also the value placed on the liabilities. Any increase in asset values since March 2009 is likely to have been at least partially offset by an increase in the value placed on the liabilities.

In the period between the completion of the current 2009 valuation exercise and the next three-yearly valuation in 2012, we will report to you each year on how the funding position changes.

What's happening now?

The discussions between British Airways and the Trustees as to how to rectify the deficit are underway and the Recovery Plan will be designed to remove the shortfall over an agreed period. Both APS and NAPS will require employer deficit contributions even though British Airways' current ability to pay is constrained. How the available contributions are apportioned and whether other protections can be made available will be the focus of the work needed to develop a suitable Recovery Plan. The final funding arrangements will need to be acceptable to the Pensions Regulator.

In addition, British Airways has been undertaking a process of consultation with its Trade Unions and with staff highlighting the need to look at the nature of future pension benefit build up in NAPS. The outcome of this consultation will be relevant to the Recovery Plan discussions. While discussions will continue in the meantime, the Trustees will also need to wait for information resulting from the consultation before they can be in a position to finalise the Recovery Plan with British Airways. The target date for finalising the plan is 30 June 2010.

Annual Report & Accounts



Our Annual Report and Accounts for the Scheme as at 31 March 2009 was published in July 2009 and is available at www.mybapension.com under the 'Scheme documents' link. The Annual Report and Accounts sets out in detail the Scheme's activities during 2008/2009 and we summarise the main points below. Work on the March 2010 Annual Report and Accounts has just begun and as usual is expected to be published later in the year.

The results of the actuarial valuation described on page 1 and the Annual Report and Accounts are very different. The valuation process is a detailed investigation into whether, over the long term, the Scheme is likely to be able to pay the benefits that are due. The Annual Report and Accounts reflects the income received by the Scheme (member and employer contributions and investment income) and the withdrawals made from the Scheme (payment of pensioner benefits) in the period 1 April 2008 to 31 March 2009, together with the market value of the Fund's investments as at 31 March 2009.

Headline results





During 2008/2009 the fall in market value of the investments and withdrawals from the Fund exceeded the contributions and investment returns received. This resulted in a decrease of £1,271m in the net asset value of the Fund, which fell from £7,367m at the start of the year to £6,096m on 31 March 2009. This is despite British Airways paying £347m to the Scheme over the year and members contributing £59m. The balance of the £644m income was made up of other contributions (£24m) and investment income (£214m).

Investment

In accordance with the Myners principles the Trustees have adopted a customised benchmark (a measure by which performance is monitored) as this ensures that the

Monies in and out of NAPS

The table below shows the income and expenditure of NAPS during the year to 31 March 2009:

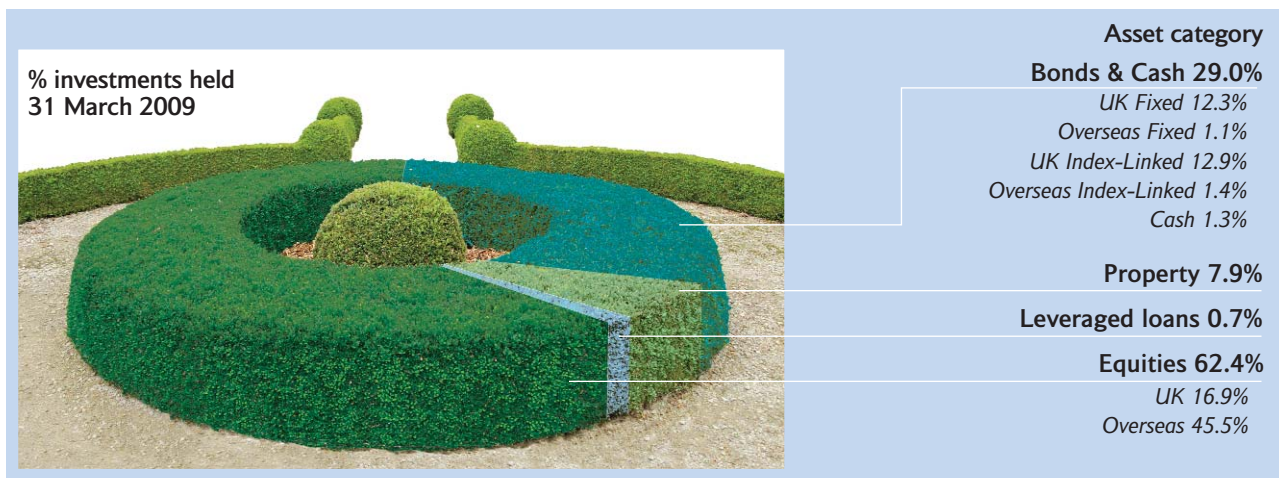
	£m
Value at 1 April 2008	7,366.8
 Income	644.0
 Outgoings	(235.9)
 Change in value of investments	(1,678.5)
 Value at 31 March 2009	6,096.4

investment performance objectives are related directly to the circumstances of the Fund and not to some other measure such as the performance of other funds whose liability profiles might be quite different to NAPS.

The Trustees monitor the Fund's performance by comparing the returns that NAPS achieves against this benchmark. The performance of each asset category is measured against an index. For example, the UK equity portion of the fund is measured relative to the performance of the FTSE All Share Index.

British Airways Pension Investment Management Ltd (BAPIML) manages the NAPS funds on a day-to-day basis on behalf of the Trustees.

How NAPS is invested



We have continued to monitor and, where necessary, adjust the investment allocation and performance benchmarks of the Fund and new Statements of Investment Principles (SIPs) were issued on 17 December 2008 (1% allocation to Private Equity), 1 February 2009 (to reflect a change in the proportion of UK and International

Equities), on 1 April 2009 (5% allocation to Alternatives) and 1 January 2010 (minor changes to performance benchmarks).

Those members interested in the detail behind the investment strategy can review the latest SIP, which is available on our website www.mybapension.com

How NAPS investments performed

	2009 1 year	2007/2009 3 years	2005/2009 5 years	2000/2009 10 years
NAPS % p.a.	-19.83	-5.03	3.66	2.70
Benchmark % p.a.	-20.81	-5.58	3.20	2.41*

* combination of WM50 industry peer group and a customised BA strategic benchmark adopted in 2002

For the 2008/2009 period, although the Fund was subject to negative absolute returns, it outperformed its benchmark by 0.98%, returning -19.83% against a benchmark return of -20.81%.

Scheme membership NAPS

31 March 2009

Dependent pensioners
2,756

Pensioners in payment
15,699

Deferred members
22,307

Active members
28,130



Graph not to scale

Who manages NAPS?



Your NAPS Trustees

NAPS is managed by 12 Trustees.

- Six of the Trustees are appointed by British Airways.
- Five of the Trustees are elected by active members of the Scheme, each comes from a different occupational group within British Airways and must be an active member of NAPS.
- One of the Trustees is elected by pensioner members of the Scheme and must be a pensioner member of NAPS.

To help the Trustees operate effectively there are three sub-committees: Investment, Operations and Governance which meet on a regular basis. The Committees met in total 21 times during the year. The full board met five times during the year.

The NAPS Trustees are:

NAPS Trustees	Appointed/elected	Voting category
Capt Ian Bretherton	Elected, Captain	Pilots
Micky Grey	Elected, Team Leader MT	Ground Services
Nikki Jones	Elected, Cabin Crew	Cabin Crew
Geoff Le Boutillier	Elected, Retired	Pensioners
Ian Rycraft	Elected, Technician	Engineering and TMGs
David Southcott	Elected, Senior Passenger Service Agent	Administration and rest of Management
Robert Boyle	British Airways appointed, Director of Strategy and BUs	n/a
Steve Gunning	British Airways appointed, MD BA World Cargo	n/a
Ian Howick	British Airways appointed, GM Treasury Risk	n/a
Capt Charlie Maunder	British Airways appointed, GM Fleet	n/a
Raj Mehta	British Airways appointed, GM Engineering Operations Support	n/a
Paul Spencer (Chairman)	British Airways appointed, independent	n/a

Training: The Trustees have a formal training policy which is based on the Trustee Knowledge and Understanding (TKU) framework established by the Pensions Regulator (tPR). Following tPR's recent publication of a revised TKU framework the policy was updated to ensure it continued to meet best practice standards. All Trustees received training during the year in accordance with the updated policy.

Scheme Secretary: Mr John Birch, Scheme Secretary and Managing Director of BAPSL, retired on 31 December 2008 and was replaced by Mrs Teresa Suriyae (formerly Humphries).

Your Scheme advisers

The Trustees use the services of professional expert advisers to assist them in running the Scheme. The key advisers are shown here. You can view the full list of

advisers in the Scheme's Annual Report and Accounts available on our website www.mybapension.com click on 'Scheme documents'.

Scheme Actuary

James Wintle, Towers Watson: calculates the 'funding level' within the Scheme, that is, calculates the amount of money available within the Fund at a given time and the amount of money required over time to meet the benefit payments that are due now and in the future. He also advises the Trustees on the effect of different assumptions used within these complex calculations, for example life expectancy of different sections of the membership or discount rates to apply to the future value of assets or liabilities to equate them to a current day value.

Who manages NAPS? continued

Employer covenant advisers

PricewaterhouseCoopers: have been employed by the Trustees during the valuation process specifically to advise the Trustees on British Airways' financial condition. This is relevant to the Recovery Plan discussions when negotiating the extent to which British Airways can afford to pay additional monies to eliminate the deficit over time and the impact this could have on the future viability of the Company.

Legal advisers

Eversheds LLP: provide legal advice on issues such as interpretation of pensions legislation and Scheme rules.

Independent investment advisers

Andrew Threadgold, Geoff Lindey, Allenbridge EPIC Investment Advisers Ltd: provide independent advice for the Trustees on investment strategy and decisions.

Scheme updates

Active members



Transferring benefits

We explained in the January 2008 In Focus that new regulations governing the method of calculating transfers from one scheme to another were expected during the year and the effect of these changes would be to increase transfer values. The new regulations took effect in October 2008. NAPS adopted the new calculation methodology in July 2008. The regulations also moved the responsibility for determining Cash Equivalent Transfer Values from the Actuary to the Trustees and this approach was formally adopted in October 2008.

Buying AVC pension

Members paying into one of the Scheme's three AVC plans can use their AVC fund at retirement to buy extra pension called an 'annuity'. To help provide information to members on the different annuities available from a selection of external providers, the Trustees have appointed the annuity broker Hargreaves Lansdown. Members are provided with annuity quotations at retirement. Should members wish to buy their annuity from a provider that is not on the Hargreaves Lansdown panel they can make their own arrangements using the open market option. (This does not affect the lump sum option which continues to be available at retirement where sufficient personal lump sum allowance is present).

Increase in early retirement age

The Finance Act 2004 changed the earliest age at which an individual can draw their pension from age 50 to age 55 from 6 April 2010.

NAPS members who wished to draw pension between age 50 and 55 before 6 April 2010 must have contacted the pensions team in good time to allow the necessary retirement forms to be dispatched, completed and returned ahead of the 6 April deadline. Forms returned after the deadline cannot be accepted. As the weekend before the 6 April 2010 is a bank holiday weekend, retirement forms must have been returned by 1 April having been obtained from pensions well ahead of this date.

Minor rule changes

The rule which allows a member suffering from serious ill health with a life expectancy of less than 12 months, to draw their pension as a lump sum payment has been updated to include the value of the Guaranteed Minimum Pension (GMP), which previously had to be left in the Scheme. A further minor change is in the process of being introduced and will permit members with small benefits valued as less than £2000 to take their benefits as a one off payment, as long as certain conditions are met. Further information can be obtained from Whitelocke House.

Tax changes for high earners

We have written to those members potentially affected by changes to tax relief on pension contributions for high earners. From 6 April 2011 tax relief will be restricted on pension contributions for those earning between £150,000 and £180,000 and only the basic rate relief will apply for those earning over £180,000. Further changes announced by HMRC mean that those with incomes of £130,000 or more may also be affected from 2011.

To prevent large amounts being paid into pension funds ahead of these changes, anti-avoidance measures were introduced from 22 April 2009. Members with relevant income in excess of £150,000 in the current or previous two tax years whose contributions exceed a special annual

allowance, could be subject to an additional tax charge. Normal regular contributions as defined by HMRC are allowed. The measures were extended in December 2009 to those with relevant incomes exceeding £130,000.

Members requiring further details should refer to the HMRC website and may wish to consult an independent financial adviser.

Notice of Wish

By completing a Notice of Wish form, you can guide the Trustees as to how you wish any death in service lump sum benefits to be distributed. While it is not binding on the Trustees the Notice of Wish does provide an influential guide. You may have completed a Notice of Wish when you first joined NAPS, however whenever your circumstances change you should consider whether your Notice of Wish needs updating. A Notice of Wish form only applies to the distribution of a lump sum benefit which can become payable in the event of death. This type of payment applies mainly in respect of active members of the Scheme, although a small payment would be applicable in the event of the death of a deferred or immediate pensioner where benefits received from the Scheme are lower than the member contributions that had been paid to the Scheme during the period of membership. A Notice of Wish form can be obtained from www.mybapension.com by clicking on 'forms'.

Pensioners

Pensioner Contact Scheme

Have you ever thought about giving up some of your time to become a British Airways Pensioner Contact? The Pensioner Contact Scheme (PCS) provides an important service to the British Airways Pensioner Community giving help when required or support in times of distress or need. All that is needed is common sense, enthusiasm, access to the internet and an email account. You can find details of the scheme, together with the 'duties' of a pensioner contact or co-ordinator, on the pensioner contact website www.bappc.com - click on 'handbook (short)' on the right hand menu. The PCS relies on the support of its volunteers and without them will cease to exist. If you wish to volunteer or for a list of current vacancies - please contact liaison.1.council@ba.com

Pension increase

For most pensioners there will be no increase to Scheme pensions in April 2010. This is because NAPS pensions are increased in line with orders issued by the Government (capped at 5%) and are based on the change in the retail price index (RPI) over a given period. The change in the RPI as at September 2009, which is the relevant date for the April 2010 adjustment, was -1.4% (negative 1.4%). Pensions in payment however will not be reduced, instead they will remain at their present value, despite the period of negative inflation. If you chose to buy an increasing pension from NAPS with your AVC account at retirement, this portion of your total pension payment will continue to receive a 5% increase in April. The Department for Work and Pensions (DWP) have confirmed that the Guaranteed Minimum Pensions (GMP) for those over State Pension Age will also remain at the 2009 level. We will write to all pensioners as usual towards the end of April, once the Government has issued its order, to confirm the amount of pension payable from April 2010. Pensioners from British Caledonian or Davies & Newman/Dan Air who have different increase arrangements will continue to receive the increase applicable to the rules of the relevant arrangement.

Pensioners and deferred pensioners

Are your records up-to-date?

If you are a pensioner or deferred pensioner it is vitally important that you keep the pensions team up-to-date with any changes to your personal details. We are noticing an increase in 'returned mail'. If you have moved, lost your spouse or partner, have remarried, divorced, or had children you should write and inform the team at Whitelocke House immediately to ensure that you continue to receive important information about your Scheme and to avoid any unnecessary delays when paying death benefits. **Active employees do not need to inform the pensions team as any changes to personal circumstances are fed to Whitelocke House automatically by British Airways.**

Telephone number

Finally please note that our telephone number changed in 2009. You can contact our customer services team on 020 8538 2100 or email us on enquiries@bapensions.co.uk