



In Focus

September 2008

No improvement to funding level this year

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 despite the substantial cash injections made by BA. It is not expected that the investment and economic environment will become more favourable in the period to the next formal valuation.

Annual funding statement



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

You might recall that, after the last full formal valuation in 2006, we agreed a 10-year recovery plan with British Airways with the intention of clearing the deficit by 2016. When we reported last year's interim annual funding position we confirmed that the actual level of funding was estimated to be 83% of the amount required to provide the promised benefits under the rules of the Scheme (known as the 'technical provisions'). One year on this would be expected to have improved, but in fact it is still 83%.

31 March 2006	31 March 2007	31 March 2008
74%	83%	83%

The last year has seen a significant change in global economic conditions and NAPS has, of course, been affected by these. The three key factors which contribute to the 31 March 2008 estimated funding level of 83% are:

1. The actual returns on investments for the year were lower than the return which had been assumed. Effectively, the returns we received were below our long-term expectations. Although our fund managers have performed well when compared to the benchmarks we have set them, (see page 5 for further details) the Scheme's investments only managed to maintain their value over the year.

2. 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. Although the 2008 funding level is the same as the 2007 funding level in percentage terms, in fact the monetary value of the estimated deficit has increased from £1,320m (as at 31 March 2007) to £1,539m. (The Q&A section provides more information.)

3. Although the pace of improvement is slower than anticipated, the position would have been worse but for the additional contributions paid by the Company in accordance with the recovery plan agreed by the Trustees and the Company in 2006/07. In addition to normal contributions BA pay regular deficit contributions of £131m a year (increasing each year in line with prices) and have also made additional lump sum contributions totalling £850m.

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. At next year's full formal valuation we will check where we are in relation to the existing recovery plan, but that is only one part of the work we will need to do. We will also need to look again at how life expectancy might have improved, reassess our views of long-term investment conditions and assess the Company's long-term ability to pay off both the current deficit and any new amounts that might be disclosed next year.

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 lock-in any profits which the Scheme may make.

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 65% to 61%. 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.

Key message

In summary, the estimated funding level is lagging behind where we would like to be under the 2006 recovery plan. That plan is scheduled to run until 2016 and the Trustees will continue to monitor progress in relation to that plan. The 2009 valuation will be an opportunity to negotiate a new plan with the Company in the light of the position shown by the 2009 funding valuation process.

Annual Funding Statement - Q&A

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

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.

How can the funding level still be 83% if the value of the deficit has increased?

The deficit is the gap between the value of the NAPS assets and the value of the liabilities (effectively future pension payments).

Date	31 March 2007 (£m)	31 March 2007 (£m)	31 March 2008 (£m)
Technical Provisions (Liabilities)	7,941	7,921	8,906
Assets	5,846	6,602	7,367
Deficit	2,095	1,319	1,539
Funding Level	74%	83%	83%

The reason that the funding level has remained the same although the deficit has increased is because while the value of the liabilities has increased so too has the value of the assets. Investment conditions were unfavourable over the period 2007/08 and the increase in the asset value is primarily due to additional deficit contributions paid by BA. In 2007/08 these lump sum payments, which were additional to BA's normal pension contributions and regular deficit contributions, totalled £610m.

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.

Will the Trustees and BA change the existing recovery plan?

The current plan is intended to repair the deficit which arose in relation to the 2006 valuation results. The terms of this plan are scheduled to extend to 2016. A plan to deal with any new deficit revealed at the 2009 funding valuation will need to be agreed with BA.

The key features of the current recovery plan are:

- In addition to normal contributions, BA will pay regular deficit contributions of £131m a year (increasing each year in line with prices). (BA has already made additional lump sum contributions totalling £850m, £240m of which was paid in 2006/7 and £610m in 2007/8)
- BA may pay an additional lump sum of £50m depending on the Company's 2009 financial results
- BA arranged for a £150m guarantee to be provided by a third party which the Trustees can call on in certain circumstances e.g. if BA became insolvent. The current value of the guarantee is £100m, reflecting the additional lump sum payment of £50m paid by BA to the Fund in 2008

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:

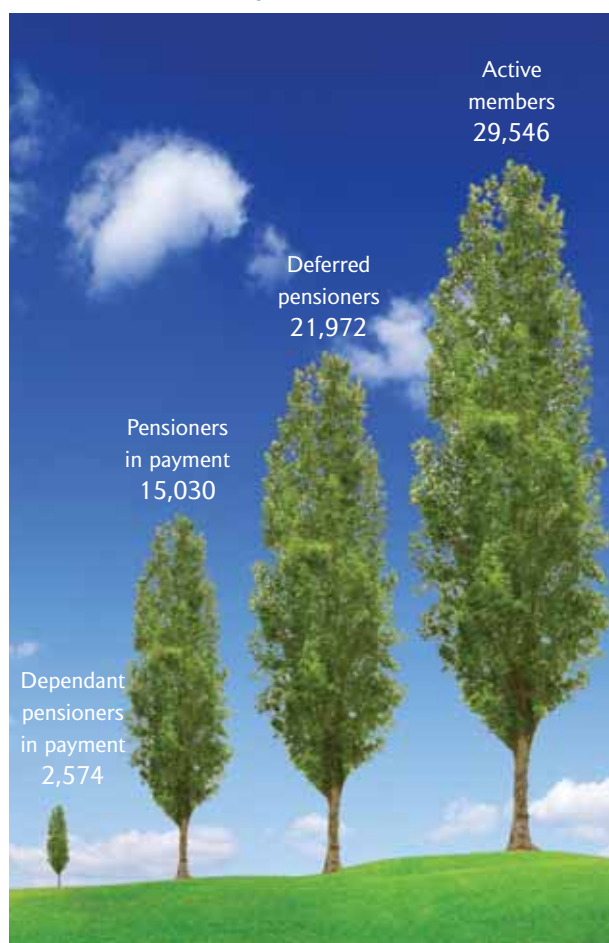
Monies in and out of NAPS

The table below shows the income and expenditure of NAPS during the year

Money into NAPS	£m
Total contributions received	984.2*
Transfers in	1.2
Other income	4.8
Investment income	213.4
Total income	1,203.6
Money out of NAPS	£m
Benefits	193.1
Leavers	13.3
Administration expenses	5.6
Investment management expenses	4.7
Total expenditure	216.7
NAPS Fund value	£m
Value of assets as at 1 April 2007	6,602.0
Total income	1,203.6
Less total expenditure	(216.7)
Changes in market value of investments	(222.1)
Value of Fund at 31 March 2008	7,366.8

* this includes the two lump sum payments, totalling £610m, paid by British Airways during the year as part of the agreed deficit recovery plan

Scheme Membership



Trustee matters

Following a ballot, Ian Rycraft was re-elected as a Member Nominated Trustee by the Engineering and TMG's constituency. In addition, Ian Bretherton was re-appointed unopposed as a Member Nominated Trustee from the Pilots constituency.

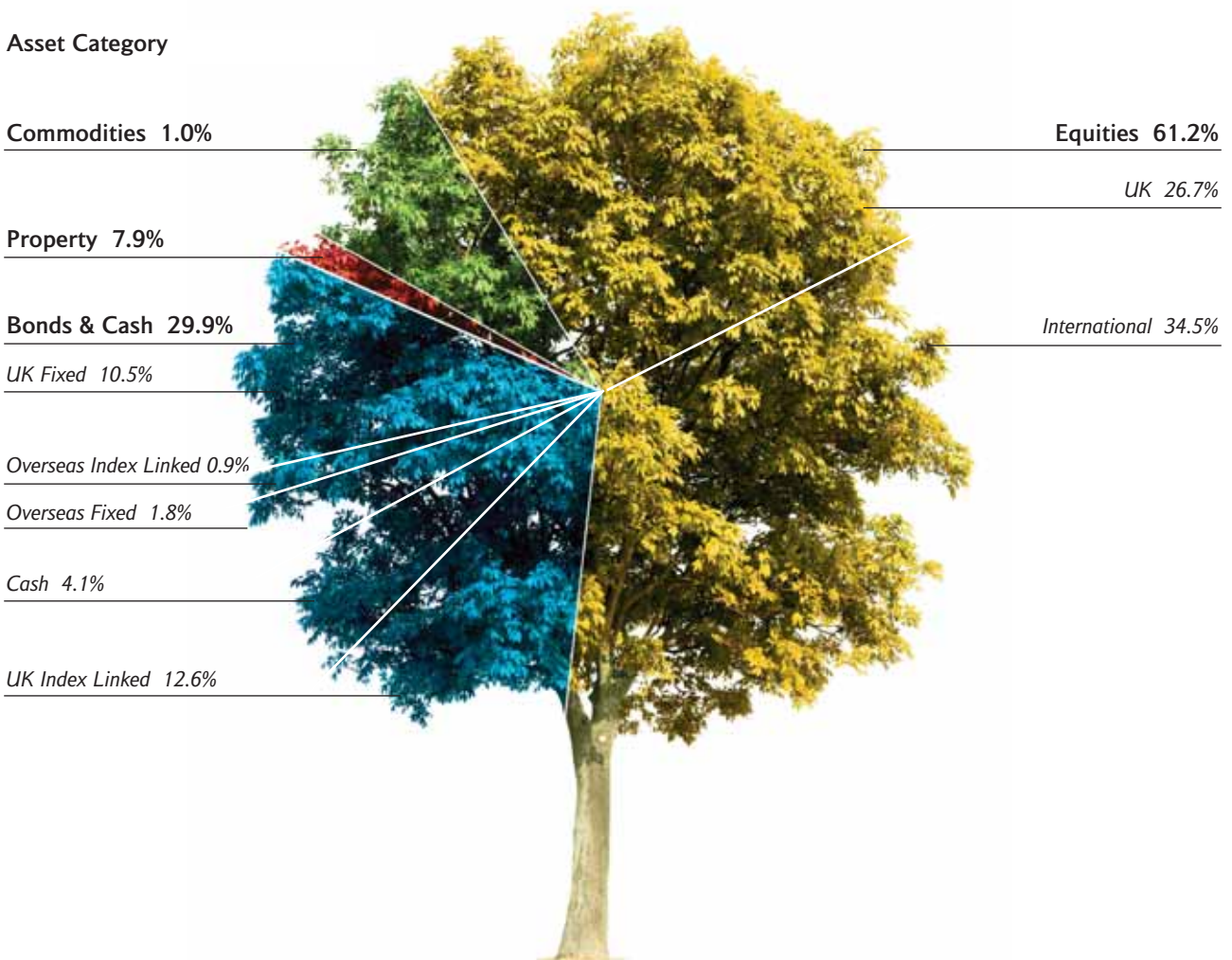
Investment Matters

We have continued to monitor and, where necessary, adjust the investment allocation of the fund and in particular have set up a dynamic switching framework so that when market conditions allow we are able to

quickly lock in funding profits for the Scheme. This switching mechanism was referred to in the Statement of Investment Principles (SIP) issued in December 2007 which was subsequently amended, in May 2008, to reflect a minor adjustment to the asset allocation policy. 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



Investment Performance

British Airways Pension Investment Management Ltd (BAPIML) manages the NAPS funds. During the period under review the fund outperformed its target returning 0.0% compared to a benchmark return of -1.36%. The longer-term performance is shown in the table below:

	NAPS %pa	Benchmark %pa
2008 1 Year	0.0	-1.36
2006/2008 3 Years	10.10	9.78
2004/2008 5 Years	12.67	12.64
1999/2008 10 Years	6.00	5.75

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 however be based on the lower part-time pay.

Members taking a drop in their pensionable pay (e.g. moving to a lower-paid job perhaps as a result of changing employment category) 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 required 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.

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 NAPS. 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 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.

Active members are reminded that the minimum pension age moves from age 50 to age 55 from 6 April 2010. Members over age 50 but under age 55 on 6 April 2010 should bear this change in mind when considering their retirement planning. (This does not affect ill health pensions which are subject to different rules and can be paid before 50 or 55). The change means that a member over age 50 and under 55 who could have started to draw their scheme pension prior to 6 April 2010 will, following 6 April 2010, need to wait until age 55 before they may start to draw their pension. If any further information regarding the changes is needed members should contact Whitelocke House.

Where can I get more information?

As always, copies of past editions of In Focus, the full Annual Report & Accounts, the SIP, the Statement of Funding Principles and the Recovery Plan 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