

Letter from Chairman of the NAPS Trustees, sent to active NAPS members, September 2006:

Dear NAPS active member

The New Airways Pension Scheme actuarial valuation up-date

In our last *In Focus* newsletter we said that we would come back to you in the autumn when we had further information to report regarding the actuarial valuation.

To recap on what we communicated previously; we have employed PricewaterhouseCoopers (PwC) to independently assess the longer term financial stability of British Airways and to give us a view as to what British Airways can afford to pay into NAPS. The advice we have received indicates that British Airways could make a cash lump sum available to the Scheme of more than the £500m it has proposed. However, its ongoing contributions to the Scheme could not be much in excess of the current level of around £240m a year. Of this level of contribution, about half pays for the cost of future pension build up and about half is used to pay off the current deficit in respect of past pension built up.

After taking advice from our independent Actuary we have now analysed all of the information available to us and have agreed a set of factors surrounding the Scheme and, in particular, about how future life expectancy might continue to improve and what kind of investment returns the Scheme might expect to make over the longer term. Taking all of the factors into account, preliminary results show that the contributions needed to cover future pension build up have increased from around £120m a year to an estimated £238m a year, and the deficit in respect of past pension built up has increased as follows:

Liabilities	£7,907 million
Assets	<u>£5,845 million</u>
Deficit	<u>£2,062 million</u>

This compares with a deficit of £928m at 31 March 2003 (the previous valuation results) and is despite the increased contributions British Airways has paid to the Scheme over the last 3 years.

Taking account of the increased future pension build up costs of £238m, to pay off the deficit over say, 10 years, would cost British Airways a total of £497m each year. This is clearly greater than the amount that PwC are advising us that the Company can afford and so other funding methods need to be considered.

Part of the deficit could be closed by a cash injection from British Airways. PwC has advised the Trustees that British Airways needs a substantial cash cushion to protect itself from issues such as global terrorist attacks, downturn in global economy, pandemics etc., but it has also advised us that British Airways could provide more than the £500m it has proposed. As we said in the last *In Focus* we will be negotiating for an increase in the cash injection, but realise that any possible increase will still not fully close the deficit. We believe that changes to future benefit build up will be necessary to fully close the deficit.

We have shared the information contained in this letter with British Airways and they in turn will share it with the Trades Unions to enable them to resume discussions about how future benefit changes might be implemented to help reduce costs and reduce this deficit.

Finally, we want to stress that while the security of the Scheme is relevant to all beneficiaries, only Active Members will be affected by any changes to the future build up of benefits. Pensioners' benefits will not be affected.

We will keep you updated on events and write to you again as the process moves forward.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R Maynard', written in a cursive style.

Roger Maynard  
Chairman of Trustees