

## Letter from the Chairman of the APS Trustees, sent to APS members July 2009.

Dear APS member

### Pension Scheme Update

This update is provided for information purposes only. No action is required.

As advised in our April 'In Focus' communication, the triennial valuation process is underway. This is a complex and lengthy process. The results of this process will not be known for some time but early indications are that there will be a funding deficit. We have already started discussions with British Airways (BA) regarding the ongoing funding position and security of the Scheme. These discussions will be continuing throughout the summer into the autumn, and possibly into next year.

Our initial discussions have focussed on the immediate issues arising from the difficult financial conditions facing the airline industry globally. During these discussions the Trustees acknowledged that the best means of delivering members' benefits is to have the continued support of a viable employer. The Trustees carefully monitor the financial position of BA, the Scheme's sponsoring employer. PricewaterhouseCoopers are engaged by the Trustees to provide year round monitoring of the employer's covenant (i.e. the strength of the company and its ability to pay contributions), but their remit is extended in a valuation year to provide the Trustees with a comprehensive evaluation of BA's strength and to give a view on what the employer can reasonably afford to pay to the Scheme over the short and longer term.

It is apparent to the Trustees that improving the Company's liquidity position (i.e. the amount of cash the Company has available) in the short term is very important. An improved liquidity position will serve as a buffer to sustain BA through difficult trading conditions while it makes permanent changes to its cost base to ensure its ongoing viability. Further, the liquidity will enable the Company to withstand other adverse events to which the airline industry and/or BA specifically may be subject.

As part of the 2006 funding valuation process the Trustees and BA agreed that the Scheme would be given a guarantee, provided by an external financial institution, to the value of £230m which was accessible by the Trustees in the event of Company insolvency. Following a request from BA and after taking extensive financial, actuarial and legal advice the Trustees have agreed to allow the phased replacement of the existing guarantee with alternative security. This will allow BA to use the financing facility that underpins the current guarantee to improve its liquidity position. It is important to stress that no cash will be transferred from APS to BA and that both the guarantee and the security that will replace it can only be used in the event of Company insolvency. The Trustees are advised and are satisfied that this measure, taken together with other corporate activities and initiatives, will serve to improve the financial position and prospects of the Company with a view to meeting its obligations to the Scheme.

The longer term discussions aimed at remedying the deficit, which will be calculated as part of the 2009 valuation process, will continue with both the Trustees and the Company working together to agree a long term recovery plan to repair the deficit.

We will of course keep you updated on developments during the year as the valuation process continues.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Maynard'. The signature is fluid and cursive, with a large initial 'R' and a long horizontal stroke at the end.

Roger Maynard  
Chairman of Trustees