

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

Dear NAPS 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 substantial 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.

In 2006 the Trustees agreed a recovery plan with BA which had three main elements:

1. A cap on pensionable pay,
2. Payments of £800m from BA to NAPS (£240m was paid in February 2007 and £560m in April 2007), and
3. Annual deficit contributions (paid in addition to future pension build up costs) of £126m per year.

In addition the plan provided for a financial guarantee of £150m to be available to the Scheme in strictly limited circumstances including Company insolvency. The final feature of the agreed arrangements was that BA would pay three further payments of £50m in 2007, 2008 and 2009 in the event that certain financial conditions were met and the £150m financial guarantee would be reduced to take account of any such payments. The conditions were met in 2008 and a payment of £50m was made to NAPS in March 2008 and the guarantee amount was duly reduced to £100m.

Following a request from BA and after taking extensive financial, actuarial and legal advice the Trustees have agreed to release the £100m guarantee to BA. This will allow BA to use the financing that underpins the guarantee to improve its liquidity position and strengthen BA's position in the current trading environment. It is important to stress that no cash will be transferred from NAPS to BA. The Trustees are advised and are satisfied that this short term 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', with a large loop at the start and a long horizontal stroke at the end.

Roger Maynard  
Chairman of Trustees