Airways Pension Scheme

Actuarial valuation as at 31 March 2012

28 June 2013

TOWERS WATSON

Summary

The main results of the Scheme's actuarial valuation are as follows:

- The technical provisions funding level as at 31 March 2012 has increased to 91.5% (2009: 85.2%) – see page 8 for details

- Shortfall of assets relative to technical provisions (ie deficit) has decreased to £680 million (2009: £1,030 million)

- The recovery plan implemented to address the Scheme's funding shortfall is expected to achieve full funding on the technical provisions assumptions by 31 March 2023, which is 11 years following the valuation date (2009: 14 years)

- The Scheme Actuary's statutory estimate of solvency as at 31 March 2012 has increased to 82.6% (2009: 78.2%)

- The Trustees and the Company have agreed that the Company will continue to pay contributions in line with those agreed following completion of the actuarial valuation as at 31 March 2009 – see pages 9 and 10 for details.

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Throughout this report the following terms are used:

Scheme
Airways Pension Scheme

Trustees
The Management Trustees of the Airways Pension Scheme

Company
British Airways plc and other participating employers

Trust Deed & Rules
The Scheme's Trust Deed and Rules dated 1 April 2008, as subsequently amended by supplemental deeds executed between 1 April 2008 and the valuation date

Introduction

Scope

This is my report on the actuarial valuation of the Airways Pension Scheme as at 31 March 2012. I have prepared it for the Trustees, who should forward a copy to the Company along with any recommendations in accordance with Clause 11(a) of the Trust Deed. The actuarial valuation is required under the terms of Clause 11 of the Scheme Rules and Part 3 of the Pensions Act 2004. The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory and subsidiary funding objectives, and to determine the appropriate level of future contributions.

This report explains the financial position of the Scheme at 31 March 2012 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2009. It also describes the strategy that has been agreed between the Trustees and the Company for financing the Scheme in future and provides projections of the funding position at the expected date of the next valuation. Finally it sets out additional information related to the actuarial valuation of the Scheme as at 31 March 2012, including risks faced by the Scheme, membership data and asset information.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards regarding pensions, reporting actuarial information, data and modelling.

Next steps

The Trustees are required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out as at 31 March 2015.

In the intervening years the Trustees will need to obtain annual actuarial reports on developments affecting the Scheme's assets and technical provisions. The next such report has an effective date of 31 March 2013 and must be completed by 31 March 2014.

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
28 June 2013

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Limitations

Third parties

This report has been prepared for, and at the request of, the Trustees for the purposes indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustees bear the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustees' responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Assumptions

The choice of assumptions, as set out in the Scheme's Statement of Funding Principles dated 28 June 2013, is the responsibility of the Trustees, in agreement with the Company, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustees and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

Funding

Funding objectives

The Trustees' funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions (ie the amount that the Trustees, with the Company's agreement, have determined is required for the provision of the Scheme's liabilities).

In addition to the statutory funding objective, the Trustees have a subsidiary funding objective, which is to be able to provide benefits in accordance with the Scheme Rules with a very high level of security on a self-sufficiency basis without reliance on further support from the Company. For this purpose the Trustees will calculate the value of the liabilities allowing only for investment returns from virtually risk-free assets such as gilts and will include suitable loadings to cover risks and expenses. The Trustees will have regard to the Scheme's anticipated progress towards meeting this subsidiary objective when deciding on funding matters and the Company has acknowledged that over time the calculation of technical provisions will converge towards the liabilities determined in accordance with this subsidiary objective. A high priority will be placed on the need for continued progress towards this objective at the next valuation, due as at 31 March 2015.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Only benefits accrued in respect of service up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Scheme over the next 70 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2012 have been agreed between the Trustees and the Company and are documented in the Statement of Funding Principles dated 28 June 2013, which is reproduced in the Additional Information section of this report. These methods and assumptions implicitly assume that the Scheme is not discontinued.

Financial assumptions as at 31 March 2012

The financial assumptions were determined in the light of investment and economic conditions as at 31 March 2012.

The benefits covered by the buy-in contract are treated consistently within both the assets and the liabilities with the valuation based on the value placed in the Scheme's accounts.

Discount rate (past service)

The present value of the liabilities not covered by the buy-in contract is derived using term-dependent discount rates from the full nominal gilt curve at the valuation date, with an addition of 0.4% per annum (0.5% at 31 March 2009) at all durations. The single equivalent discount rate weighted by the relevant liability cashflows at the valuation date is approximately 3.61% per annum (4.70% per annum at 31 March 2009).

Discount rate (future service)

The present value of the liabilities in respect of future service is derived using term-dependent discount rates from the full nominal gilt curve at 31 March 2012 with an addition of 1.05% per annum at all durations.

Price inflation (RPI)

The RPI assumption is derived from the difference between the full index-linked and nominal gilt curves at the valuation date. The single equivalent RPI assumption weighted by the relevant past service liability cashflows at the valuation date is 3.35% per annum which compares with 3.06% per annum as at 31 March 2009.

Price inflation (CPI)

The CPI assumption is derived from the RPI assumption and the long-term expected differential between RPI and CPI (0.75% per annum). There was no equivalent assumption for CPI as at 31 March 2009.

Salary increases

In relation to general increases in Pay for Pension Purposes, the assumption reflects a zero increase for the first year, followed by increases in line with RPI in each future year. The equivalent assumption as at 31 March 2009 was derived in a consistent way however zero increases were assumed for the first two years.

Pension increases

The main pension increase assumption at 31 March 2012 is derived from RPI and CPI, adjusted for the timing of actual pension increases and the pension increase awarded in April 2013 of 2.2%. To allow for possible discretionary increases, pension increases are assumed to transition linearly from CPI in April 2013 to RPI from April 2023 onwards. The Trustees will consider at least annually whether a discretionary increase may be awarded, and the size (if any) could be higher or lower than the allowance in the technical provisions. An additional margin of 0.1% per annum is included from

April 2023 onwards to allow for the possible impact of the 0% floor on RPI pension increases in any subsequent year. The equivalent assumption as at 31 March 2009 was derived from RPI, adjusted for the timing of actual pension increases, the pension increase awarded in April 2010 of 0%, plus an additional 0.1% per annum to allow for the possible impact of the floor on pension increases of 0% in any future year.

All other pension increase assumptions are derived from the relevant inflation assumption as described above, with appropriate allowance for caps and floors in each future year.

Subsidiary funding objective

For the purposes of this report, the financial assumptions that I have used to calculate the subsidiary funding objective are the same as those used to calculate the technical provisions with the exception of the discount rate. As with the technical provisions, the discount rate is derived using term-dependent discount rates from the full nominal gilt curve at the valuation date, however for the subsidiary funding objective there is no additional margin. As the Scheme moves closer towards the subsidiary funding objective, greater consideration will be given to the appropriate allowance to be made for risks and expenses. It should also be noted that the subsidiary funding objective assumptions would need to be considered further if the value was to be used for other purposes. In particular, suitable loadings for risks and expenses would need to be considered in more detail.

Statistical assumptions as at 31 March 2012

The key demographic assumptions used to calculate the technical provisions are the mortality rates that are assumed to apply in the year following the valuation date (the 'base table' of mortality) and the allowance for future reductions in mortality rates. The base tables of mortality assumed at 31 March 2012 and 31 March 2009 are summarised below. These are based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. These tables were then calibrated, based on the results of a Generalised Linear Model (GLM) mortality analysis, to reflect the demographic profile of the Scheme (by reference to age, gender, category of membership, category of occupation, pension amount and postcode).

Group	31 March 2012	31 March 2009
Male non-pensioners with:		
- Low pensions*	**87% of S1PML**	86% of S1PML
- High pensions*	**113% of S1PMA_L**	103% of S1PMA_L
Female non-pensioners	**85% of S1PFA**	83% of S1PFA
Male dependants of non-pensioners	**124% of S1PMA**	107% of S1PMA
Female dependants of non-pensioners	**90% of S1DFL**	94% of S1DFL
Male pensioners with:		
- Low pensions*	**88% of S1PML**	84% of S1PML
- High pensions*	**91% of S1PMA_L**	91% of S1PMA_L
Female pensioners	**93% of S1PFA**	89% of S1PFA
Male dependants of pensioners	**123% of S1PMA**	115% of S1PMA
Female dependants of pensioners	**87% of S1DFL**	86% of S1DFL

* Low pensions are classed as being lower than £23,600 pa at 31 March 2012 and being lower than £21,800 pa as at 31 March 2009; high pensions are higher than the specified limits

At 31 March 2012 an allowance for future reductions in mortality rates has been included based on the CMI's 2011 core projection model, with an explicit allowance for long-term trend reductions in mortality rates of 1.5% per annum. At 31 March 2009 an allowance for future reductions in mortality rates was included based on the medium cohort improvement factors issued by the CMI, subject to a minimum annual rate of improvement of 1.25% per annum.

For those benefits covered by the longevity swap contract, the demographic assumptions (including the marital statistics) are based on the assumptions used for the valuation of this contract within the Scheme's accounts. At 31 March 2012 this approach was equivalent to a net decrease of 3.3% to the value of the benefits covered by the longevity hedge swap compared with the value using the demographic assumptions specified in this report.

Administrative and other non-investment expenses (except Pension Protection Fund levies) are met in full by the Scheme and the capitalised value of the expected amount of all future expenses included in the determination of technical provisions is equal to 1.0% of the technical provisions (2009: 0.75%).

Details of the other demographic assumptions used for this actuarial valuation are documented in the Statement of Funding Principles included in the Additional Information section of this report.

The statistical assumptions used for the subsidiary funding objective are the same as those used to calculate the technical provisions.

Past service results – comparing assets with technical provisions

The table below compares the Scheme's technical provisions at the date of the actuarial valuation with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 March 2012 £m	31 March 2009 £m
Amount required to provide for the Scheme's liabilities of:		
Employed members in respect of service up to the valuation date	**627**	783
Deferred pensioners	**251**	267
Pensioners and dependants*	**6,998**	5,809
AVCs	**41**	44
Reserve for expenses	**78**	52
Technical provisions	**7,995**	6,955
Market value of assets	**7,315**	5,925
Past service deficit (technical provisions less assets)	**680**	1,030
Funding level (assets ÷ technical provisions)	**91.5%**	85.2%

* The pensioners and dependants liability value as at 31 March 2012 includes adjustments for the values of the buy-in and longevity swap contracts of £146m and -£45m respectively to ensure consistency between the values in the accounts and the values allowed for in the technical provisions

The corresponding funding level on the subsidiary funding objective is 87.5% as at 31 March 2012 (2009: 79.7%).

Developments since the last valuation

Since the last valuation, the past service deficit has decreased from £1,030 million as at 31 March 2009 to £680 million as at 31 March 2012. The main factors for this are shown in the chart below.

Note: The figures in this analysis are approximate and depend on the order in which the items are analysed

Contribution requirements

Future accrual of benefits

The Company contribution rate that is required, in addition to Scheme members' normal contributions, to meet the cost of the benefits that are expected to be earned between this valuation and the next is 34.7% of Pay for Contribution purposes per annum for all members that are still in service.

This rate has been calculated using the method and assumptions described in the Statement of Funding Principles. The Trustees and the Company have agreed that the Company will pay future service contributions at the rate above from 1 July 2013 with payments being made by the nineteenth day of the month after the month in which they fall due.

In addition to the Company rate outlined above, the employers will contribute an amount equal to the normal contributions that would otherwise be payable by those members who participate in the Scheme's salary sacrifice arrangement. An allowance is included in the Company future service contribution rate for administration expenses, but not for Pension Protection Fund levies as these are paid to the Scheme in full by the Company following receipt of the relevant invoices from the PPF Board. The above Company contribution rate does not relate to the payment of Additional Voluntary Contributions.

The Company will pay additional contributions of 4.5% of Pay for Contribution Purposes in respect of members who elect to link increases in their "Pay for Pension Purposes" to increases in their Pay. These contributions will be paid from the date the election is effective.

The Company future service contribution rate has been calculated as the rate required, in addition to the contributions payable by members, over the year following the valuation date to meet the cost of benefits expected to be accrued over that year. On this basis, this rate will be sufficient, if the assumptions are borne out in practice, to cover the accrual of benefits in the future provided the gender and salary profile of the employed membership remains stable.

As the Scheme is closed to new entrants, the average age of its active membership is expected to rise in future. When this happens the contribution rate required to cover accruing benefits is very likely to rise as there will then be a shorter period over which investment returns can be earned on the contributions. By contrast, the cash amount required to meet this cost may eventually fall because the number of members to whom the rate applies will fall as active members leave service, retire or die.

Recovery plan

As there were insufficient assets to cover the Scheme's technical provisions at the valuation date, the Trustees and the Company are required to agree a recovery plan. This specifies how, and by when, the statutory funding objective is expected to be met.

The Trustees and the Company have agreed a recovery plan such that:

- the Company will pay additional contributions to the Scheme at a rate of £4,583,333 per month until 31 March 2023; and

- if the assumptions documented in the recovery plan are borne out in practice, the deficit will be removed by 31 March 2023. This includes an allowance for investment returns at 0.3% per annum in excess of the discount rate.

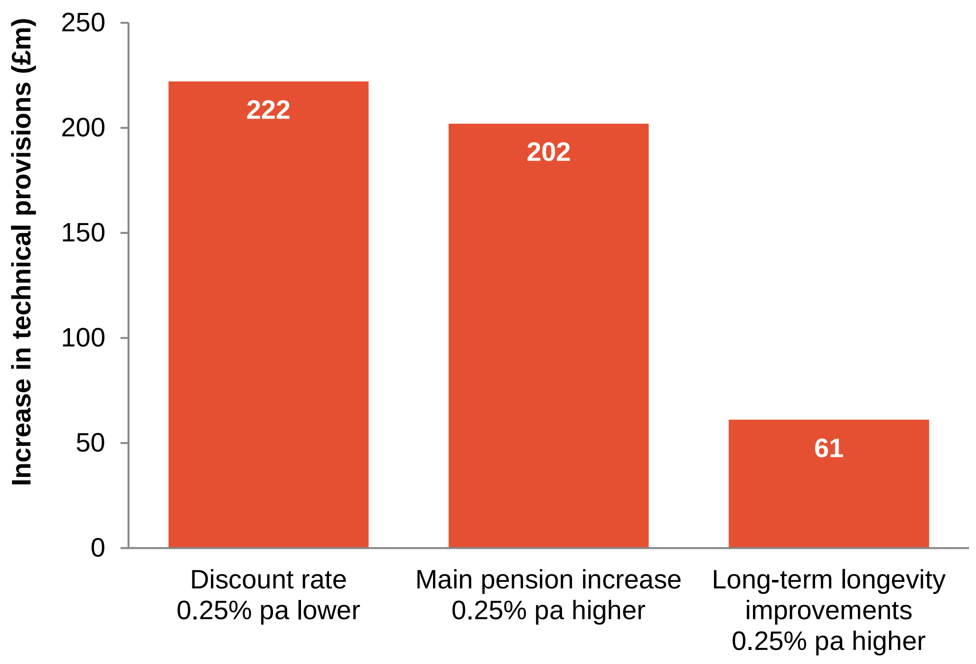
The Trustees have agreed with the Company an allowance for investment out-performance as part of the new recovery plan. However, the continued suitability of this will be reviewed at future valuations, and considered alongside the Trustees' future plans for investment de-risking, with an aspiration to reduce or eliminate the reliance on out-performance in future recovery plans.

The Trustees and the Company have agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. As part of these arrangements, a one-off payment of £3,750,000 was paid in June 2012 as part of the cash sweep arrangement. These arrangements also include a contingent payment of £250 million in January 2019.

Projections and sensitivities

Based on the assumptions underlying the recovery plan and allowing for contributions to be paid to the Scheme as described above, the funding level is projected to improve from 91.5% to around 93% by the expected date of the next actuarial valuation (31 March 2015).

The chart below illustrates the sensitivity of the technical provisions as at 31 March 2012 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Solvency

Discontinuance

In the event that the Scheme is discontinued, employed members would crystallise their benefits and become deferred pensioners in the Scheme with no entitlement to further accrual of benefits. The Scheme would then have liabilities comprising:

- the pensions payable to pensioners and deferred pensioners (and contingent pensions payable to their dependants);
- future increases to the deferred pensions;
- future increases to pensions whilst in payment; and
- future expenses.

If the Scheme's discontinuance is not the result of the Company's insolvency, the Company would be required to pay to the Scheme any shortfall between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme's assets (the "employer debt"). The Trustees would then normally try to buy insurance policies to secure future benefit payments. However, the Trustees may decide to run the Scheme as a closed fund for a period of years, for example if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Scheme's discontinuance is a result of the Company's insolvency, the "employer debt" would still be due, but it is likely that only a small percentage of it would be recoverable. The Scheme would be assessed for possible entry to the Pension Protection Fund ("PPF"), and if the assets (including any funds recovered from the Company) were not sufficient to secure benefits equal to the PPF compensation with an insurance company then the Scheme would apply for members to be compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

The coverage for particular benefits in the event of discontinuance depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Company became insolvent;
- category 3 – any benefits in respect of defined benefit AVCs not dealt with above;
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustees with an estimate of the solvency of the Scheme at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the valuation date. For this purpose I have assumed that no further payments are received from the Company, although in practice certain payments and guarantees set out in a separate legal agreement may be available in such circumstances.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Towers Watson at around the valuation date. However, there is very limited evidence of the market for annuities that provide increases in line with Pensions Increase (Review) Orders or CPI and so for this purpose I have assumed that increases would be secured in line with RPI. I have assumed the cost of implementing the winding-up to be around £112 million (2009: £117 million).

The table below summarises the key assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation.

Financial assumptions	31 March 2012 % pa	31 March 2009 % pa
Pensioner discount rate(1)	**Gilts + 0.1%**	Gilts + 0.3%
Non-pensioner discount rate(1)	**Gilts - 0.4%**	Gilts - 0.4%
Deferred pension revaluation(2)	**RPI + 0.25%**	RPI + 0.3%
Pension increases(2)	**RPI + 0.25%**	RPI + 0.3%

(1) Term-dependent discount rates from the full nominal gilt curve at the valuation date with an addition or deduction as shown at all durations
(2) The RPI assumption is derived from the difference between the full index-linked and nominal gilt curves at the valuation date with an addition at all durations to allow for the expected cost of purchasing annuities with floor of 0%

The demographic assumptions used in the solvency estimate are as set out in the relevant Statement of Funding Principles, except that no allowance is made for the impact of members commuting pension for cash at retirement.

In calculating the solvency estimate I have used the financial and demographic assumptions for all benefits provided from the Scheme and have taken the asset values as shown in the audited Report and Accounts for the buy-in and longevity swap.

My estimate of the solvency position of the Scheme at 31 March 2012 is that the assets of the Scheme would have met 82.6% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2012 £m	31 March 2009 £m
Total estimated cost	**8,853**	7,576
Market value of assets	**7,315**	5,925
Solvency deficit (total estimated cost less assets)	**1,538**	1,651
Solvency level (assets ÷ total estimated cost)	**82.6%**	78.2%

The change in the solvency level from 78.2% to 82.6% is due mainly to the investment performance of the Scheme's assets being better than assumed, partially offset by an estimated increase in insurance company prices.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by buying the insurance policies required to secure the benefits.

My estimate of the cost of securing benefits with an insurance company of £8,853 million is £858 million higher than the Scheme's technical provisions of £7,995 million at the valuation date.

The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Company being able to support the Scheme in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Scheme without having recourse to future contributions from the Company. In addition, due to the market limitations noted above, the estimated cost of securing benefits with an insurance company allows for full RPI pension increases.

If the statutory funding objective had been exactly met on 31 March 2012 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 90.3%. This compares with 91.8% at the 31 March 2009 actuarial valuation. If the subsidiary funding objective had been exactly met on 31 March 2012 I estimate that the solvency level of the Scheme would have been 94.4%. This compares with 98.2% at the 31 March 2009 actuarial valuation.

Section 179 position

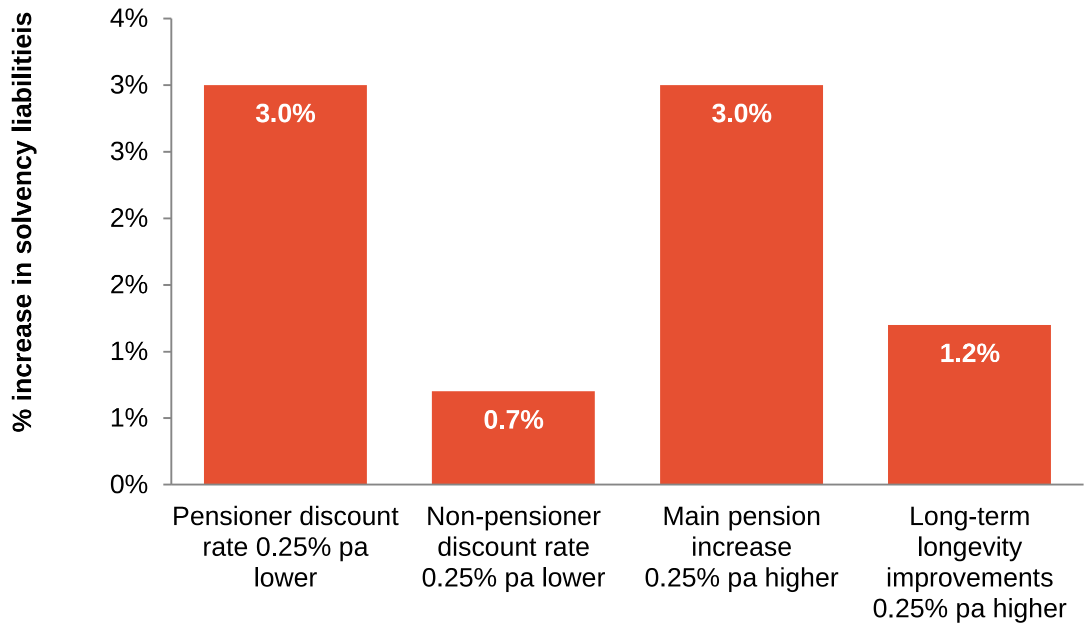
Under Section 179 of the Pensions Act 2004, the Trustees are required to provide the PPF with a valuation of the Scheme that the PPF can use to determine the levy it charges. This valuation uses assumptions specified by the PPF and covers only benefits similar to the PPF compensation benefits. I calculate that at 31 March 2012 the Scheme's assets covered 125% of the Section 179 liabilities.

As the Scheme assets covered the Section 179 liabilities as at 31 March 2012 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Company become insolvent at 31 March 2012, in which case members would have received more than the PPF compensation but only just over 82%, on average, of the full benefit entitlements after allowing for the expenses of winding up. A higher percentage might be possible depending upon the amount, if any, of recovery from the employer debt. The size of such recovery would also be influenced by the existence of certain additional security measures set out in a separate legal agreement between the Trustees and the Company. Nevertheless, it is unlikely that members' benefits could be provided in full following the Company's insolvency.

Projections and sensitivities

Based on the assumptions underlying the recovery plan and allowing for contributions to be paid to the Scheme summarised in the Funding section of this report, the solvency level is projected to increase from 82.6% to around 84% by the expected date of the next actuarial valuation.

The table below illustrates the sensitivity of the solvency position as at 31 March 2012 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Additional Information

Risks

The table below summarises the key risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	At each valuation the Trustees take advice from an independent specialist on the ability of the Company to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustees monitor the Company's financial strength regularly.
Investment returns on the existing assets could be insufficient to meet the Trustees' funding objectives	The Trustees take advice from the Scheme Actuary on possible assumptions for investment returns. For the calculation of the Scheme's technical provisions, the Trustees have adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustees are able to agree further contributions with the Company at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustees take this risk into account when determining the Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustees invest in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include index-linked bonds.
Falls in asset values may not be matched by similar falls in the value of the Scheme's liabilities	The Trustees consider this risk when determining the Scheme's investment strategy. It consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Company would be required to agree a recovery plan with the Trustees to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustees have adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary. The buy-in contract and longevity swap secured with Rothesay Life provide partial protection against the Scheme's mortality risk.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustees set the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Scheme's liabilities	The Trustees take legal and actuarial advice on changes in legislation and consult with the Company, where relevant.

Economic risk | Demographic risk | Legal risk

Benefit summary

The Scheme is a registered pension scheme under the Finance Act 2004 and is contracted out of the State Second Pension. The following is a summary of the benefits valued to determine the technical provisions at the valuation date:

Definitions	
Normal Retirement Age (NRA)	General Staff (60), Pilots and Air Cabin Crew (55)
Pay for Pension Purposes	Remuneration designated by the Employer as pay for these purposes.
Retiring Pay	The average of members' Pay for Pension Purposes during the best two years of the last five years of Contributory Service.
Contributory Service	Service in respect of which contributions have been paid to the Scheme.

Benefits	
Retirement at NRA	General Staff – a pension of 1/56th of Retiring Pay for each year of Contributory Service.
	Pilots and Air Cabin Crew – a pension of 1/52nd of Retiring Pay for each year of Contributory Service.
Retirement on ill health	An immediate pension calculated as for retirement at NRA but including one-half of potential future pension service as Contributory Service.
Lump sum on retirement	On retirement, part of the pension may be exchanged for a lump sum on terms decided by the Actuary from time to time.
Death after retirement	A spouse's pension of two-thirds of member's pension (accrued while Higher Rate contributions were made) which would have been in payment at the date of death assuming no pension was commuted at retirement. Children's allowances are also payable.
Death in service	A lump sum of three times the member's pay is payable.
	A dependant's pension equal to two-thirds of the pension which the member would have received at NRA had he not died in service, and for a Higher Rate contributor including one-half of future potential service as Contributory Service.

Benefits	
Leaving service	A deferred pension is payable from NRA based on Retiring Pay at date of leaving and past Contributory Service. Deferred pensions are revalued up to date of retirement in line with Pensions Increase (Review) Orders.
Pension increases in payment	Pensions in excess of any Guaranteed Minimum Pension (GMP) are increased in line with the Pensions Increase (Review) Orders. GMPs arising from service after 5 April 1988 are increased in line with GMP Increase orders.
Members' contributions	

	Higher Rate	Lower Rate*
General Staff	7.25%	5.75%
Pilots and Air Cabin Crew	8.50%	7.00%

In addition, members may elect to pay Additional Voluntary Contributions (AVCs) on the Trustees' published AVC terms.

* The Lower Rate is payable if spouses' benefits are excluded.

Members who participate in the Scheme's salary sacrifice arrangement pay nil member contributions. Instead the employers contribute to the Scheme an amount equal to the normal contributions that would otherwise be payable by these members.

Changes to the benefits

The Rule for pension increases refers to Pensions Increase (Review) Orders (as noted in the table above). The Government determines which inflation index should be used for the purpose of the Orders. Historically these had been linked to the Retail Prices Index (RPI) over a twelve-month period measured up to the end of September each year, but since 2010 the Government has based these on the rise in the Consumer Prices Index (CPI), with a stated intention that CPI will continue to be used in future years.

Discretionary benefits

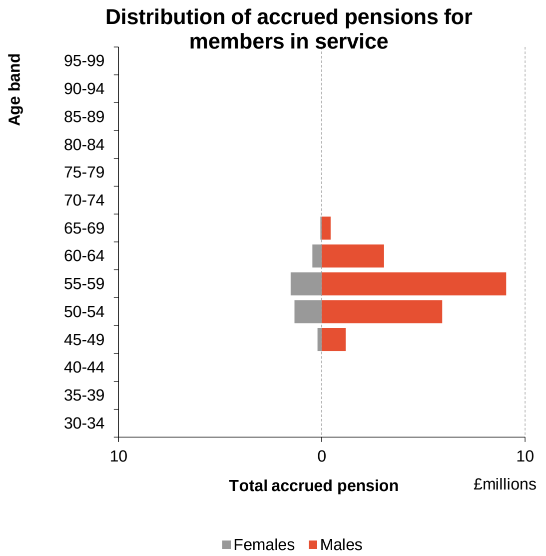
The Rules were amended in March 2011 to make available the option to award discretionary pension increases. The technical provisions are calculated assuming that discretionary pension increases are awarded such that pension increases transition linearly from CPI in April 2013 to RPI from April 2023 onwards. The Trustees will consider at least annually whether a discretionary increase may be awarded, and the size (if any) could be higher or lower than the allowance in the technical provisions.

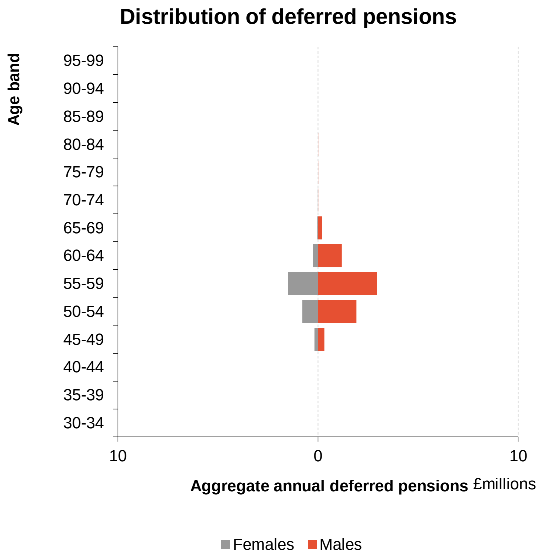
Uncertainty about the benefits

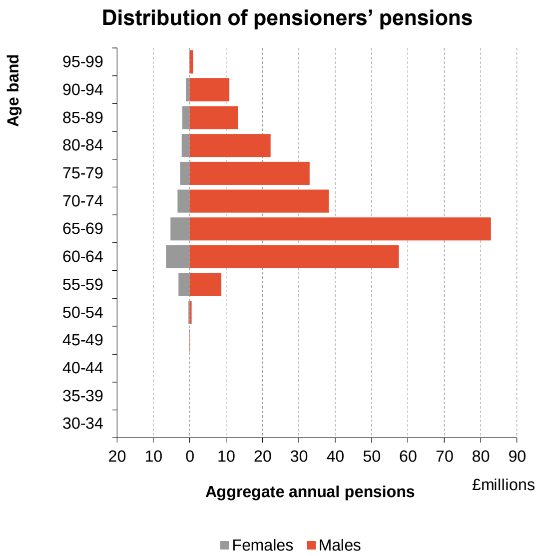
No allowance has been made in the calculation of the technical provisions or the statutory estimate of solvency for possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

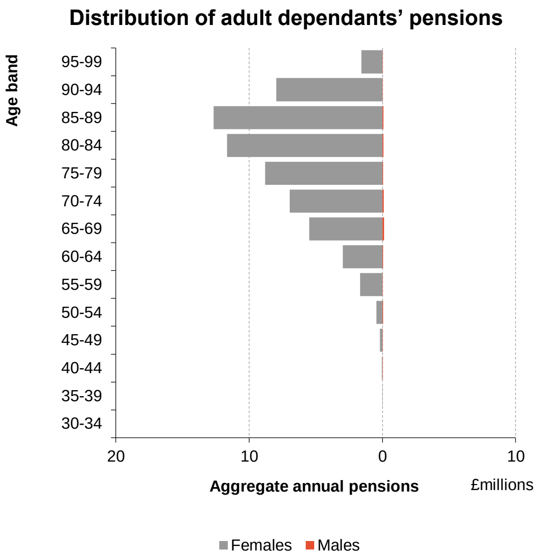
Membership data

A summary of the Scheme's membership information supplied by BA Pensions is shown below.









TOWERS WATSON

A summary of the data provided for this and the previous valuation is presented below.

Members in service

	31 March 2012 Number	31 March 2012 Annual pay £m pa	31 March 2012 Average age	31 March 2009 Number	31 March 2009 Annual pay £m pa	31 March 2009 Average age
Males						
General Staff	**641**	**24.8**	**56.2**	922	34.7	54.7
Air Cabin Crew	**119**	**4.3**	**55.7**	222	7.9	53.9
Pilots and Officers	**11**	**1.0**	**57.0**	50	5.5	55.7
Total males	**771**	**30.1**	**56.1**	1,194	48.1	54.7
Females						
General Staff	**111**	**4.0**	**55.7**	167	5.8	54.2
Air Cabin Crew	**64**	**2.1**	**55.2**	131	4.4	53.2
Total females	**175**	**6.1**	**55.5**	298	10.2	53.8
Total members in service	**946**	**36.3**	**56.0**	1,492	58.3	54.6

Deferred pensioners

	31 March 2012 Number	31 March 2012 Deferred pension £m pa	31 March 2012 Average age	31 March 2009 Number	31 March 2009 Deferred pension £m pa	31 March 2009 Average age
Total deferred pensioners	**2,117**	**9.8**	**56.8**	3,143	13.4	54.7

Pensioners

	31 March 2012 Number	31 March 2012 Annual pension £m pa	31 March 2012 Average age	31 March 2009 Number	31 March 2009 Annual pension £m pa	31 March 2009 Average age
In own right	**19,552**	**301.0**	**70.8**	20,020	283.5	69.3
Dependants	**7,151**	**61.6**	**79.0**	7,302	56.8	77.5
Total pensioners	**26,703**	**362.6**	**72.2**	27,322	340.3	70.7

Notes on data:

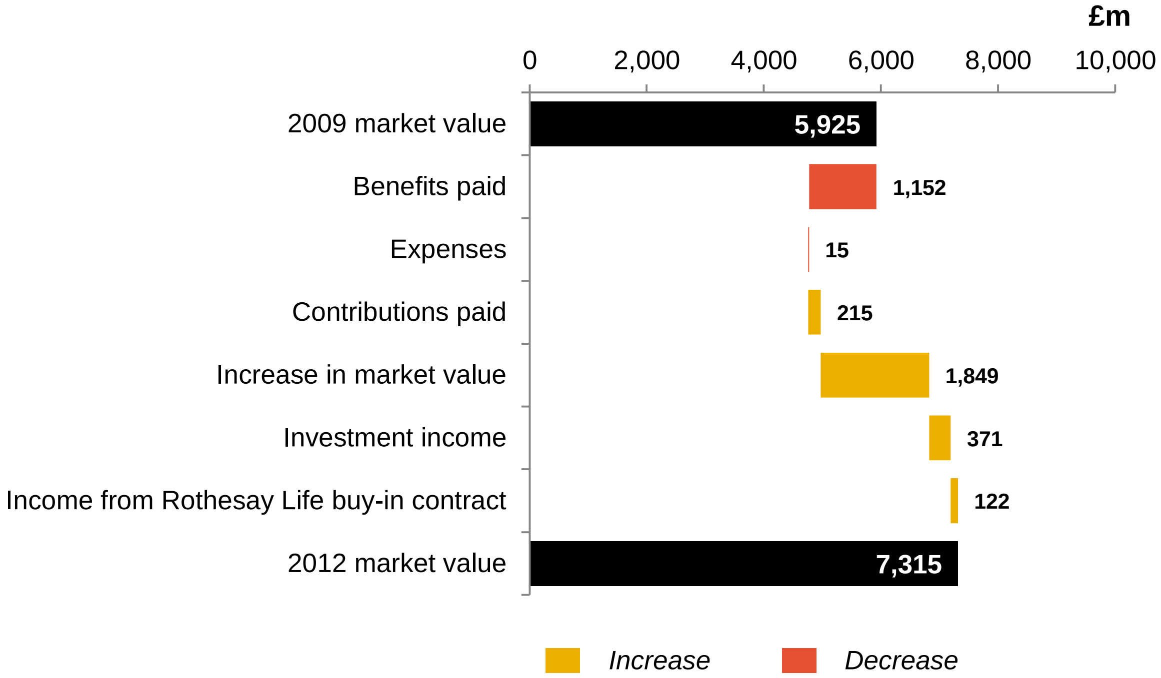
- In addition, there were 26,996 (2009: 29,406) deferred pensions under £46 payable in accordance with the National Insurance Acts;
- The information shown includes adjustments made for members with missing data and late retirement uplifts for non-pensioners who are over their Normal Retirement Age;
- Deferred pension amounts include revaluation to the valuation date;
- Average age figures are weighted by accrued pension at the respective valuation dates.

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 March 2012 show that the market value of the Scheme's assets was £7,315 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £41 million.

The change in the value of the Scheme's assets (including AVCs) from £5,925 million as at 31 March 2009 to £7,315 million at 31 March 2012 is detailed in the Trustees' Report and Accounts over that period. The chart below summarises a broad reconciliation of the change:



Investment strategy

The Trustees' investment policy (as defined in the Scheme's Statement of Investment Principles) is to seek to achieve the following objectives:

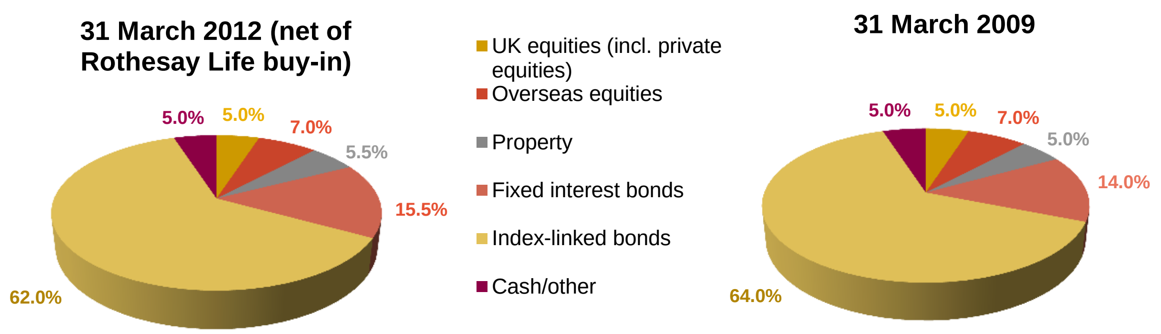
a) To maintain a portfolio of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employers, the costs of current and future benefits
b) To limit the risk of large adverse changes in the level of cover for the technical provisions over the shorter term and of the assets failing to meet the liabilities over the longer term, having regard to the increasing maturity of the liabilities
c) To minimise the long-term costs of APS by maximising the return on the assets whilst having regard to (i) the objectives above, (ii) the possibility of enhancing member benefits and (iii) the Trustees' attitude to risk.

The assets, including AVCs, were invested as summarised below at 31 March 2012 and 31 March 2009:

	Market value as at 31 March 2012		Market value as at 31 March 2009	
	£m	**%**	£m	%
Index linked securities	**3,390.1**	**46.3**	3,843.7	64.9
Fixed interest securities	**999.1**	**13.7**	789.3	13.3
UK equities	**311.9**	**4.3**	176.5	3.0
Overseas equities	**473.6**	**6.5**	538.5	9.1
Property	**283.0**	**3.9**	287.6	4.8
Cash and other investments*	**317.6**	**4.3**	289.4	4.9
Rothesay Life buy-in policy	**1,539.8**	**21.0**	-	-
Total	**7,315.1**	**100.0**	5,925.0	100.0

* The 31 March 2012 figure includes a -£62 million adjustment to reflect the value of the longevity swap contract

Strategic asset allocation



Significant events

On 18 June 2010 the Trustees secured a synthetic buy-in contract with Rothesay Life, covering 20% of the pensioner liabilities for an agreed list of members. On 15 December 2011 the Trustee secured a longevity swap contract with Rothesay Life, covering a further 20% of the pensioner liabilities for the same members covered by the buy-in contract, backdated to June 2010. Both contracts allow for future increases in pensions in line with RPI inflation. The buy-in contract has a minimum level of increase of 0% per annum whereas the longevity swap has no minimum level of increase.

The level of risk in the investment strategy was reduced with effect from 1 May 2010. Following the execution of the buy-in contract in June 2010, the investment strategy benchmark of the net assets (ie excluding the buy-in) was re-calibrated to reflect the higher proportion of return-seeking assets (as the assets used to back the contract were gilts).

Statement of Funding Principles

This statement has been prepared by the Trustees of the Airways Pension Scheme (“the Scheme”) to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Actuary, Michael J Pardoe. The Trustees have discussed and agreed it with the Principal Employer, British Airways Plc (“BA”), for and on behalf of the participating employers of the Scheme.

Statutory funding objective

The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions, and this statement sets out the Trustees’ policy for securing that this objective is met.

Subsidiary funding objective

In addition to the statutory funding objective, the Trustees have a subsidiary funding objective, which is to be able to provide benefits in accordance with the Scheme Rules with a very high level of security on a self-sufficiency basis without reliance on further support from BA. For this purpose the Trustees will calculate the value of the liabilities allowing only for investment returns from risk-free assets such as gilts and will include suitable loadings to cover risks and expenses. The Trustees will have regard to the Scheme’s anticipated progress towards meeting this subsidiary objective when deciding on funding matters and BA acknowledges that over time the calculation of technical provisions will converge towards the liabilities determined in accordance with this subsidiary objective. A high priority will be placed on the need for continued progress towards this objective at the next valuation, due as at 31 March 2015.

Technical provisions

Method

The Trustees and BA have agreed that the technical provisions for the Scheme at any given date are to be calculated as the capital value of the prospective benefits arising from service completed before that date, including allowance for prospective salary increases for those members in active service at that date. This method of calculating technical provisions is known as the projected unit method.

Assumptions

The Trustees and BA have further agreed that:

- the discount rate used to calculate the capital value of future cashflows will be a prudent estimate of future investment returns on the assets of the Scheme. This prudent estimate will be equivalent to a discount rate for the total liabilities of no more than 0.5% pa in excess of the yield available on gilts of appropriate type and duration, and any excess over gilt yields will depend upon a number of factors including the perceived strength of the covenant of BA, taking into account the existence of contingent assets and other forms of security;

- this estimate of future investment returns, together with the remaining financial assumptions, in particular price inflation, will take into account information available in respect of the relevant investment markets at the effective date of the actuarial valuation;

- demographic assumptions will have regard to an analysis of the experience of the Scheme membership as well as relevant statistics applicable to similar pension schemes, and the Trustees' and BA's views about how these may change in future, and where relevant the demographic assumptions used within the longevity swap contract;

- the benefits covered by the buy-in contract are treated consistently within both the assets and the liabilities with the valuation based on the value placed in the Scheme's accounts.

Taken together, the assumptions adopted at a particular date will be prudent and consistent with the Trustees' desired level of confidence that assets equal to the technical provisions will prove adequate to meet benefits already accrued as they fall due without the need for further contributions.

Further details of the assumptions agreed in relation to the technical provisions as at 31 March 2012 are provided later in this statement.

Discretionary Benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustees and/or BA, the principal details of which are set out below:

- An allowance for discretionary pension increases is made within the technical provisions on the assumptions specified in this Statement. The Trustees will consider at least annually whether a discretionary increase may be awarded. The size of any such discretionary increase will be decided by the Trustees, and could be higher or lower than the allowance in the technical provisions.

- There are a number of options that enable Members to convert the benefits from one form into another subject to the Trustees' consent, such as on early retirement, crystallisation (late retirement), ill-health retirement, or the commutation of pension into cash at retirement. Following completion of formal valuations it is anticipated that the terms for most of these options will be reviewed and updated to be broadly cost neutral on the technical provisions basis, and so the Trustees and BA have agreed that no allowance for the exercise of these options will be made in the determination of technical provisions. However, it is anticipated that the terms applying for cash commutation will continue to differ from those on the technical provisions basis, and so the Trustees and BA have agreed to make allowance for the commutation of some pension into cash in the calculation of technical provisions.

- At BA's request, and upon payment to the Scheme of any contributions advised by the Actuary to be necessary, the Trustees shall increase or alter any benefit or provide additional benefits under the Scheme. The Trustees and BA have agreed that such discretionary benefits will not be taken into account in the calculation of technical provisions, but that the capital value of any such benefits granted would be paid in full by BA at the time the discretion is exercised.

Actuarial investigation as at 31 March 2012

The Trustees (having taken the advice of the Actuary) and BA have agreed assumptions for the determination of technical provisions as at 31 March 2012, following the principles described above. The main assumptions are as follows.

Key financial assumptions as at 31 March 2012

Discount rate (past service)

The present value of the liabilities in respect of benefits accrued at the valuation date not covered by the buy-in contract is derived using term-dependent discount rates from the full nominal gilt curve at 31 March 2012 with an addition of 0.4% per annum at all durations. The equivalent single nominal discount rate is approximately 3.61% per annum, weighted by the relevant past service liability cashflows.

Discount rate (future service)

The present value of the liabilities in respect of future service is derived using term-dependent discount rates from the full nominal gilt curve at 31 March 2012 with an addition of 1.05% per annum at all durations.

Price inflation (RPI)

The RPI assumption is derived from the difference between the full index-linked and nominal gilt curves at 31 March 2012. The equivalent single RPI assumption is 3.35% per annum, weighted by the relevant past service liability cashflows.

Price inflation (CPI)

The CPI assumption is derived from the RPI assumption and the long-term expected differential between RPI and CPI (0.75% per annum). The equivalent single CPI assumption is 2.6% per annum, weighted by the relevant past service liability cashflows.

Pension increases

This assumption is derived from RPI and CPI, adjusted for the known timing of actual pension increases and the known pension increase awarded in April 2013 of 2.2%. The funding allowance for discretionary increases is assumed to transition linearly from CPI in April 2013 to RPI from April 2023 onwards. A further margin of 0.1% per annum is added from April 2023 onwards to allow for the possible impact of the 0% floor on RPI pension increases in any future year. The single equivalent pension increase assumption is 3.16% per annum, weighted by the relevant past service liability cashflows.

Salary increases

In relation to general increases in Pay for Pension Purposes, the assumption reflects a zero increase for the year to 2013, followed by increases in line with RPI in each future year.

The assumption for promotional and incremental increases is as per the 2009 valuation. Specimen rates are set out in the Appendix.

Statistical assumptions as at 31 March 2012

The post-retirement mortality assumptions are based on the standard tables issued by the CMI which reflect the experience of self-administered pension schemes ("SAPS tables"). These tables were then calibrated, based on the results of a Generalised Linear Model (GLM) mortality analysis, to reflect the demographic profile of the Scheme (by reference to age, gender, category of membership, occupation category, pension amount and postcode). They incorporate improvements factors to 2012 based on the CMI 2011 core projection model. The assumptions are summarised in the table below.

Group	Base table** for non-pensioners	Base table** for current pensioners
Male members with pensions*:		
under £23,600 pa	87% of S1PML	88% of S1PML
over £23,600 pa	113% of S1PMA_L	91% of S1PMA_L
Female members	85% of S1PFA	93% of S1PFA
Male dependants	124% of S1PMA	123% of S1PMA
Female dependants	90% of S1DFL	87% of S1DFL

* at the valuation date

** standard SAPS table notation

For prospective ill-health retirements from active status, the multipliers above are multiplied by 1.77.

In addition, allowance was made for future improvements in rates of mortality from calendar year 2012 by reducing the rates of mortality from the base tables described above according to the CMI 2011 core projection model, subject to a long-term rate of improvement of 1.5% per annum.

For those benefits covered by the longevity swap contract, the demographic assumptions (including the marital statistics) are based on the assumptions used for the valuation of this contract within the Scheme's accounts. At 31 March 2012 this was equivalent to a net decrease of 3.3% to the value of the benefits covered by the longevity hedge swap using the demographic assumptions specified in this Statement.

Details (including sample rates) of the remaining demographic assumptions are shown in the appendix to this statement.

Expenses

Investment management costs are assumed to be met out of future investment income. The valuation discount rate is therefore net of such costs.

Administrative and other non-investment expenses (except Pension Protection Fund levies) are met in full by the Scheme and the capitalised value of the expected amount of all future expenses has been included in the determination of technical provisions. This capitalised value is equal to 1.0% of the technical provisions. BA has agreed to pay in full any Pension Protection Fund levies payable in respect of the Scheme.

Eliminating a shortfall

The Trustees and BA have agreed that any funding shortfalls identified at an actuarial valuation should be eliminated as quickly as the employers can reasonably afford by the payment of additional contributions over the recovery period. In determining the recovery period at any particular valuation the Trustees will take into account relevant factors such as:

- the provisions of the Trust Deed & Rules;
- the size of the funding shortfall and the degree of prudence in the technical provisions;
- any estimated change in the financial position of the Scheme for part or all of the period between the valuation date and when the recovery plan is agreed;
- the risk that the Scheme's financial position may deteriorate against the statutory and subsidiary funding objectives;
- the projected financial position of BA, including its free assets and projected cashflow, and the risk of significant deterioration in this position;
- any contingent assets or letters of credit provided by BA (to the extent these are not already being used to support the level of technical provisions).

Frequency of actuarial investigations

In the normal course of events the Trustees will request subsequent valuations three years after the preceding one. The Actuary will provide an estimate of the up-to-date financial positions of the Scheme as at each anniversary of the formal funding valuation.

The Trustees may call for a formal funding valuation at any date if they are of the opinion that events have made it unsafe to rely on the results of the previous valuation for funding purposes. In reaching such a view, the Trustees will consider the advice of the Actuary and consult with BA.

Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the participating employers or a Member of the Scheme to contribute to the funds held by the Scheme.

Paying funding surpluses to the employer

The Rules do not include provisions for the Trustees to make payments to any of the participating employers out of funds held for the purposes of the Scheme unless there exists a surplus following a winding up of the Scheme.

Cash equivalent transfer value calculations

The Trustees will ask the Actuary to advise them at each valuation of the extent to which assets are sufficient to provide cash equivalent transfer values for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries. The Trustees' current policy is not to reduce cash equivalent transfer values paid to members.

Dates of review of this statement

This statement will be reviewed, and if necessary revised, by the Trustees (subject to agreement from BA) either

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has used its powers to modify future accrual of the Scheme, directed as to the manner in which technical provisions are to be calculated or the period over which failure to meet the statutory funding objective is to be remedied, or imposed a schedule of contributions.

The Trustees may also elect to review, and if necessary revise (subject to agreement from BA), the statement at other times.

Date of preparation of Statement of Funding Principles: 28 June 2013

Appendix – Statistical assumptions

In-service decrements and promotional salary increases

For each separate category of active member, various assumptions are made about the rates of decrement from active membership on account of withdrawal (resignation), death or ill-health retirement at each age. In addition, age-related increases to pensionable pay arising from promotion and service increments are assumed. Sample rates for the separate categories of active members are shown in the tables below.

Post-retirement mortality

The post-retirement mortality assumptions are described in the Statement itself.

Pre-retirement mortality for deferred pensioners

Consistent with post-retirement mortality assumptions.

Spouses' and dependants' pensions

For current pensioner members, each member's current marital status is assumed to remain unchanged. For all other members, the proportion of members whose death prior to retirement is assumed to give rise to a spouse's or other dependant's pension varies by age but is around 90% for men and 80% for women at ages close to retirement. After retirement, these proportions are assumed to reduce in accordance with assumed rates of spouse's / dependant's mortality.

Age difference between members and dependants

Non-pensioner male members are assumed to be 2.5 years older than their spouses. Non-pensioner female members are assumed to be 1.5 years younger than their spouses. Actual spouses' data is used for pensioner members where available. For pensioners with a spouse where the spouses' date of birth is not available the non-pensioner assumption is applied.

Allowance for option of members to commute pension for cash at retirement

Members are assumed to commute 15% of their pension for cash at retirement on terms 5% higher than the rates applicable at the valuation date

In service decrements and promotional salary increases: Flight crew

Age	Sample rates of decrement per 1,000 members at each age			Assumed percentage increase in pay to the next year of age
	Withdrawal	Death	Ill-health Retirement	
	Men	Men	Men	Men
40	5	0.7	2.5	0.0
45	5	1.0	5.0	0.0
50	-	1.5	5.0	0.0
55	-	2.6	5.0	0.0
60	-	3.8	-	0.0

In service decrements and promotional salary increases: Cabin crew

Age	Sample rates of decrement per 1,000 members at each age					Assumed percentage increase in pay to the next year of age
	Withdrawal		Death		Ill-health Retirement	
	Men	Women	Men	Women	Men & Women	Men & Women
40	5	15	0.7	0.3	2.0	1.7
45	-	9	1.0	0.5	2.0	1.6
50	-	3	1.5	0.8	2.0	1.0
55	-	-	2.6	1.3	2.0	0.5
60	-	-	3.8	2.1	2.0	0.5

In service decrements and promotional salary increases: Ground staff (GSS and Engineering)

Age	Sample rates of decrement per 1,000 members at each age					Assumed percentage increase in pay to the next year of age	
	Withdrawal		Death		Ill-health Retirement		
	Men	Women	Men	Women	Men & Women	Men	Women
40	17	30	0.7	0.3	1.0	0.0	1.3
45	14	18	1.0	0.5	1.0	0.0	0.8
50	5	5	1.5	0.8	1.0	0.0	0.6
55	-	-	2.6	1.3	1.0	0.0	0.4
60	-	-	3.8	2.1	1.0	0.0	0.2

In service decrements and promotional salary increases: Ground staff (Other)

	Sample rates of decrement per 1,000 members at each age					Assumed percentage increase in pay to the next year of age
	Withdrawal		Death		Ill-health Retirement	
Age	Men	Women	Men	Women	Men & Women	Men & Women
40	17	30	0.7	0.3	1.0	1.3
45	14	18	1.0	0.5	1.0	0.8
50	5	5	1.5	0.8	1.0	0.6
55	-	-	2.6	1.3	1.0	0.4
60	-	-	3.8	2.1	1.0	0.2

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Airways Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2012 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustees of the Scheme and set out in the Statement of Funding Principles dated 28 June 2013.

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
28 June 2013

Towers Watson Limited
Watson House
London Road
Reigate
Surrey RH2 9PQ

Certificate for the purposes of Clause 11(b)

Certificate for the purposes of Clause 11(b) of the Trust Deed of the Airways Pension Scheme

Name of scheme: **Airways Pension Scheme**

In conjunction with the valuation of the Scheme made as at 31 March 2012, and in accordance with the provisions of Clause 11(b), I have made separate valuations of the assets and liabilities attributable to each employer. The results of these valuations are set out below, and I certify that the following deficiencies are attributable to each employer.

The value of the existing Clause 11 Scheme is £523.8 million as at 31 March 2012. This amount is deducted from the gross deficiency to determine the deficiency as at 31 March 2012 for the new Clause 11 Scheme.

Employer	Liabilities £m	Assets £m	Gross Deficiency (before deducting existing Clause 11 Scheme) £m	Net deficiency (after deducting existing Clause 11 Scheme) £m
BA Avionics Engineering Ltd	0.6	0.5	0.1	0.1
BA Maintenance Cardiff Ltd	0.6	0.5	0.1	0.1
BA plc*	7,993.6	7,314.1	679.5	155.7
	7,994.8	7,315.1	679.7	155.9

* For the purposes of this certificate, the figures for BA plc include any liabilities in respect of employers who have ceased to participate in the Scheme

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
28 June 2013

Towers Watson Limited
Watson House
London Road
Reigate
Surrey RH2 9PQ

Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events takes place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. We have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a “best estimate” assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (i.e. the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Scheme.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Scheme's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Subsidiary funding objective: In addition to the Statutory funding objective to which all pension schemes are subject, trustees may wish to adopt other funding objectives. Such objectives are subordinate to the statutory funding objective from a regulatory perspective.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Wind-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.

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