

Dear APS pensioner

### Trustees' Decision on 2013 Discretionary Increase

When we last wrote to you in September we explained that as part of the discretionary increase decision making process we would be carefully considering representations made by British Airways Plc ("BA") and the Pensions Regulator (the "Regulator"). We have done this and our decision, reached in November, was to pay an additional increase of 0.2%<sup>1</sup> with effect from December 2013. BA has not accepted this decision and has begun proceedings to test it in Court. It has therefore become necessary to put the implementation of the increase on hold pending resolution of these legal proceedings.

Please do not be concerned about your current pension payments. Whilst we are prevented from paying the additional 0.2% increase, your current pension entitlement will continue to be paid on time and in full. During the course of the legal process, pension increases payable under the Pensions Increase (Review) Order (PIRO) (i.e. in line with the Consumer Prices Index (CPI)) will continue to be applied.

As Trustees we are fully aware that our primary responsibility is to protect the benefits promised under the Rules of the Scheme. However, we consider that our approach to additional increases is prudent, that the planned 0.2% is affordable and that the payment of the additional increases will not jeopardise the security of members' accrued benefits. The estimated cost of the 0.2% increase is no more than £12m over the lifetime of the Scheme, an amount which needs to be viewed in the context of fund assets of approximately £7,000m.

In developing our approach to discretionary increases, we have obtained extensive advice from our actuarial, covenant and legal advisers (including legal advice from two Leading QCs)<sup>2</sup>. Our approach is based on a discretionary increase framework which has been developed to be consistent with the Trustees' primary responsibility to provide the benefits in the Rules. The framework balances this with the need to reduce as far as reasonably possible risks to the fund, to further strengthen the technical provisions assumptions and the aspiration to pay discretionary increases in line with RPI, if and when it is prudent to do so, all within the current funding arrangements agreed with the Company.

The Trustees believe that they have acted prudently and, as we made clear in our September letter, under the discretionary increase framework the additional increases we may be able to award in any given year might be modest and represent only a portion of the gap between RPI and CPI in any given year. The 2013 PIRO was based on September 2012 CPI (2.2%) and the equivalent RPI figure was 2.6% so the decision to award an additional 0.2% increase

---

<sup>1</sup> The additional increase would have been applied to those elements of your pension that qualify for normal Scheme increases under Rule 15. Pensioners and deferred pensioners who received a proportion of the 2.2% increase paid in April 2013 would have received a proportion of the additional increase.

<sup>2</sup> Members will appreciate that much of this advice is highly confidential. Our lawyers have advised that we can only refer to it in very general terms in communications. This is so our rights of confidentiality and, where applicable, legal privilege in relation to the advice is not being waived by the making of these references.

would have represented an increase of half of the gap between September 2012 RPI and CPI. As previously explained, the position will be assessed annually and, even where an increase has been awarded in a prior year, there may be circumstances (for example if investment returns are below expectations) where we would have to conclude that no additional increase over the level specified in that year's PIRO can be paid.

The Trustees will, as Rule 15 requires, carry out a further review in 2014. Depending on the duration and outcome of the legal process, any increase that might be awarded in 2014 (and none is guaranteed) may also have to be put on hold pending resolution of the proceedings initiated by BA.

We are unable to give you more detailed information at this stage and, unfortunately, this situation may persist until there is greater certainty as to the form of BA's challenge. We will send further updates when we are able to. However, our current priority is to ensure that you are aware of the situation and that you are reassured that your current pension payments will continue as usual.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul Spencer', with a stylized flourish at the end.

**Paul Spencer**  
Chairman of Trustees