

Dear NAPS Member

2009 Valuation Update – New Airways Pension Scheme

I am pleased to confirm that the 31 March 2009 Scheme Valuation has now been completed.

Over the last fifteen months we have received extensive financial, actuarial and legal advice from the external professional advisors that help us manage the Scheme, enabling us to conclude our discussions and to agree the basis of the Valuation and the necessary Recovery Plan with British Airways. We are in the final stages of completing the documentation that is required to finalise the process and the full Valuation Report will be available on our website during July.

As was provisionally reported in December 2009, the valuation of the Scheme's assets and liabilities as at 31 March 2009 showed that the value of the benefits expected to be paid by the Scheme exceeded the value of the NAPS assets at that time resulting in a funding deficit. The funding deficit as at 31 March 2009 was £2.7 billion. The deficit figure at the last valuation in 2006 was £2.1 billion.

Why has the deficit grown?

The main reason for the increase in the deficit is that the investment returns achieved by the Scheme over the three years between 2006 and 2009 were lower than projected in 2006, as a result of the economic crisis during 2008/09. Market values of many assets were particularly low at 31 March 2009. For example, shares in UK-listed companies lost more than one quarter of their value in the three years to this date. Although some recovery could be anticipated from these very low market levels, this is not expected to be sufficient to make up all the ground lost and the recent global recession is expected to have a lasting impact.

In addition, the Trustees strengthened the allowance made for continuing improvements to future life expectancy. This means we anticipate that pensions will be paid for longer than previously assumed. This has the effect of increasing the value of the Scheme's liabilities and therefore the deficit.

Offsetting these factors to some extent has been the significant contributions paid into the Scheme by British Airways in the period since the last valuation of around £1.4 billion.

Recovery Plan

When a scheme has a deficit, the Pensions Act 2004 requires that a Recovery Plan is put into place to bring the Scheme back into balance as quickly as possible. The Recovery Plan is an agreement with British Airways regarding the future contributions and payments that will be made to the Scheme over the coming years to repair the deficit.

When setting the Recovery Plan it is possible for changes in investment conditions and asset values since the valuation date to be considered. The changes in investment conditions and market performance generally have been significant since March 2009 and we continue to see ongoing volatility.

Although the Scheme's assets have gained value since the valuation date, the Trustees have based the Recovery Plan on a deficit amount at 31 March 2010 which is broadly equivalent to the March 2009 deficit. In other words no allowance was made for the positive investment performance over the year and the Trustees asked British Airways to put in place a plan to meet the full deficit.

Headline items of the Valuation process and Recovery Plan

The key features of the valuation and recovery plan are summarised below.

- Allowance was made for the benefit changes, for active members (current employees) only, proposed by British Airways and supported by the Trade Unions which begin to come into effect from October this year. These changes reduce the cost of new pension benefits, meaning that more of the money that British Airways can make available to the Scheme can go towards reducing the deficit in respect of pensions which members have already built up. BA Pensions will write to active members later this month regarding these changes.
- The level of contributions paid by British Airways in respect of continuing accrual of benefits for active members will vary as active members leave the Scheme but initially are expected to be approximately £118 million a year.
- Deficit payments, starting at the level of £144 million for the year ending 31 March 2011, will be payable by British Airways. Deficit contributions will increase at an agreed level each year throughout the Recovery Period, which will be expected to run until 2026. For example in the financial years ending 31 March 2012 and 2013 the amounts will be £164 million and £177 million respectively.
- A "cash sweep" has been agreed with British Airways, such that should their cash holdings as at 31 March each year exceed £1.8 billion, any amount over this figure up to an aggregate of £150 million will become due for payment to APS and NAPS. Furthermore, 50% of any available cash in excess of £150 million will also be payable to the Schemes. Whilst APS remains in a deficit position 25% of any amount payable would be expected to be paid to APS and the remainder to NAPS, but if APS was fully funded then the full amount would be payable to NAPS (unless NAPS was also fully funded).
- A detailed package of additional security and other measures aimed at further improving the funding position and members' benefit security over time has also been agreed with British Airways.
- In setting the Recovery Plan, no allowance has been made for any additional payments under the cash sweep or the package of additional security and other measures. If such payments are made then the deficit could be met in full sooner than has been anticipated in the Recovery Plan (in other words before 2026). Similarly, the allowance for future investment returns in the Recovery Plan has been set cautiously and if actual investment returns are higher than assumed this could also result in the deficit being repaired before 2026.

I joined as Chairman in March 2010 by which time the valuation process was well underway. I have been impressed by the manner in which the NAPS Trustees have conducted themselves, on your behalf, during the process. They were steadfast in seeking to ensure that the various elements of the recovery arrangements represented the best terms that could be achieved to improve the security of the pensions which members have built up in the Scheme and to ensure that benefits are paid in full as they fall due. Taken together we believe that the package of benefits available to NAPS provides a strong basis for the recovery of the funding position.

Yours sincerely

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

Paul Spencer
Chairman of Trustees