

COMMUNICATION - GIVING YOU THE INSIDE STORY

Welcome to the second edition of the Trustees' on-line quarterly newsletter designed to give you more information in 'real time' on what we are doing. In addition to this newsletter, we will continue to issue 'In Focus' and other communications to members from time to time with updates on general matters and on those matters which directly affect your individual pension entitlement.

You can register for an email alert to be sent to you when new editions of the quarterly newsletter and other general Scheme publications become available on the member website, www.mybapension.com. Please follow the link on the home page of the member website to register. Paper copies of general Scheme publications including In Focus will no longer be sent to you if you register for email alerts but instead you will be alerted when they become available on the website.

One of the purposes of the newsletter is to let you know what we are currently working on, particularly areas where final decisions have been reached.

Rule Changes

We have implemented the Rule changes required for the implementation of Flexible Retirement - an option expected to be introduced by the Company later in the year whereby active members, from age 55 and with Company consent, can draw all or part of their pension whilst continuing to work for BA and build up future service benefits. Different arrangements exist for members who have crystallised their pension. Further information regarding the Flexible Retirement option will be made available by the Company later in the year. The Company has said that in order to be eligible for this option a member must reduce their working hours (reduction in hours must also take place if they are currently working part time) subject to a minimum level, which we understand may vary in different areas.

A change to the Trust Deed regarding Trustee nomination and voting arrangements for *Flexible Retirement Members* has also been approved by the Trustees. A *Flexible Retirement Member* cannot be nominated as a Pensioner Trustee if they are already a Member Trustee and vice versa and they cannot be nominated to be a Pensioner Trustee and Member Trustee at the same time. If this happens the member will be asked to choose which position they wish to be nominated for. A *Flexible Retirement Member* will be eligible to cast a vote in Pensioner Trustee and Member Trustee elections.

We have finalised the Rule update and Operating Rules for Scheme Pays, the facility we mentioned last time whereby members with large benefit build up during a year which exceeds HMRC's Annual Allowance (AA) of currently £50,000, can elect for the Scheme to pay any AA tax charge on the member's behalf in return for a reduction in benefits.

Report and Accounts

The Annual Report and Accounts (AR&A) for the Scheme for the 2011/12 financial year have been finalised and copies will be made available on the member website. The AR&A show the financial position and activities of the Scheme during a specific financial year, whereas a *Funding Valuation* looks at the longer term position of whether the Scheme is likely to be able to pay all of the benefits provided for in the Scheme Rules when they fall due. The 2011/12 AR&A show that the net asset value of the Scheme has increased from £8.8bn as at 31 March 2011 to £9.6bn as at 31 March 2012. It is however likely that the value of the Scheme's liabilities will also have increased. The exact impact this will have on the size of the Scheme's deficit will not be known until we have concluded the three-yearly funding valuation work over the coming months.

The Scheme's auditor, KPMG LLP, presented their audit highlights and financial controls benchmarking reports and we were pleased to note that no significant issues or matters arising had been identified.

Investment

British Airways Pension Investment Management Ltd. (BAPIML) manages the investment of the Scheme's assets on our behalf. We reviewed the performance of the Scheme's Investment Managers against benchmarks set by the Trustees. The detailed performance report can be viewed in the Annual Report and Accounts.

Over the coming months the Investment Committee will undertake an extensive review of the Scheme's investment strategy via an Asset Liability Modelling (ALM) process. ALM is a technique used to test the effect of different economic scenarios on the assets, liabilities and funding of the Scheme and is used by the Trustees to re-examine their funding and investment objectives. This remains a key focus for the Investment Committee and will feed into the valuation process.

AGENDA WATCH

At the June 2012 Quarterly meeting:

- We welcomed Adrian Smith to the Trustee board as a member nominated Trustee elected by the Cabin Crew constituency.
- We received a detailed report from PwC on the *covenant review* as part of our valuation work.
- We discussed the assumptions and methodology to be used in the 2012 three-yearly *valuation* and negotiations are now underway with the Company to agree these.
- We received an update from the Operations Committee who had reviewed the Annual Allowance/Pension Savings statements due to be issued shortly to members whose benefit build up for the 2011/12 period had exceeded HMRC's AA of £50,000.
- We noted the Bonus Declaration in respect of the Equity Biased Fund (EBF) and BAMPS for 2012/13 was 1.7%.
- We reported last time that the Company had decided to close BAMPS from 1 October 2012 as it does not meet the Government's *auto enrolment* criteria and since then we have been finalising the necessary Rule changes to facilitate the closure. The existing 250 members and former members have been written to individually with full details of the options available to them upon closure.
- In line with our regular practice of reviewing Ill Health Pension payments, we undertook a governance review of policies having been aware of a small number of cases that had been raised with the Pensions Ombudsman. We have agreed that it would be useful to have further discussions with the Company.
- We considered the quarterly reports from each of the Governance and Audit, Investment and Operations Committees and received an investment update from the CEO of our Investment Managers (BAPIML).

Glossary

We will try to avoid using unnecessary jargon but there may be occasions where technical words or phrases are used. Where this happens we will seek to explain what is meant in this box.

Auto enrolment – This is a Government requirement for all employers to automatically enroll their employees into a qualifying pension scheme from 2013 and every three years thereafter.

Covenant Review - an objective and independent assessment of the overall financial strength of the participating employers of defined benefit pension schemes. PwC has been engaged by the Trustees since 2006 to undertake the extensive investigations into BA's financial strength that are required.

Flexible Retirement Member – a Member who, having obtained the Company's consent to do so, elects to commence payment of all or part of his benefits at or after age 55 whilst remaining in employment with the Company.

Scheme Funding/Valuation - a full and detailed valuation of the Scheme's assets and liabilities are undertaken every three years by the Scheme Actuary. As part of the valuation process, detailed Scheme Funding discussions take place with BA to determine, amongst other things, the level of contributions to be paid by BA into the Scheme.

Availability of Information

The Trustees meet quarterly with additional meetings being held as required. Much of the detailed work is undertaken by the Committees (Governance and Audit, Operations and Investment). In addition, sub groups are convened to look at specific issues.

We will seek to provide information on as many items as we can however there are some issues we won't be able to disclose. For example, if it involves an individual member, if the matter is commercially sensitive, if disclosure could undermine the Trustees' negotiations with third parties or where the information concerns planned investment actions.

Issued by the NAPS Trustees - Any questions relating to the matters raised here should be forwarded to the Trustees at Whitelocke House. The information here is of a general nature, the Scheme Trust Deed and Rules govern options and benefits available from the Scheme.