

▶▶ The BAA Pension Scheme
Summary Funding Statement

November 2008 ▶▶



We, the Trustees of the Scheme, provide information on the Scheme's financial position to help you understand more about how your pension is paid for and the state of the Scheme's finances. This information is included in a 'summary funding statement' and this is your 2008 statement.

It is important that you read all of the statement carefully, so you can understand what the figures mean and how they are used to assess the financial health of the Scheme.

You don't need to do anything. The details in the statement are for your information only and should help you to keep a track of the financial health of the Scheme.

Measuring the Scheme's financial security

For each year you pay contributions to the Scheme, you earn benefits that are linked to your salary. If you have left the Scheme you will have earned benefits during your membership which will be payable on retirement. If you are retired, in general you will now be receiving a pension from the Scheme.

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's 'liabilities'. The Company pays in contributions, so do those members still employed by the Company. These are then invested to help provide members' benefits. All contributions and investment income are held in a communal fund and make up the Scheme's 'assets'.

To check the Scheme's financial security we compare the value of its liabilities to its assets:

- if the value of the Scheme's assets is less than the value of its liabilities, it is said to have a 'shortfall';
- if the value of the Scheme's assets is more than the value of its liabilities there is said to be a 'surplus'.

We carry out an in-depth look at the Scheme's finances at least once every three years. The Scheme Actuary, a qualified, independent professional, undertakes this 'actuarial valuation'. We also check the financial security of the Scheme regularly in between the full actuarial valuations.

The position last time

The previous full actuarial valuation was carried out as at 30 September 2004 and showed that the Scheme had an estimated surplus of £78 million. At 30 September 2005 and 30 September 2006 the financial checks showed that the estimated surplus amounted to £99 million and £162 million, respectively.

The Scheme's current position

A new full valuation of the Scheme has been carried out as at 30 September 2007 and the results showed that on that date:

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| The value of the liabilities was | £2,148 million |
| The Scheme's assets were valued at | £2,198 million |
| This means that there was a surplus of | £50 million |

A more recent financial health check has since been carried out which has revealed that the Scheme now has a shortfall.

The funding position deteriorated because the Scheme's liabilities have increased while the value of assets has remained broadly the same. Since 30 September 2007:

- the extra benefits accrued by active members, and increases in the estimated cost of providing benefits (due to higher inflation expected in the future than that estimated as at 30 September 2007), have meant that the Scheme's liabilities have increased; and
- the changes in the Scheme's investment strategy over the last few years - increasing the proportion of investments in bonds; reducing equity investment; and spreading the remaining equity investments across world markets - have helped to absorb some of the shocks due to the recent global financial turmoil. However, the sharp falls in world stock markets mean that the asset value has remained almost unchanged (despite the contributions paid into the Scheme since 30 September 2007).

Closing the Scheme to new joiners in April 2008 will help to bring some stability to the Scheme's financial position, because the Scheme's financial liabilities are less open-ended and so we can plan the Scheme's finances with a little more certainty.

Paying for your pension

The Company has been paying £70 million each year to the Scheme since 1 July 2006, and has agreed to increase this to £80 million each year with effect from 1 January 2009.

Employed members currently pay contributions of 6% or 5% of their pensionable salary with some employees paying other amounts depending on their employment category.

Financial support for the Scheme

Following each actuarial valuation, the Actuary estimates the contributions the Company needs to pay to cover the cost of benefits now and in the future. We then agree a level of contributions for the Scheme with the Company and record this in a document called the Schedule of Contributions.

We review and update the Schedule of Contributions at least each time the Scheme has an actuarial valuation.

Following the 2007 valuation it has been agreed that the Company will increase its contributions to £80 million a year to the Scheme from 1 January 2009.

Our aim is to have enough money in the Scheme to pay pensions now and in the future, but this depends on the Company continuing to support it. When there is a shortfall in funding, the Company would usually need to pay in more money to make up the difference (along with the future expenses of running the Scheme).

There has not been any payment to the Company out of Scheme funds in the last 12 months.

The Trustees also continually monitor the activities of the Company to ensure that it is still able to meet its obligations to the Scheme.

If the Scheme had to wind up

If the Scheme started to wind up, the Company would be required to pay enough money into it to enable members' benefits to be provided instead by an insurance company. Neither we nor the Company have any plans to wind up the Scheme.

However, we are required by law to let you know the Scheme's financial position if this were to happen.

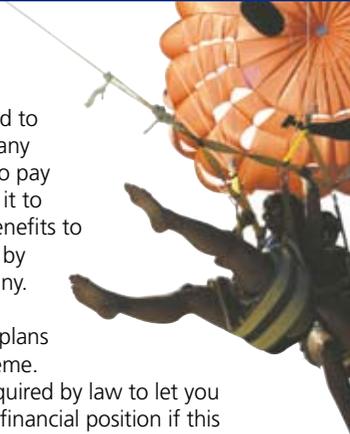
The amount needed, in addition to the existing assets of the Scheme, to make sure that all members' benefits could have been paid in full if the Scheme had started winding up on 30 September 2008 was estimated to be £853 million.

If the Scheme was wound up and the Company could not afford to pay this full amount, you might not get the full amount of the pension you are entitled to – even if the Scheme was fully funded on the approach set out in the Statement of Funding Principles. If the Company became insolvent the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members, but this compensation is likely to be less than the benefit you are entitled to under the Scheme.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk.

Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

The cost of winding up assumes that benefits will be paid for by buying insurance policies. Insurers are obliged to take a very cautious view of the future (including the administration costs of paying the benefits) and need to make a profit. By contrast, under the current funding position we assume that the Company will continue in business and support the Scheme.



Sources of further information

If you have any questions about the Scheme's funding, please contact the Trustees (see below for details). If you want to find out more about the Scheme you can ask for the following documents:

- **the Statement of Funding Principles** – explains how we plan to make sure enough money is paid into the Scheme to provide the benefits that members have built up;
- **the Statement of Investment Principles** - explains how we invest the money paid into the Scheme;
- **the Schedule of Contributions** - shows how much money is being paid into the Scheme;
- **the Annual Report and Accounts of the Scheme** - shows the Scheme's income and expenditure in the 12 months to 30 September 2007;
- **the Formal Actuarial Valuation Report as at 30 September 2007** - contains the details of the Actuary's financial check of the Scheme's situation as at 30 September 2007;
- **the member's explanatory booklet** – explains how the Scheme works (you should have been given a copy when you joined but we can let you have another copy).

Trustees of the BAA Pension Scheme
November 2008

Contacting the Trustees

The Trustees can be contacted via:

BAA Pensions
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