

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

British Airways New Airways Pension Scheme triennial valuation and deficit contributions

International Airlines Group (IAG)'s subsidiary British Airways announces that it has signed an agreement with the Trustee of its New Airways Pension Scheme (NAPS) on the scheme's regular triennial valuation.

The valuation, based on the scheme's funding position as of 31 March 2021, shows an agreed technical provisions deficit of £1.65 billion compared to a deficit of £2.4 billion as of 31 March 2018. The 2021 valuation agreement supersedes the deferral agreement signed in 2021 relating to the deferral of contributions of £450 million that were previously due between October 2020 and September 2021.

The reduction in the deficit between 2018 and 2021 has been mainly as a result of British Airways' contributions of £1.3 billion between April 2018 and September 2020 and the outperformance of asset returns over the previous discount rate, partly offset by the impact of the UK Government's reform of its RPI inflation measure, aligning it with CPIH from 2030.

Since 31 March 2021, the funding level of the scheme has considerably improved to the extent that NAPS was in surplus on the same basis as the 2021 valuation and remains in surplus as of 6 December 2022. This improvement in funding has arisen in large part due to the increase in UK government bond yields, which has increased the discount rate applied to pension liabilities, combined with positive relative returns from the scheme's asset portfolio. Due to an existing overfunding protection mechanism that remains in place, British Airways is not expecting to be required to make contributions to NAPS for the foreseeable future.

The main terms of the agreement are:

- A technical provisions deficit of £1.65 billion;
- The overpayment protection mechanism that was agreed at the time of the 2018 valuation has been amended as part of this agreement, whereby monthly deficit contributions will be suspended if the funding ratio on a technical provisions basis, which is tested each month, reaches 100 per cent or more;
- As a result of the overpayment protection mechanism, British Airways does not expect to make any contributions because of the funding ratio being over 100 per cent;
- Should the funding ratio fall below 100 per cent, British Airways must begin making monthly contributions until funding returns to at least 100 per cent;
- The schedule of these contributions, should the funding ratio be lower than 100 per cent, are a rate of £50 million per year up to June 2023 and increasing by £50 million each year up to June 2026 and then capped at £225 million per year from July 2026 until June 2032;
- British Airways will not pay a dividend in 2022 and 2023 and there will be a 50 per cent matching contribution to NAPS if any dividend is paid in 2024; dividend is limited to 50 per cent of pre-exceptional profit after tax in 2025 and dividends exceeding this would require additional payments to NAPS if the scheme is not at least 100 per cent funded;

- In order to pay a dividend, British Airways must maintain a minimum cash level of £1.6 billion after any dividend and matching contribution have been paid;
- All dividend restrictions cease from October 2025;
- There is an annual cap of £300 million total contributions, including dividend matching contributions, in a calendar year;
- British Airways has agreed to provide property assets as security, which will remain in place until the end of September 2028.

Nicholas Cadbury
Chief Financial Officer

15 December 2022

Notes to editors

British Airways has two principal funded defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). APS has been closed to new members since 1984 but remains open to future accrual. NAPS has been closed to new members since 2003 and closed to future accrual since 2018. Employees who participated in NAPS and new joiners since 2003 participate in the British Airways Pension Plan (BAPP) defined contribution scheme.

The triennial valuation for APS as of 31 March 2021 was finalised on 28 June 2022 and resulted in a surplus of £295 million compared to a surplus of £599 million as of 31 March 2018. British Airways ceased paying deficit contribution to APS from 2019.