

New Airways Pension Scheme (NAPS)

STATEMENT OF INVESTMENT PRINCIPLES

1. BACKGROUND

Under Section 35 of the Pensions Act 1995 (“the Act”), as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005, the Management Trustees are required to prepare and maintain a written statement of the principles governing their investment decisions. The purpose of this document is to fulfil this requirement.

The Management Trustees will review this document at least every three years, or following any significant change in investment policy, or where the Management Trustees consider a review is needed. British Airways plc will be consulted on behalf of the employers of NAPS before any change is made to this document.

2. SCHEME DETAILS

NAPS provides retirement benefits for employees of BA and some of its subsidiary and associated companies and benefits for dependants of members and pensioners when they die.

NAPS was established under a Trust Deed dated 16 March 1984 and was the scheme for eligible new employees of BA between 1 April 1984 and 31 March 2003 when it closed to new entrants. The operation of the Scheme is governed by its Rules (as updated from time to time), which provide mainly for salary-related benefits under the Final Salary Section (FSS) but from 1 April 1993 some defined contribution benefits have also been provided under the British Airways Money Purchase Section (BAMPS). The Scheme's assets are held under the legal control of the Management Trustees.

The Scheme was “exempt approved” by the Inland Revenue and is now a registered scheme under the Finance Act 2004. NAPS FSS is contracted out of the State Second Pensions (formerly known as the State Earnings-Related Pension Scheme). NAPS BAMPS is not contracted out of the State Second Pension.

3. ORGANISATION AND MANAGEMENT ARRANGEMENTS

The Management Trustees, having taken expert advice, have established an Investment Committee, consisting of Trustees and highly experienced independent pension scheme investment specialists (Investment Advisors). Where appropriate, advice is also sought from other parties including the NAPS actuary, Watson Wyatt and other investment professionals.

The Management Trustees have agreed that all strategic policy decisions on investments will be taken by the Main Trustee Board after in depth consideration by the Investment Committee and following receipt of advice from the Investment Advisors. Strategic policy decisions are those which have the potential for requiring an amendment of this document.

The Investment Committee has adopted an annual Business Plan setting out the investment objectives and the work required to support the achievement of these objectives, and a plan for complying with the Investment Principles identified by Paul Myners. As well as requiring the Committee to give detailed consideration to investment policy issues, the Management Trustees have agreed to delegate authority to approve specific transactions to the Investment Committee, where such transactions are in excess of the limits delegated to BAPIML in the Investment Management Agreement.

The Management Trustees delegate their discretion to make all routine or day to day investment decisions to British Airways Pension Investment Management Ltd (BAPIML) in accordance with Section 34 of the Act.

The appointment of BAPIML as Investment Manager to NAPS is subject to periodic review. Such a review considers issues such as management, organisation, resources, investment process and philosophy of BAPIML, together with the likelihood that BAPIML will be able to achieve the objectives which the Management Trustees consider appropriate in terms of this Statement of Investment Principles. Currently, BAPIML's costs are borne by the fund without the inclusion of a profit element.

4. DIVERSIFICATION AND SUITABILITY OF INVESTMENTS

It is the Management Trustees' policy to maintain suitable structures, resources and processes to ensure that the assets of NAPS are invested in a suitable manner bearing in mind the circumstances of NAPS and the requirements of the Act, including the requirements relating to the diversification and suitability of investments as set out in Section 36 of the Act.

5. OTHER ASPECTS OF INVESTMENT STRATEGY

(a) Kinds of investment to be held

The NAPS Trust Deed does not specifically exclude any form of investment or investment activity although the Management Trustees do restrict the types of asset that BAPIML may hold and the type and extent of investment activity which they are permitted to undertake. The assets of NAPS currently include equity, fixed interest bonds (government and corporate), index linked bonds (government and corporate), cash, property & private equity (including, but not limited to, venture capital, development capital, capital restructuring, management buy-outs and mezzanine funds) and alternative assets (including, but not limited to, infrastructure (including private/public finance initiatives)), commodities, leveraged loans, emerging market debt and currency) . Assets may be UK or overseas. BAPIML are also permitted to deal in commodity instruments, swaps, futures, options and contracts for differences as well as property gearing and currency hedging. Stock lending is also permitted and this activity is delegated to the independent global custodians.

The Investment Management Agreement (as amended from time to time) between the Management Trustees and BAPIML documents the detailed restrictions that apply in terms of the types of investment which are permitted and the diversification parameters operative at any time. Adherence to these specifications is monitored by administrators who report directly to the Management Trustees.

(b) Balance and suitability of investments

The Management Trustees have been advised, and they believe, that having regard to the long-term liabilities of NAPS, an investment strategy based predominantly on investments in quoted equities (both in the UK and overseas), as detailed in Appendix 2, is the strategy which is most likely to enable NAPS to be able to meet all its liabilities for pension-related benefits without imposing an unsustainable contribution liability on the Company.

(c) Risk

The Management Trustees regard risk as any factor that may render NAPS unable to meet its liabilities or satisfy its funding objectives as set out in its Statement of Funding Principles. They do not regard risk as inherently unacceptable: there is no such thing as an entirely risk-free investment. What is of concern is the degree of risk relative to the liabilities to be met. The terms of the Investment Management Agreement between the Management Trustees and BAPIML have been negotiated following expert advice from NAPS' Legal Advisers. Through the investment management arrangements with BAPIML, risk is principally addressed by:-

Investment Risk

- investing predominantly in equities, which are believed to offer the best potential for achieving the long-term investment objectives, but with appropriate holdings in other asset classes to mitigate the short-term volatility in equity markets;
- establishing the investment parameters (Appendices 1 and 2) within which BAPIML must operate in the Investment Management Agreement, which also details the prudential limits associated with specific investment activities and monitoring compliance with these parameters and limits;
- diversifying investments geographically and ensuring that there is no undue concentration of assets in a single investment;
- ensuring that investments are appropriate in terms of security and appropriately liquid to meet payments due from NAPS and to facilitate any desired changes in asset mix;
- instructing BAPIML to avoid "self investment" of any kind in British Airways Plc other than in exceptional circumstances, in which case BAPIML are required to seek the express prior approval of the Management Trustees, setting out the reasons for this self investment and the incremental risk to which the fund would be exposed. In such an event this

investment would be subject to any statutory limitations in force at the time of the investment and subsequently;

- carefully and methodically monitoring the activities and performance of BAPIML on a regular basis. Performance is monitored relative to the overall fund benchmark and the various benchmark indices are shown in Appendices 1 and 2. The Management Trustees have explicitly decided that comparison with the average experience within the pension fund industry is inappropriate; and
- the Management Trustees arrange for measurement of the investment risks to the Scheme by commissioning independent reports on such aspects of investment risk as they may from time to time consider appropriate.

Operational risk

- delegating physical custody of evidence of title to securities to independent global custodians;
- subjecting investment management activity to internal audit scrutiny under the direction of the Governance Committee; and
- establishing a process to enable regular reporting and review of exposure to counterparty risk.

(d) Investment Objectives and policy

- 1) The Occupational Pension Schemes (Investment) Regulations 2005 (S.I. 2005/3378) (“the Investment Regulations”) require the Scheme’s assets to be invested in the best interests of members and beneficiaries. In order to fulfil this requirement the Management Trustees’ investment objectives are as follows:
 - a) To maintain a portfolio of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the employers, the costs of current and future benefits which NAPS provides, as set out in the Trust Deed and Rules;
 - b) To limit the risk of large adverse changes in the level of cover for the Technical Provisions over the shorter term and of the assets failing to meet the liabilities over the longer term; and
 - c) To minimise the long-term costs of NAPS by maximising the return on the assets whilst having regard to the objectives shown under 5 (d) (1) (b) above and the Trustees’ attitude to risk.
- 2) The Management Trustees use Asset Liability Modelling (ALM) to assist in setting investment policy. ALM is undertaken at each valuation.

- 3) In 2007 the Trustees agreed that should funding levels improve sufficiently beyond the level envisaged in the Recovery Plan, reductions should be made in the level of equities with equivalent increases in the allocations to bonds. These reductions will be triggered if the funding levels on a Technical Provisions basis and on a self-sufficiency basis reach pre-agreed levels. In this event switching from equities will take place unless actuarial or investment advice indicates additional factors require consideration before implementation. In the event that additional factors do require consideration, the Management Trustees have agreed to delegate authority to the Investment Committee to determine whether, having considered the additional factors, the switching will proceed

The projected returns used for the 2006 ALM exercise are set out in Appendix 3.

(e) Realisation of investments

The Management Trustees expect that the investments of NAPS (and any cash contributions thereto) would normally generate sufficient cash to meet the benefit obligations as they fall due but an adequate proportion of sufficiently realisable investments is held to meet additional cashflow requirements in most foreseeable circumstances. The Trustees are satisfied that the arrangements in place conform with this policy.

(f) Socially Responsible Investment

The Management Trustees' overriding objective is not to cause BAPIML to take any action (whether by purchasing, holding or selling any investment) which could be reasonably expected to diminish the financial returns on NAPS's investment as a whole.

Subject to this objective, the Management Trustees require BAPIML to incorporate as part of its investment process a systematic approach to the maintenance of ongoing dialogue with the management of those companies in which it retains, or proposes to make, significant equity investments and, where appropriate, other forms of investment. The specific purpose of such dialogue - called 'responsibility discussion overlay', or RDO - is to establish a framework within which BAPIML may, on behalf of the Management Trustees, raise issues concerning the social, environmental or ethical aspects of the operations of the investee company. BAPIML has been requested to report to the Management Trustees once in each calendar year on its activities under RDO and the Management Trustees use this report as a focus for issuing further guidance to BAPIML (in consultation with the Company where appropriate) if required.

6 CORPORATE GOVERNANCE

BAPIML has been instructed by the Management Trustees to exercise voting and other rights attaching to NAPS investments at meetings of UK and overseas listed companies wherever practicable. Where relevant rights are exercised, this will be based on the framework formulated by the National Association of Pension Funds.

The Management Trustees have also agreed to the incorporation of the principles set out in the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional Shareholders and Agents into their Corporate Governance arrangements.

The primary objective of these Corporate Governance arrangements is to protect the economic interests of NAPS. Details of the exercise of voting rights are reported to the Management Trustees at least quarterly and a summary of this information along with data summarising the Scheme's larger investments will be made available on the member website each year.

The Management Trustees will give consideration to the incorporation of the principles set out in the Institutional Shareholders' Committee Statement of Principles on the responsibilities of Institutional Shareholders and Agents into the Investment Management Agreement and the Trust Deed at such time as these documents are subject to formal review.

7 ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Management Trustees, having taken advice from Watson Wyatt (including the NAPS Actuary) have arranged with BAPIML for members to be able to make Additional Voluntary Contributions to the Equity Biased Fund (EBF), the Short-Dated Gilts Fund (SGF) and the Mixed Portfolio Fund (MPF).

The Investment Objective of these funds is to provide a range of investments suitable for supplementing members' pensions at retirement.

Contributions to the EBF and the SGF are invested with the same asset allocation as is used for the main Scheme assets but with returns calculated on a different basis.

EBF returns consist of two parts – the Guarantee Component and the Bonus Component. Interest is added to EBF accounts monthly at the rate of 1/12th of the total of the annual Guarantee Component and 1/12th of the annual Bonus Component.

Guarantee Component - this rate is calculated monthly and is the interest that would have accumulated in a Seven-Days-Notice Local Authority Deposit Account during the previous month.

Bonus Component – this rate is calculated annually on 1 April each year. It is calculated by the Schemes' Actuary and is based on an investment portfolio equivalent to the main Scheme asset allocation as this is a reasonable reflection of a long-term investment strategy for AVCs. When determining the Bonus Component the Actuary compares the actual rate of return achieved by the portfolio in recent years to the Guarantee Component and then calculates a weighted average return in excess of the Guarantee Component. An allowance is then made to the Bonus Component to allow for the cost of the guarantee. It is possible for the Bonus Component to be zero.

SGF returns are related to Government gilt-edged securities and give a return in the form of interest calculated as the average rate from the three highest-yielding, gilt-edged securities which have less than five years to maturity. Interest on SGF accounts is calculated annually but where funds are switched into, or out of, the SGF during the year, interest is calculated separately in respect of the money held before and after the date of the switch. Contributions made each month receive interest on a proportional basis.

In regard to contributions to the MPF the Management Trustees have been advised, and they believe, that an investment strategy based predominantly on investment in equities and fixed interest bonds as detailed in Appendix 4, is for the time being the most appropriate strategy. The Management Trustees set a benchmark for each type of asset (shares, bonds etc) held within the Fund and use this to monitor the Fund's performance by comparison with the returns produced by other large AVC providers.

Investments in the AVC funds will be realised to meet the benefit obligations as they fall due either in the form of cash or by means of the purchase of an annuity.

8 FRAMEWORK FOR INVESTMENT DECISION-MAKING

The Management Trustees have taken specialist advice on the new industry led framework for investment decision-making, based on revised Myners principles, issued by the Government in October 2008. The Management Trustees have implemented arrangements that comply fully with these updated principles and have reviewed their practices in line with the guidance given. The Management Trustees will continue to review the extent to which they meet suggested best practice and developments that may be introduced by the Investment Governance Group.

9. PREPARATION OF THIS STATEMENT

Prior to issuing this statement, the Management Trustees obtained and considered the written advice of the Investment Advisors, Watson Wyatt, and the Scheme's legal advisors, and consulted with British Airways Plc on behalf of the employers of NAPS. This statement supersedes the previous statement dated 1 January 2010.

The Management Trustees of the New Airways Pension Scheme
Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex TW3 1HU
24 March 2010

APPENDIX 1

<i>Asset category</i>	<i>Benchmark Index</i>
UK equities	FTSE All Share
North America US equities Canadian Equities	Standard & Poors 500 Toronto TSE 300
Europe (ex UK) equities	FTSE All World Developed Europe ex UK Index (net of tax)
Japanese equities	FTSE Japan
Asia Pacific (ex Japan) equities	FTSE All World (Mid and large cap) Asia Pacific ex-Japan
Emerging Market equities	FTSE All World Emerging ex-emerging Asia
Overseas Bonds	FTSE Actuaries All Stocks Gilts
Index-linked bonds	FTSE Actuaries over 5 years index-linked
UK Government Conventional Bonds	FTSE Actuaries All Stocks Gilts
Corporate Bonds	75/25 AAA/AA (as defined by the Barclays Capital Sterling Aggregate 100 non-gilts all maturities indices), but customised to ensure that the fund's prudential limits on any issuer are observed.
Property	IPD Quarterly Universe
Cash	LIBID 7 Day
Alternatives	3 month LIBOR plus 2%

Performance Target:

The Management Trustees have set BAPIML the target of performance 0.5% per annum above the weighted average of the agreed strategic benchmark (above) over a rolling five year period though they will continue to monitor performance over a range of time periods.

Whilst the Management Trustees recognise that the past should not be taken as a reliable guide to the future, previous performance data indicate that the Management Trustees would not be acting unreasonably to expect returns of the order so targeted.

APPENDIX 2

Strategic Asset Allocation

	Limits as % of Total Fund
	Target Benchmark
Equities	59%¹
- Quoted equities	54%
- Private equity	5%
Bonds ²	26%¹
- Fixed Interest	13%
- Index-Linked ³	13%
Cash	0%
Property	10%
Alternatives ³	5%

¹ These allocations may be revised in the event that improvements in funding levels trigger reduction of the allocation to equities on the basis set out in Section 5(d)(3)

² There is no set benchmark for overseas bonds

³ Separate allocations have been established for investment in each asset type

The strategic benchmark set out above is subject to more detailed control limits and bandwidths exercised by the Investment Committee in consultation with the investment advisers and BAPIML.

The specific limits and bandwidths set for BAPIML are prescribed in the Investment Management Agreement, which may be amended by the Investment Committee, subject to the overall limits set out by the Board.

Details of the actual asset allocation are provided at least annually to members in the 'In Focus' publication.

APPENDIX 3

Projected Investment Returns

The following table sets out the expectations for the rates of return to be earned in future on the various asset classes in which NAPS could invest. They are based on market conditions as at 31 March 2006. All figures are for real returns in excess of price inflation.

	10 year median real return
	%pa
Equity Investments	
Global (ex UK) equity (hedged)	5.3
Global (ex UK) equity (unhedged)	5.0
UK equities	4.9
Property	3.4
Bonds and cash	
AA UK long corporate bonds	2.0
Long term UK gilts	1.6
Index-linked gilts	1.3
Foreign bonds (hedged)	1.7
Foreign bonds (unhedged)	1.2
Global index-linked (ex UK)(hedged)	2.0
Cash	0.8
Inflation (RPI)	2.7

The above assumptions relate to the period from 31 March 2006 to 31 March 2016. Effectively, these assumptions represent a 'best estimate' so that there is a 50% chance of returns being higher and a 50% chance of returns being lower than the stated level.

The assumptions reflect a combination of historical performance analysis, the forward looking view of financial markets as revealed through the yield on bonds and the views of investment organisations. The assumptions for each asset class incorporate historical return relationships, market conditions as at 31 March 2006, and the increasing degree of global capital market integration.

APPENDIX 4

MPF Summary Asset Allocation and Bandwidths

	Minimum % Total Fund	Benchmark %	Maximum % Total Fund
Equity Total	75% (73%)	80%	85% (87%)
UK ¹	19.0%	24.0%	29.0%
International ^{1,2}	51.0%	56.0%	61.0%
Bonds and cash	13%	20%	28%
Fixed Interest Bonds	13%	18.0%	23%
Cash	0.0%	2.0%	5.0%

¹ These bandwidth limits are in place when the overall equity allocation is on benchmark. The limits are adjusted to reflect any under or over-weighting in overall equities in accordance with an agreed formula.

² Within this overall International equity benchmark limit, ranges have been established for investment in each region.