

# Annual Report and Accounts 2007

New Airways Pension Scheme



**Year ended  
31 March 2007**

# Annual Report and Accounts

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# Chairman's Review

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The last year was certainly eventful. Our main focus of the year was the three-yearly actuarial valuation. The results of the valuation identified an increase in the Scheme's deficit from £928m in 2003 to £2.1bn in 2006. As part of the valuation process we undertook a thorough investment strategy review and we also negotiated with British Airways to establish a Recovery Plan which aims to clear the deficit in the Scheme by 2016. More details of the Recovery Plan can be found on page 8 but it includes a cash injection of £800m into the Scheme with the potential for a further £150m over the next three years depending on British Airways' financial position and increased regular Employer contributions. As part of the Recovery Plan, British Airways and the Trade Unions concluded discussions about future pension provision and the Trustees amended the Rules of the Scheme to effect those changes as at 1 April 2007. Overall these arrangements should ensure that the benefits already built up in the Scheme are more secure and that future pension growth continues at a sustainable level.

Many of the provisions of the Pensions Act 2004 and Finance Act 2004 have now come into effect and the Trustees continued their work on the various Regulations and Codes of Practice. These cover areas such as the process for appointment of member nominated trustees, disclosure regulations and methods of internal controls and risk management. The Trustees have completed a comprehensive review of the current Member Nominated Trustee arrangements and have decided to increase the length of term of office in recognition of the extra training now required. Age discrimination legislation was introduced late last year and the Trustees have agreed to make a number of amendments to ensure the Scheme is compliant in this complex area.

## Headline Results

The net asset value of the fund has increased from £5,846.0 million at the start of the year to £6,602.0 million on 31 March 2007. Michelle McGregor Smith, CEO BAPIML, provides more information on investment conditions during the year in the Investment Report which is found on page 12. This year the 'in flow' of contributions and investment returns has again exceeded the withdrawals from the fund with a resulting net increase in

the value of the fund. The above value includes £240 million received on 9 February 2007 from British Airways but excludes the further £560 million paid by British Airways on 2 April 2007 as part of the negotiated Recovery Plan

## Valuation vs Annual Report & Account Results

It is important to distinguish between the results of the actuarial valuation and the Annual Report and Accounts. The Accounts describe the financial position of the fund on a particular day, in this case 31 March 2007. The valuation, as at 31 March 2006, is a separate exercise and is a detailed investigation into whether, over the long term, the Scheme is likely to be able to pay the benefits that are due to be paid under the Scheme Rules

## The 2006 Valuation and Funding Process

The 2006 valuation was the first under the requirements of the Pensions Act 2004, which introduced significant changes to the scheme funding process. Unlike the previous funding standard (the Minimum Funding Requirement which was introduced by the Pensions Act 1995), this new Act does not prescribe a set level of scheme funding. Instead trustees and employers are required to agree a scheme specific funding target and period for making up any deficit, by taking account of a company's financial strength and ability to pay and the Scheme's need to be appropriately funded.

Under the new Act it is the NAPS Trustees and British Airways rather than the Actuary who establish the level of future contributions that British Airways will pay. The Actuary continues to have a key role in advising the Trustees and also needs to certify that certain outcomes of the funding process do not fall below the level he would have calculated had he retained responsibility for the funding process and Greg Alexander, as Actuary to the Scheme, has confirmed this.

During the valuation and funding process, the Pensions Regulator met with Trustee representatives on several occasions. The Trustees have now submitted the formal Recovery Plan to the Pensions Regulator and he has chosen not to use his powers to impose any alterations to the Recovery Plan.

# Chairman's Review

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## Board Matters

As well as dealing with the valuation process the Trustees have also dealt with day to day operational, investment and governance matters. Please refer to the Trustees' report for a full account of these activities.

There have been a number of changes over the year to the Trustee Board. Phil Hogg retired as an Employer Representative on 31 August 2006 and was replaced by Raj Mehta on 1 September 2006. Andrew Sentance retired as an Employer Representative on 30 September 2006 and was replaced by Steve Gunning from 2 November 2006. Nikki Jones and David Southcott both stood for re-election and were re-appointed with effect from 1 October 2006. In Nikki's case the re-appointment followed an election and David was re-appointed unopposed. Dave Gunner retired as a Member Representative on 31 March 2007 and Geoff Le Boutillier was appointed, unopposed to replace him. Micky Grey also stood for re-election and was re-appointed unopposed as a Member Representative. Both Geoff and Micky commenced their terms on 1 April 2007.

On behalf of the Board I would like to thank Dave Gunner, Phil Hogg and Andrew Sentance for their contribution throughout their periods of office and wish them well in the future. I would also like to congratulate Nikki, David and Micky on their re-appointments and would like to welcome Raj, Steve and Geoff to the Board.

## The Year Ahead

Even though we completed some major tasks last year there is still much to be done. In particular, the benefits administration systems need to be updated to reflect the new benefit arrangements for active members and the Trustees will do all they can to ensure that the usual level of service to our members is maintained.

I know from talking with chairmen of other large schemes that many of them are still struggling to finalise recovery plans. We have now completed this important and difficult task and, therefore, in closing I would like to convey my continued gratitude to the Trustees and their advisers for the enormous amount of work completed during last year. I would also like to give my thanks to the teams at BAPSL and BAPIML, who support the work of the Trustees, for their continued commitment and hard work. As I stated last year, it is only through the concerted team effort of our staff and our advisers that we as Trustees have been able to achieve the progress described in this report.

**ROGER MAYNARD**  
Chairman of Trustees

June 2007

# Trustees and Advisers

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## Appointed by British Airways

**Roger Maynard**  
Director of Investments  
and Alliances

**Robert Boyle**  
Commercial Director

**Ruth Cassidy**  
Head of Im  
Business Control

**Paul Douglas**  
Head of Flight Operations

**Steve Gunning**  
MD BA World Cargo

**Raj Mehta**  
GM MMCO

## Member Elected

**Ian Bretherton**  
Captain

**Michael Grey**  
Team Leader Aircraft  
Services

**Nikki Jones**  
Cabin Crew

**Geoff Le Boutillier**  
Retired

**Ian Rycraft**  
Technician

**David Southcott**  
Senior Customer Services Agent

## Retired during the year

**Dave Gunner**  
Pensioner Member elected

**Phil Hogg**  
BA appointed

**Andrew Sentance**  
BA appointed

## Advisers

**Scheme's Actuary**  
Greg Alexander  
Watson Wyatt Limited

**Legal Advisers \***  
Eversheds LLP

**Bankers**  
Bank of New York

**External Custodian**  
State Street Bank  
and Trust Co

**Auditors**  
KPMG LLP

**Independent Investment Advisers**  
Andrew Threadgold  
Geoff Lindey  
Colin Maltby

**Financial Advisers**  
PricewaterhouseCoopers LLP

## Administration

**British Airways Pension Services Ltd**  
John Birch  
Managing Director & Scheme Secretary

## Investment Management

**British Airways Pension Investment  
Management Limited**  
Michelle McGregor Smith  
Chief Executive Officer

The New Airways Pension Scheme – Scheme Number: 2/78800/Z

\* In addition to the Scheme's principal advisers, Messrs Macfarlanes are legal advisers to the Schemes in respect of certain investment activities, Messrs Forsters LLP are legal advisers in relation to some property transactions and Mercer Human Resource Consulting Limited are advisers in respect of the management of currency transactions.

This report provides information about the management of the Scheme and sets out the main activities we have undertaken during the year. There are sections on Investment, Scheme Governance, Member Services and Benefits. The Benefits section includes information on the new pensions legislation which has been introduced and there is also information about annual pension increases. The final section contains general information about the Trustees' responsibilities.

## INVESTMENT

### Investment Policy

When we are assessing the appropriateness of the Scheme's investment policy we use a tool known as Asset Liability Modelling (ALM) which matches the type of liabilities (benefits) the Scheme has with an appropriate set of assets (investments). An ALM exercise is undertaken at each valuation. The 2006 ALM study concluded that there was no need for any major change to the previously agreed strategy but some minor changes were appropriate. With effect from 1 April 2007 the asset allocation is as follows: 61% in equities, 14% index-linked bonds, 13% fixed interest bonds, 10% property, 1% in commodities and 1% cash.

### Statement of Investment Principles (SIP)

A revised SIP was adopted with effect from 1 April 2007 and is available on request from the Secretary's office or can be accessed on the [www.mybapension.com](http://www.mybapension.com) website.

### Measuring Performance

In accordance with the Myner's Principles the Trustees have adopted a customised benchmark as this ensures that the investment performance objectives are related directly to the circumstances of the Fund and not to some other measure such as the performance of other funds whose liability profiles might be quite different to NAPS.

The Trustees monitor the Fund's performance by comparing the returns that NAPS achieves against a benchmark. The performance of each asset category is measured against an index. For example, the UK equity portion of the fund is measured relative to the performance of the FTSE All Share Index.

British Airways Pension Investment Management Limited (BAPIML) is the in-house investment manager to NAPS. BAPIML's expenses are charged to the Scheme at cost and we delegate routine or day to day investment decisions to them. The Trustees have set BAPIML the target of performance of 0.5% per annum above the weighted average of the agreed strategic benchmark over a rolling five year period, though we will continue to monitor performance over a range of different time periods.

Over the period under review BAPIML have underperformed the benchmark. In terms of the performance target, BAPIML performance of 8.81% compared with the benchmark of 8.84%, as assessed over a rolling five year period, fell below the 0.5% out-performance target. A more detailed explanation of the factors which contributed to investment performance during the period under review can be found on page 12.

### Security of Assets

The Custodian Trustee of NAPS, British Airways Pension Trustees Limited, holds the assets of the Scheme on behalf of the Trustees. However, physical custody of the Schemes' securities (i.e. stocks and shares) has been delegated to independent external custodians, State Street Bank and Trust Company.

### Scheme Funding

Under the provisions of the Pensions Act 2004 the 2006 NAPS valuation process complied with a new funding regime. Unlike the previous funding standard, the Minimum Funding Requirement (which was introduced by the Government in the Pensions Act 1995), this regime does not prescribe a set level of scheme funding. Instead trustees and employers need to agree a scheme specific funding target by reference to a company's financial strength and ability to pay and the scheme's need to be appropriately funded. The agreed policy is then set out in a Statement of Funding Principles.

In the past the Scheme Actuary has determined the contribution rate but under the new legislation this role has changed to one where he provides an "underpin" certificate. For the 2006 valuation the new funding

# Trustees' Report

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## **Scheme Funding (continued)**

regime was agreed between the Trustees and British Airways and the Actuary certified that the agreement did not produce a contribution rate lower than the level he would have calculated had he retained responsibility for setting the contribution rate.

The Regulator has published guidance on the requirements of the scheme funding legislation and sets out expected standards of conduct and practice. The Regulator has powers to supervise the funding process, intervene if agreement cannot be reached and challenge agreements that are reached between trustees and employers. The Regulator's own objectives include protecting scheme members' benefits and preventing schemes being transferred into the new statutory pensions 'safety net' – the Pension Protection Fund (PPF).

The PPF is in effect an insurance scheme, introduced to provide a level of protection for the benefit of members of defined benefit schemes which are in deficit and where the sponsoring employer becomes insolvent. Schemes such as NAPS which are less than 100% funded on a PPF basis at the time of insolvency would be considered for admission to the PPF.

As outlined last year, and in accordance with the Regulator's guidance on determining scheme funding, as part of the 2006 valuation process we appointed PricewaterhouseCoopers LLP (PwC) to conduct an independent assessment of British Airways' financial position and prospects and the ability to pay contributions. This was a significant exercise and the Trustees met with PwC on a number of occasions to receive reports on their work.

Under the Pensions Act 2004 the Trustees are required to be prudent when setting assumptions with emphasis on what would happen if British Airways was no longer able to support the Scheme. Using observed market trends, the expected future returns (the discount rate) was revised from 6.8% in 2003 to 5.2% in 2006. Life expectancy has continued its upward trend and is now 3 years longer than was assumed in 2003 for a 60 year old.

Using the collated information the Trustees were able to formulate a Recovery Plan and negotiate with British Airways the immediate payment of £800 million, which was received in two instalments of £260 million (in February 2007) and £540 million (in April 2007). Additionally, in certain circumstances, including in the event that British Airways were to become insolvent, a guarantee of £150 million (provided by a suitable external provider) has been negotiated. Separately, and subject to British Airways' financial performance, there is the possibility of up to a further £150 million being paid over the next three years. If such payments were received they would have the effect of reducing the £150 million guarantee by the amount received.

At the conclusion of the Scheme funding process a new Schedule of Contributions and a Statement of Funding Principles were agreed with British Airways and copies of these are available on the Scheme website.

In order to improve the longer term security of NAPS, the Trustees reluctantly agreed to changes in the structure of future benefits accrual for members with effect from 1 April 2007. These changes are detailed later on page 9.

## **SCHEME GOVERNANCE**

The Trustees confirm that they have considered the key risks affecting the Scheme and employ effective controls to mitigate these risks.

### **Compliance with the Myners Principles**

The Trustees have reviewed their compliance with the Myners Principles in detail and are confident that they have implemented appropriate arrangements to maintain compliance. Following the review the Trustees have agreed that information on how BAPIML exercised votes resulting from shares held on behalf of the Trustees will be published on the website.

## Trustee Arrangements

Following the Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 2006 and the publication of the Regulator's code of practice, the Trustees undertook a review of the existing Trustee arrangements. The changes are detailed below:

- With effect from 1 October 2007 terms of office will increase to a minimum of five years and a maximum of five and a half years in recognition of the investment in training undertaken by the Trustees.
- With effect from 1 October 2007 the number of pensioner members\* needed to support a pensioner election nomination will be reduced to ten.

Although the Airways Pension Scheme (APS) and NAPS have separate Trustee Boards, much of the business of the two Schemes is common, and in most cases we have the same advisers. Most Main Board and Committee meetings have been held in tandem although each Trustee Board reaches its decisions independently. Much of our work is undertaken by Trustee Committees who are able to review matters in detail before making recommendations to the Main Board where the majority of Trustee decisions are made. Each Committee operates under clear Terms of Reference which govern its activities. A description of the work undertaken by each Committee is set out below:

**Governance Committee:** This Committee meets quarterly and is principally concerned with legislative compliance and risk management. It monitors the management of the risks to which the Scheme is exposed and audit activity (including the work of both the external and internal auditors appointed by the Trustees). It is also responsible for the establishment of training programmes, the annual reviews of the performance of the Scheme Advisers and internal procedures such as ballot processes. The Committee also reviews any Internal Dispute Resolution Procedure (IDRP) cases previously considered by the Operations Committee. During the year the Committee's work also included consideration of the new Codes of Practice

relating to Trustee Knowledge and Understanding, Notifiable Events, Reporting Breaches of the Law and Internal Controls. The Committee met four times during the year.

**Investment Committee:** This Committee usually meets five times a year. The Committee, which is supported by three independent investment advisers, deals with investment approval and reporting arrangements, the monitoring of investment performance and consideration of the various investment options available to the Scheme. Much of the Committee's work during the year was dealing with the new Scheme Funding Regime and the Committee also completed the detailed investment review of alternative investments, which resulted in the modifications to the asset allocation policy and the revised Statement of Investment Principles. The Committee actually met six times during the year.

**Operations Committee:** This Committee meets monthly to consider matters requiring Trustees' discretion (e.g. payment of death-in-service benefits) and second stage applications under the Internal Dispute Resolution procedures. In addition the Committee considers any proposed Rule changes, oversees the Scheme's communication strategy, monitors levels of service, considers the annual budget and monitors expenditure. The Committee continues to undertake the review of ill health pensions in payment, to ensure that continuation of the pension is in accordance with the Rules. Several ill health pensions have been suspended where the beneficiaries are no longer incapacitated or who have failed the pay test. The Committee continued to monitor the implementation of a new pensions administration computer system and considered a wide range of matters arising from the new legislation contained in both the Pensions Act 2004 and the Finance Act 2004. The Committee met 13 times during the year.

## Performance of Trustees

Attendance records for Trustee and Committee meetings have been maintained and are shown overleaf.

\* For this purpose 'pensioner members' do not include pensioners whose benefits have not yet come into payment and contingent beneficiaries.

# Trustees' Report

## Performance of Trustees (continued)

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of Appointment
Roger Maynard (Chairman)	4/4	5/6	-	11/11	Whole year
Robert Boyle	-	3/4	-	9/11	Whole year
Ian Bretherton	-	6/6	-	10/11	Whole year
Ruth Cassidy	-	-	11/13	11/11	Whole year
Paul Douglas	-	-	-	11/11	Whole year
Micky Grey	-	-	11/13	8/11	Whole year
Dave Gunner	3/4	-	-	8/11	Whole year
Steve Gunning	-	-	-	4/4	From Nov 2006
Phil Hogg	1/1	-	2/5	3/3	To Aug 2006
Nikki Jones	-	-	11/13	10/11	Whole year
Raj Mehta	3/3	-	7/8	8/8	From Sept 2006
Ian Rycraft	-	6/6	-	10/11	Whole year
Andrew Sentance	-	2/2	-	5/5	To Sept 2006
David Southcott	4/4	-	-	11/11	Whole year

On several occasions those Trustees not able to attend a meeting appointed an alternate to speak, and if necessary, exercise their vote. In addition, some Trustees attended, as observers, meetings of Committees to which they are not formally appointed, such occurrences are not included in the attendance list.

There have been 11 Main Board meetings during the year, an unusually high number reflecting the amount of discussion associated with the Scheme funding process. Main Board meetings are usually scheduled to take place quarterly.

### Trustee Training

Training plans are in place which take account of both the particular needs of each Trustee and the Committees on which they serve. Newly appointed Trustees are provided with a comprehensive induction programme during the first three months of their term of office.

Training is provided via a number of routes. Where appropriate the Actuary and other advisers provide training to some or all of the Trustees either in routine Main Board

and Committee meetings or in specially arranged events. External training courses are also utilised and individual Trustees are encouraged to consider their own training requirements and to request places on suitable courses. Bespoke training is provided at Whitelocke House to supplement external courses and seminars, if required.

The Regulator's Code of Practice on Trustee Knowledge and Understanding has formalised the knowledge requirements for trustees and all of the Trustees attended courses leading to qualification for the Pensions Management Institute Trustee Certificate of Essential Pensions Knowledge. The majority of Trustees have obtained this certificate and our recently appointed Trustees are making good progress towards qualification.

### Adviser Reviews

We have adopted a process of annually reviewing the performance of all Scheme advisers. Each of the primary Scheme appointments, being the Legal Adviser, the Auditor and the Actuary, will usually be subjected to a comprehensive appraisal of services as part of a rolling three year programme. As a result of the amount of time

required for the Scheme funding process we postponed some reviews scheduled for 2006. Those reviews, along with those scheduled for 2007 have now been held and all appointments have been confirmed for further periods.

## MEMBER SERVICES

### Member Communications

Member communications have been focussed on keeping members advised of the valuation process and changes in benefit structure. Communication has been made via a combination of letters, 'In Focus' and articles within 'BA News' in order to maintain the required visibility of the changes. The latest 'In Focus' was sent to Members in May 2007 and covered the final valuation results, rule changes and the Summary Funding Statement. The sending of automated annual benefit statements to current Members has been temporarily suspended whilst the new benefit structure is reflected in the benefit administration system.

### Administration Systems

Work has commenced on the required system updates to reflect the new benefit structure. This work is expected to take most of the coming year. Once completed, a project to bring web based member self service facilities to the membership will commence with a view of being delivered during 2008/9.

## LEGISLATIVE AND OTHER CHANGES

### The Finance Act 2004 and the Pensions Act 2004

Many of the changes introduced by these significant pieces of legislation came into effect, in most cases, on 6 April 2006 (A-Day). The August 2006 edition of In Focus provided Members with a review of the effects of the changes on both the Scheme and individual members.

### Pension Protection Fund Levy (PPF)

As Trustees, we are responsible for paying the levy but the legislation does allow us to seek payment from British Airways or pass on the cost of the levy to the membership. Although it was not obliged to do so, British Airways again paid the levy of £4.417 million in 2006/7. We have negotiated with British Airways that it will pay the levy this

year (which is expected to be between £2-3 million) and each subsequent year.

### Internal Dispute Resolution Procedure (IDRP)

The Trustees are required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The Trustees have appointed John Birch, Managing Director of BAPSL, as the designated person to deal with the first stage adjudication. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House or on our website.

### Scheme Changes

There were several changes to the Scheme's Trust Deed and Rules during the year. Changes were made to reflect the requirements of the Finance Act 2004. As part of the preparations for the valuation and funding negotiations the Trustees undertook a review of the committee governance and this also resulted in some changes to the arrangements for dealing with potential conflicts of interest and the appointment of alternates.

With effect from 1 April 2007 the benefit structure of future benefit accrual has changed as a result of the agreements reached over the Scheme's deficit. In broad terms, Members may choose to accrue future benefits in either Plan 65 or Plan 60 at a standard accrual rate of 1/60ths with the option to annually change the accrual rate to 1/56ths or 1/52nds. Full details of how these changes will affect individual Members were sent to each Member's home address.

Further changes effective from 1 April 2007 are:

- The maximum pension contribution limit has been raised, with effect from the 2007/8 tax year, from 15% to 30% of pay in order to accommodate the higher levels of pension contributions required under several of the new options.

# Trustees' Report

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## Scheme Changes (continued)

- The Scheme no longer offers the variable pension option. This option was designed to provide those retiring before State Pension Age (SPA) with broadly the same level of income throughout retirement by giving a higher NAPS pension up to SPA and then a lower NAPS pension thereafter so that the total income remained the same taking account of the State Pension. This change does not affect Pensioners who are already participating in the option.
- The Trustees have adopted new actuarial factors, which will affect those with options/benefits coming into effect after 1 April 2007.
- Subject to certain conditions it is now possible for a Member over the age of 50 to draw pension while remaining in employment with British Airways by opting out of the Scheme. This change is in advance of potential flexible retirement arrangements, which will be considered in conjunction with British Airways sponsored changes.
- Members wishing to transfer their pension benefits to another scheme can now retain the Guaranteed Minimum Pension (GMP) element in the Scheme if the transfer is made to an external arrangement which is unable to accept the GMP.
- Appropriate changes to the Rules have been made to reflect recent age discrimination legislation.

## Participating Companies

British Airways Connect Limited ceased to participate in the Scheme from 5 March 2007 and British Airways Travel Shops Limited ceased to participate from 31 March 2007. As a result of the Employer Debt Regulations pertaining to the Finance Act 1995 the withdrawal of these participating employers resulted in British Airways being required to pay Exit Debts to extinguish the deficit associated with membership of the scheme.

## PENSION ADMINISTRATION MATTERS

### Ill Health Review

In 2005 we started a pilot exercise to review a defined sample of ill health pensions in payment which included assessing the continued medical incapacity of the recipient. A review of the cases considered has led to a defined ill health pension review process, which is ongoing. The process allows the Trustees to consider cases in a consistent manner.

### Cash Equivalent Transfer Values

Transfer values paid during the year were calculated and verified in the manner prescribed by the regulations under Section 97 of the Pension Schemes Act 1993. Discretionary benefits are not included in the calculation of transfer values.

### Pension Increases

Scheme Rules provide that the annual increase shall be the percentage specified in the Pensions Increase (Review) Orders, subject to a maximum of 5% per year. Each Order reflects the rise in the Retail Prices Index over a twelve-month period measured up to the end of September each year. Increases apply to all pensions payable under the Rules of NAPS (whether in deferment or actually in payment).

In accordance with the 2006 Order, pensions were increased by 2.7% on 10 April 2006 and, in accordance with the 2007 Order, by 3.6% on 9 April 2007.

All pension increases are a right under the Scheme and are not discretionary.

## STATEMENT OF TRUSTEES' RESPONSIBILITIES

The audited financial statements are the responsibility of the Trustees. They have been prepared and audited in accordance with regulations made under Sections 41(1) and (6) of the Pensions Act 1995 and UK Accounting Standards. Pension scheme regulations require the Trustees to make audited financial statements for each scheme year available to the Scheme's beneficiaries and certain other parties. These statements must:

- show a true and fair view of the financial transactions of the Scheme during the scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustees have delegated the preparation of the financial statements to the Secretariat of the Scheme. The Trustees have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustees are responsible for making available each year, commonly in the form of a Trustees' Annual Report, information about the Scheme prescribed by pensions legislation which they should ensure is consistent with the financial statements it accompanies.

The Trustees have certain responsibilities in respect of contributions which are set out in the Statement of Trustees' Responsibilities accompanying the Trustees' Summary of Contributions.

The Trustees have general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

This Report was approved by the Board of Trustees on 27 June 2007 and was signed on their behalf by:

**John Birch**  
Secretary

# Investment Report

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## REVIEW OF THE YEAR

Many of the themes of 2005/6 remained important drivers of economic activity and asset performance into 2006/7. As expected, most regions exhibited slowing economic growth in the latter months of 2006, a consequence of tighter monetary policy and the restraining influence of higher oil and commodity prices. U.S. consumers were subdued by the squeeze on disposable incomes and the bursting of the housing bubble. However, the overall level of economic growth has been better than most commentators had expected, with China and other emerging economies supporting growth in other regions.

The pace of industrialization in the emerging economies and the requirements for infrastructure build globally further boosted the demand for commodities and machinery. Europe continued to demonstrate the benefits of restructuring as well as export driven growth. Global economic growth was broad based with record numbers of countries recording real GDP growth of over 4%, the highest since 1980, with few economies in recession, the lowest over the same timeframe.

Buoyant economic growth and rising inflation led central banks to raise interest rates to higher levels than expected by most commentators. However, real interest rates remain low around the world.

In this environment companies profits and cashflows remained healthy. Earnings have continued to surprise on the upside keeping price earnings ratios little changed and leaving further scope for re rating. As we expected, companies have applied these cashflows to capital expenditure projects, dividends and share buybacks and increasingly, merger and acquisition activity. Levels of merger and acquisition activity have surpassed previous records and this has pushed equity markets higher.

A significant driver of asset price performance has been excess liquidity. As well as corporate cash flows this comes from a number of sources: the investment of central bank reserves from countries with trade surpluses, the deployment of the oil and commodity producer's profits in

a variety of assets, credit creation and the actions of hedge funds combined with the investment of private equity cash flows. These factors are all working to keep real interest rates low.

In general Bond markets struggled to beat cash returns for most of the year as rising inflation concerns combined with the already very low absolute levels of yields held back returns. Property assets performed well once again reflecting buoyant occupancy and rental growth as well as investment demand compressing yields.

On a tactical basis the Fund remained overweight equities and underweight bonds. This was driven by the Fund Managers' assessment of the economic environment and the attractive relative valuations of equities when compared to fixed interest and index-linked bonds.

## Asset Allocation and Benchmarks

The Fund's tactical asset allocation and associated strategic benchmark for the major asset classes are shown in the table opposite.

At the beginning of the year, the equity benchmark weighting was reduced by 2% and the property benchmark was increased by 1% (this is detailed on page 5). A benchmark allocation of 1% was introduced to commodity instruments. These were planned diversifications away from equities agreed by the Trustees in 2005. A further increase of 2% in the property benchmark is planned for 1 April 2007.

Contributions received from BA plc in February were invested in line with the prevailing tactical asset allocation albeit with a slight increase in the tactical weighting to bonds and an increase in the underweighting in property, reflecting lower expected returns after strong performance from this asset class.

The Trustees and their Advisers have set bandwidths around the strategic benchmarks shown opposite. These allow BAPIML to make tactical asset allocation decisions to take advantage of valuation differentials between asset classes which may occur from time to time. The actual allocation shown was within these bandwidths.

# Investment Report

Asset Category	Actual % 31 Mar 2007	Benchmark % 31 Mar 2007	Actual % 1 Apr 2006	Benchmark % 1 Apr 2006
<b>Equities</b>	<b>66.0</b>	<b>63.0</b>	<b>69.1</b>	<b>65.0</b>
UK	33.5	31.5	33.8	32.5
International	32.5	31.5	35.3	32.5
<b>Bonds &amp; Cash</b>	<b>25.5</b>	<b>28.0</b>	<b>24.0</b>	<b>28.0</b>
UK Fixed	11.7	13.0	8.3	13.0
Overseas Fixed	0.8	-	1.1	-
UK Index-Linked	11.2	14.0	8.8	14.0
Overseas Index-Linked	0.9	-	1.1	-
Cash	0.9	1.0	4.7	1.0
<b>Commodities</b>	<b>0.5</b>	<b>1.0</b>	-	-
<b>Property</b>	<b>8.0</b>	<b>8.0</b>	<b>6.9</b>	<b>7.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Performance

There were two distinct phases in markets during the year. After a strong equity rally into May 2006, a weaker bond market and concerns over rising inflation risks led equity investors to take profits. This was partly in anticipation of central banks continuing to raise interest rates and restrict economic activity. In the autumn equity markets rallied as economic growth and inflation pressures appeared to have moderated. The equity rally has continued into 2007, fuelled by takeover activity whilst bond yields have continued to rise.

Asset class performance was more mixed than in recent years. Most equity markets produced positive local currency returns in the teens, however a fall in the US dollar undermined sterling returns from US dollar assets, restraining overseas equity returns to sterling based investors. The Fund's UK equities returned 10.0% beating the overseas equity returns of 2.7%, excluding the gains from hedging part of the overseas holdings. In the UK, merger and acquisition activity was particularly strong, boosting returns. The higher risk emerging and Asian markets performed particularly well with Japanese equities falling even before taking into account losses from Yen

weakness. The European equity markets exhibited healthy returns reflecting better profits and economic growth gathering pace after years of restructuring. Bond markets struggled to match cash returns for most of the year, under pressure from inflation worries and rising interest rates pushing yields higher. The index-linked bond benchmark returned 2.6% however longer dated fixed interest issues produced negative returns. As we commented last year, bonds appeared expensive versus historic measures given the economic backdrop and the Fund return was improved from being underweight the asset class.

Overall, the Fund benefited from the tactical asset allocation towards equities and away from bonds, broadly maintaining the stance of the last three years. Equity stock selection was negative in broad terms due to the Fund Managers holding higher weightings in growth and less economically sensitive stocks when cyclical growth was more plentiful than expected, combined with the boom in merger and acquisition activity pushing up valuations of some companies beyond our expectations. Property assets continued to perform well, returning 16.6% versus the benchmark return of 15.8%.

# Investment Report

## Fund's 10 Largest Stock Holdings as at 31 March 2007

Stock Name	Security Type	£M	% Portfolio
UK Treasury 2.5% 2020 Index-Linked	Government Bond	328.9	5.0
UK Treasury 2.5% 2016 Index-Linked	Government Bond	157.6	2.4
UK Treasury 4% 2016	Government Bond	140.1	2.1
BP	UK Equity	133.7	2.0
UK Treasury 2.5% 2024 Index-Linked	Government Bond	121.1	1.8
HSBC Holdings	UK Equity	120.2	1.8
GlaxoSmithKline	UK Equity	107.5	1.6
UK Treasury 5% 2008	Government Bond	99.9	1.5
UK Treasury 5% 2014	Government Bond	94.7	1.4
UK Treasury 5% 2012	Government Bond	90.9	1.4

### Performance (continued)

During the period under review, the Fund underperformed the strategic benchmark returning 6.85% versus the benchmark of 7.74%. The longer term performance is shown in the table below.

	2007	2005	2003	1998
		/2007	/2007	/2007
	1 year	3 years	5 years	10 years
	%pa	%pa	%pa	%pa
NAPS	6.85	14.30	8.81	8.42
Benchmark*	7.74	14.45	8.84	8.26

\* Combination of WM50 industry peer group and a customised BA strategic benchmark adopted in 2002

### Additional Voluntary Contributions (AVCs)

The Mixed Portfolio Fund recorded a return of 6.9%, underperforming the strategic benchmark return of 8.0%. The external AVC comparators returned 7.79%. The returns were driven by similar factors to those described above with positive asset allocation more than offset by negative stock selection. Over the longer term the Fund continued to exceed the returns of these external providers when measured on a 3, 5 and 10 year basis.

In the year to 31 March 2007 the Short Dated Gilt Fund returned 4.77% and the Equity Biased Fund returned 15.7%.

### Outlook

The economic environment continues to be healthy and broadly positive for equities. Many of the trends driving recent returns are expected to continue through 2007. The investment of excess liquidity will support equities and real assets in particular with bonds restrained by increased supply and uncertainty over inflation. We expect continued differentiation of returns as real interest rates may rise reflecting the diversion of some of these cashflows away from bonds and into physical assets.

There is considerable debate around the outlook for inflation, interest rates and growth in the second half of 2007, especially in the U.K and the U.S with some concern that higher interest rates are needed to cool inflation pressures and asset price bubbles. At the current time, confidence indicators suggest that the U.S. slowdown has been contained. In the UK, higher rates are a consequence of further house price appreciation and inflation above the Monetary Policy Committee target range. Whilst the central expectation is for inflation to fall back in the latter half of the year, 'stubborn inflation' would hamper policy makers' room for manoeuvre not just in the U.K. but around the world.

Elsewhere there is concern whether the world economy can survive unscathed a more aggressive slowing of the Chinese and other emerging economies, should this occur. The Fund continues to hold higher than benchmark

# Investment Report

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weightings in equities and lower than benchmark weight in bonds. Given the economic backdrop, equity markets continue to be good value relative to bonds but it should be noted they have risen substantially from the March 2003 lows and are moving closer to the Fund Manager's expectation of fair value based on the long-term relationship between bonds and equities. In recent weeks we have reduced the weighting in equities and increased cash after strong relative performance. Bond Yields have risen and shorter dated bonds are now close to levels which may prove attractive should inflation and economic growth moderate in the second half of 2007.

## **Corporate Governance**

The Fund Managers follow the Institutional Shareholder Committee principles, monitoring and engaging with companies on aspects of corporate governance, and exercising voting rights in all regions through the custodian. In the U.K. in particular, research on aspects of corporate social responsibility including environmental factors is also taken into account to assess impacts on shareholder value. The outcomes of these programmes are reported back to the Trustees on a regular basis. A full description of the policy and the Fund Managers Voting record along with a list of the major holdings will be published on the Member website.

# Independent Auditors' Report

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## **Independent Auditors' Report to the Trustees of the New Airways Pension Scheme**

We have audited the financial statements of the New Airways Pension Scheme for the year ended 31 March 2007 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the scheme trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme trustees those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme trustees, as a body for our audit work, for this report, or for the opinions we have formed.

## **Respective Responsibilities of Trustees and Auditors**

As described in the Statement of Trustees' Responsibilities on page 11, the scheme trustees are responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the trustees' report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

# Independent Auditors' Report

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## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the Scheme during the scheme year ended 31 March 2007 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the scheme year); and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

**KPMG LLP**  
**Chartered Accountants**  
**Registered Auditor**

**27 June 2007**  
**8 Salisbury Square**  
**London**  
**EC4Y 8BB**

# Fund Account

	Note	2007 £'m	2006 £'m
<b>Contributions and Benefits</b>			
Contributions Receivable	3	576.7	303.9
Transfers In	4	0.9	2.0
Funded Pensions Receivable		4.8	4.6
		<hr/>	<hr/>
		582.4	310.5
Benefits Payable	5	(194.7)	(148.8)
Leavers	6	(22.5)	(17.5)
Administration Expenses	7	(7.2)	(5.9)
		<hr/>	<hr/>
		(224.4)	(172.2)
<b>Net Additions from Dealing with Members</b>		358.0	138.3
<b>Return on Investments</b>			
Investment Income	8	162.3	153.5
Change in Market Value of Investments	9	239.7	997.9
Investment Management Expenses	7	(4.0)	(3.7)
		<hr/>	<hr/>
<b>Net Return on Investments</b>		398.0	1,147.7
<b>Net Increase in Funds</b>		756.0	1,286.0
<b>Net Assets of the Scheme</b>			
At 1 April 2006		5,846.0	4,560.0
At 31 March 2007		<hr/>	<hr/>
		6,602.0	5,846.0

# Net Assets Statement

	Note	2007 £'m	2006 £'m
<b>Investments</b>			
Fixed Interest Securities		931.4	528.2
Index-Linked Securities		777.4	558.3
Equities		4,187.3	3,906.4
Private Equity		47.1	4.1
Property		49.3	-
Property Unitised Fund		467.2	398.4
Private Equity Unitised Fund		57.1	63.4
AVC Mixed Portfolio Fund		84.3	85.7
Other Investments		37.9	34.7
Cash		(43.1)	265.7
<b>Total Investments</b>	10,11,12,13	<b>6,595.9</b>	<b>5,844.9</b>
External AVC Investment	15	1.1	1.3
<b>Total Investments</b>		<b>6,597.0</b>	<b>5,846.2</b>
Net Current Assets		5.0	(0.2)
<b>Net Assets of the Scheme at 31 March 2007</b>		<b>6,602.0</b>	<b>5,846.0</b>

These accounts were approved by the Board of Trustees on 27 June 2007 and were signed on their behalf by:

Roger Maynard                      Management Trustee

Michael Grey                         Management Trustee

John Birch                             Secretary

# Notes to the Accounts

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## 1. Basis of Preparation

These accounts summarise the transactions of the New Airways Pension Scheme (NAPS) for the year ended 31 March 2007 and they give details of the net assets at the end of that period. The accounts do not take account of obligations to pay pensions and other benefits in the future. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the Actuary on page 32 of this annual report and should be read in conjunction with them.

The accounts of NAPS have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes.

## 2. Accounting Policies

### a. Contributions

Members' normal and employers' normal and additional contributions are included in the accounts on an accruals basis as laid down in the Rules of the Scheme ("the Rules") and are paid according to rates recommended by the Scheme Actuary and in accordance with the Schedule of Contributions. Members' contributions are accounted for when deducted from pay.

Section 75 debts are included on an accruals basis if the liability is known.

### b. Investment Income

Income from equity, fixed interest and index-linked securities including recoverable taxation, is included in the accounts on the date when securities are quoted ex-dividend and after deducting investment-handling charges. Income from cash deposits is included on a cash basis.

### c. Scheme Benefits and Withdrawals

Scheme benefits and withdrawals are included in the accounts in respect of entitlements up to the year end in accordance with the Rules. Transfers in and out are accounted for on a cash basis.

# Notes to the Accounts

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## **d. Investments**

Listed securities are valued using either the mid market closing prices or last dealt prices quoted on recognised Stock Exchanges as at the year end.

Bonds are valued at the quoted price exclusive of interest accrued. The values for 2006 have been restated to reflect this.

Specialist unit trusts are valued by reference to the latest published prices available at the year end.

Stock index futures are valued at market prices at the year end and have been included within the relevant category of investment on the basis of associated economic exposure. All gains and losses on contracts are included in the net movement in market value of investments.

Option contracts are valued at market prices at the year end.

Forward foreign exchange contracts are valued at the appropriate forward rate at the year end.

Private Equity investments are valued by reference to the net assets as disclosed in the latest available financial statements and are adjusted for any cash movements if the date differs from the Fund year end. Where financial statements are not available these investments are valued at cost in line with BVCA guidelines.

## **e. Unitised Funds**

The investment assets of the Property Fund, the Private Equity Fund and the Additional Voluntary Contribution Mixed Portfolio Fund are included in the accounts at the market value of units held by the Scheme at the year-end.

Property investments in the unitised funds are included at year-end open market valuations and have been externally valued by Atis Real Weatheralls and Cushman and Wakefield. Indirect property holdings are valued at the latest valuation provided by each of the external managers.

Income from property rentals in the unitised fund is included on an accrual basis and is net of outgoings including managing agents' fees.

## **f. Foreign Currencies**

The market values of overseas investments and current assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the year end. The gains/losses arising from foreign currency transactions are included in the change in market value of investments.

Investment income denominated in foreign currencies is recorded in sterling at actual exchange rates as at the date of receipt.

# Notes to the Accounts

## 3. Contributions Receivable

	2007 £'m	2006 £'m
<b>Employer</b>		
Normal	236.8	235.7
Augmentations	29.5	10.3
Special Deficit Contributions	240.0	-
Section 75 Debts	12.1	-
<b>Employee</b>		
Normal	48.8	49.6
Additional Voluntary	9.5	8.3
	<u>576.7</u>	<u>303.9</u>

As advised by the Actuary additional funding was required from BA for augmentations. Further details regarding contributions are included in the Summary of Contributions on page 31.

Section 75 contributions were received from Web Travel of £257,500 and British Airways Visitor Services of £1,973,600. An accrual is included for BA Connect of £1,243,113 and BA Travel Shops of £8,645,141.

## 4. Transfers In

	2007 £'m	2006 £'m
Individual Transfers in from other Schemes	0.9	2.0
	<u>0.9</u>	<u>2.0</u>

## 5. Benefits Payable

	2007 £'m	2006 £'m
Pensions	(140.6)	(126.0)
<b>Commutations</b>		
- Normal	(36.4)	(17.6)
- Addition Voluntary Contributions	(14.4)	(2.4)
Lump Sum Death Benefits	(3.3)	(2.8)
	<u>(194.7)</u>	<u>(148.8)</u>

## 6. Payment to and on Account of Leavers

	2007 £'m	2006 £'m
Individual Transfers to other Pension Schemes	(22.5)	(17.5)
	<u>(22.5)</u>	<u>(17.5)</u>

# Notes to the Accounts

## 7. Administrative and Investment Management Expenses

Administrative and Investment Management expenses are met by the Scheme. The New Airways Pension Scheme bears 70% of the costs of BAPSL and 50% of BAPIML except where a cost relates specifically to the Scheme.

## 8. Investment Income

	2007 £'m	2006 £'m
Income from Fixed Interest Securities	35.3	45.3
Income from Index-Linked securities	15.1	10.9
Net Dividends from Equities	104.4	91.9
Income from Cash Balances	6.4	4.6
Rental Income	0.3	-
Other Income	0.8	0.8
	<u>162.3</u>	<u>153.5</u>

## 9. Change in Market Value of Investments

	Opening Value 1 Apr 06 £'m	Purchase Cost £'m	Sale Proceeds £'m	Change In MV £'m	Closing Value 31 Mar 07 £'m
Fixed Interest Securities	528.2	695.2	(259.4)	(32.6)	931.4
Index-Linked Securities	558.3	234.0	(12.2)	(2.7)	777.4
Equities	3,906.4	1,565.4	(1,414.0)	129.5	4,187.3
Private Equity	4.1	53.2	(9.2)	(1.0)	47.1
Private Equity Unitised Fund	63.4	9.4	(23.2)	7.5	57.1
Property	-	45.1	-	4.2	49.3
Property Unitised Fund	398.4	26.9	(21.4)	63.3	467.2
AVC Mixed Portfolio Fund	85.7	6.0	(12.7)	5.3	84.3
Other Investments	34.7	0.7	-	2.5	37.9
Cash	265.7	-	(372.3)	63.5	(43.1)
External AVC Investments	1.3	-	(0.4)	0.2	1.1
<b>Total Investments</b>	<u>5,846.2</u>	<u>2,635.9</u>	<u>(2,124.8)</u>	<u>239.7</u>	<u>6,597.0</u>

The change in market value of investments include all increases and decreases in the market value of investments held at any time during the year including profits and losses realised on sales of investments during the year.

The change in market value of the Property Fund, the Private Equity Fund and the AVC Mixed Portfolio Fund is derived from the increase in the unit price of the units held in these funds by the Scheme. This reflects both the movement in the market value of the underlying investments of each fund and the related investment income. The change in market value includes income of £17.2m (2006: £16.8m) Property Unitised Fund, £0.3m (2006: £0.9m) Private Equity Fund and £2.7m (2006: £2.5m) AVC Mixed Portfolio Fund.

# Notes to the Accounts

## 10. Investments

	2007 £'m	2006 £'m
<b>Fixed Interest Securities:</b>		
UK Public Sector Quoted	497.5	251.6
UK Other Quoted	351.2	217.5
Overseas Quoted	82.7	59.1
	<u>931.4</u>	<u>528.2</u>
<b>Index-Linked Securities:</b>		
UK Public Sector Quoted	706.7	494.8
UK Other Quoted	15.4	3.1
Overseas Quoted	55.3	60.4
	<u>777.4</u>	<u>558.3</u>
<b>Equities:</b>		
UK Quoted	2,085.5	1,957.0
Futures Contracts on UK Quoted Equities	35.8	(8.7)
Overseas Quoted	1,993.3	1,930.7
Futures Contracts on Overseas Quoted Equities	72.7	27.4
	<u>4,187.3</u>	<u>3,906.4</u>
<b>Private Equity</b>	47.1	4.1
<b>Private Equity Unitised Fund</b>	57.1	63.4
<b>Property*</b>	49.3	-
<b>Property Unitised Fund</b>	467.2	398.4
<b>AVC Mixed Portfolio Fund</b>	84.3	85.7
<b>Other Investments</b>	37.9	34.7
<b>Cash</b>		
Cash Deposits	65.4	284.4
Cash Backing for Open Futures Contracts	(108.5)	(18.7)
	<u>(43.1)</u>	<u>265.7</u>
<b>Total</b>	<u>6,595.9</u>	<u>5,844.9</u>

\* During the year the Scheme made a direct investment in Property.

\*\* An adjustment has been made to 2006 to reflect the change in bond pricing not to include accrued interest.

Included in the above are securities loaned as at 31 March 2007 of £1,060.6m (2006: £1,199.6m). The loans are covered by collateral dependent on the types of securities loaned and collateral used. If the collateral is in the same currency as the loaned securities collateral of 102% of the aggregate market value is required. If the collateral is not all denominated in the same currency as the loaned securities 105% is required. The only exception is for fixed income loans for which the principal trading market is outside the United States where the collateral requirement is 100%.

# Notes to the Accounts

## 11. Property

During the year the fund has invested in the Tesco Red Limited Partnership that has been established to hold a portfolio of Tesco retail units.

The schemes interest in the Tesco Red Limited Partnership has been accounted for as an associate using the equity method.

British Airways Pension Trustees Ltd (BAPTL) holds 100% of the units in a Jersey Property Unit Trust (JPUT). 70% are held in the name of British Airways Pension NAPS Nominees Limited and 30% are held in the name of British Airways Pension APS Nominees Limited. The JPUT holds 49.95% interest in The Tesco Red Limited Partnership UK Ltd (LP).

In addition the JPUT acquired £35,435,000 of interest free loan notes issued by the LP and bought at par of which the scheme owns 70% and APS owns 30%.

BAPTL also acquired 50% of the share capital of the General partner of the LP (GP) of which NAPS owns 70% and APS owns 30%.

The value of these investments attributable to NAPS is as follows:

	2007 £'m	2006 £'m
JPUT Holding	49.20	Nil
General Partner	.02	Nil
Total	<u>49.22</u>	<u>Nil</u>

The Tesco Red Limited Partnership Accounts show the following asset and liabilities:

	2007 £'m	2006 £'m
Gross Assets	536	Nil
Gross Liabilities	<u>(466)</u>	<u>Nil</u>
Net Investment	70	Nil

# Notes to the Accounts

## 12. Derivative Contracts

The scheme uses derivative instruments for both investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business.

### Foreign Currency Risk

The Scheme holds investments in a number of currencies. The Scheme's policy is to hedge a minimum of 50% of the combined international equities benchmark exposure and the overseas bond portfolio.

The scheme enters into foreign exchange forward contracts to offset the impact of currency fluctuations on foreign currency investments, measured as 50% of the exposure in USD, EUR, and JPY.

Period	Maturity Date	Broker	Nominal Value m	Fair Value £'m
3 Months forward to sell USD	17 May 07	RBS	\$64.4m	0.2
5 & 6 Months forward to sell USD	15 May 07 13 Sep 07	RBS	\$467.3m	4.9
6 Months forward to sell USD	6 Sep 07	RBS	\$31.0m	0.1
5 & 6 Months forward to sell EUR	15 May 07 13 Sep 07	UBS	€409.7m	0.1
6 Months forward to sell EUR	17 May 07 12 Jun 07 6 Sep 07	UBS/RBS	€51.5m	0.0
5 & 6 Months forward to sell JPY	15 May 07 13 Sep 07	DEUT	Y34,900.0m	4.6
<b>Total</b>				<u>9.9</u>

These are included in the investments within cash.

### Commodity Swap Contracts

The scheme entered into the following Total Return Swap contracts in December 2006. The contracts were rolled forward on 30 March 2007.

Nature	Duration	Collateral Value	Counterparty	Notional Value m	Fair Value
GSEI Index 3 Enhanced Total Return	Dec 2007	Nil	Goldman	\$52.7	Nil
GSCI Total Return Swap	Jul 2007	Nil	Morgan Stanley	\$13.4	Nil

A US Treasury Bill is held to cover this exposure of \$66.6m

### Futures

The Scheme had UK and overseas stock index futures outstanding at the year-end relating to its equity portfolio as follows:

Nature	Notional Amount	Duration	Economic exposure at year end £'m
FTSE100 Stock Futures Bought	5,660	Jun 2007	<u>35.8</u>
Total UK Futures			35.8
Dow Jones Stock Futures Bought	12,750	Jun 2007	35.6
Topix Stock Futures Bought	501,000	Jun 2007	<u>37.1</u>
Total Overseas Futures			72.7

# Notes to the Accounts

## 13. Unitised Funds

The units in the following funds are held by APS and NAPS. As at 31 March 2007 NAPS held 78.8% of the units in the AVC Mixed Portfolio Fund, 50.1% of the units in the Property Unitised Fund and 49.4% of the units in the Private Equity Unitised Fund. The value of investments attributable to NAPS for each of these funds is as follows:

	2007 £'m	2006 £'m
<b>Property Unitised Fund</b>		
UK Property	379.9	327.5
Property Unit Trust	95.7	79.4
Other Managed Funds	12.1	10.6
Loan *	(20.0)	(19.7)
Other	(0.5)	0.6
<b>Total</b>	<b>467.2</b>	<b>398.4</b>

All of the Other Managed Funds and £85.7m of the Property Unit Trusts are established in Jersey.

\* The Trustees granted approval to gear the Property Unitised Fund to a maximum of £80m. As at 31 March 2007 £40m of this facility had been utilised of which the Scheme's proportion was £20m. During the year the loan has been renegotiated to a 364 day facility. Interest rate risk is managed by using an interest rate Swap.

	2007 £'m	2006 £'m
<b>Private Equity Unitised Fund</b>		
UK Unlisted	17.5	23.4
Overseas Unlisted	39.5	37.7
Other	0.1	2.3
<b>Total</b>	<b>57.1</b>	<b>63.4</b>

	2007 £'m	2006 £'m
<b>AVC Mixed Portfolio Fund</b>		
Fixed Interest Securities	8.3	8.2
Index-Linked Securities	3.3	2.2
Equities	70.8	73.0
Cash	1.9	2.3
<b>Total</b>	<b>84.3</b>	<b>85.7</b>

# Notes to the Accounts

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## 14. Additional Voluntary Contributions

### Internal AVC Schemes

In addition to the separately managed AVC Mixed Portfolio Fund there are two Additional Voluntary Contribution Schemes within the Investments; The Short-dated Gilts Fund and the Equity Biased Fund. The value of these funds is as follows:

	2007 £'m	2006 £'m
Short-Dated Gilts Fund	17.3	20.6
Equity Biased Fund	60.0	52.2
	<u>77.3</u>	<u>72.8</u>

## 15. External AVC Investments

Within the Net Assets are four external Additional Voluntary Contribution Schemes. They are run for members who transferred from the British Caledonian Group Pension & Life Assurance Scheme, Davies & Newman Holdings Plc Pension and Life Assurance Scheme and Dan Air Services Ltd Pension and Life Assurance Scheme. These funds have been separately invested for the benefit of the individuals. The values of these funds are as follows:

	2007 £'m	2006 £'m
<b>British Caledonian Group Pension &amp; Life Prudential</b>	0.7	0.8
<b>Davies and Newman and Dan Air</b>		
Scottish Life	0.2	0.3
Equitable Life Assurance	0.1	0.1
Norwich Union	0.1	0.1
	<u>1.1</u>	<u>1.3</u>

## 16. Money Purchase Scheme

Within NAPS is the British Airways Money Purchase Section (BAMPS). The values of members' entitlements are included within the investments and are as follows:

	2007 £'m	2006 £'m
<b>Assets not Designated to Members</b>		
Balance of BAMPS at 1 April 2006	3.8	3.3
Contributions	0.2	0.3
Interest	0.6	0.3
Transfers Out	(0.2)	(0.1)
Balance of BAMPS at 31 March 2007	<u>4.4</u>	<u>3.8</u>

# Notes to the Accounts

## 17. Contingent Liabilities and Contractual Commitments

The following contractual commitments for the investment fund existed at the year-end.

	2007 £'m	2006 £'m
Private Equity	110.4	-
Private Equity Unitised Fund	27.7	126.0
Property Unitised Fund	24.0	19.4
	<u>162.1</u>	<u>145.4</u>

## 18. Self Investment

The Scheme holds no direct investment in BA or any shares or other securities as defined by section 40 of the Pensions Act 1995.

## 19. Related Party Transactions

The employees of the Pension Scheme are employed by British Airways Plc, British Airways Pension Investment Management Ltd or British Airways Pension Services Ltd. All employee costs are borne by the Schemes.

British Airways Pension Services Ltd provides secretariat support to the British Airways Retirement Pension Plan. British Airways Plc is recharged for these services. British Airways Plc provide occasional services to the Scheme (e.g. recruitment, advice on contracts for the purchase of equipment) for which the Scheme is not recharged.

The Trustees appointed by British Airways Plc can be members or pensioners of either the Airways or New Airways Pension Schemes. If they are members or pensioners then they do not have different terms from other members and pensioners by virtue of their office as Trustees.

Pensioner elected Trustees were eligible for payment by the Company during the year.

British Airways Pension Trustees Ltd holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the unitised funds.

British Airways Pension Services Ltd provides administration services and British Airways Pension Investment Management Ltd provides investment management services.

British Airways Pension Property Holdings Ltd and British Airways Pension Property Holdings (Number 2) Ltd, hold the legal title of the properties given as security on the loan facility set up to gear the Property Unitised Fund.

British Airways Pension NAPS Nominees Ltd holds the legal title to the units held in the JPUT for investment in the Tesco Red Limited Partnership.

# Independent Auditors' Statement About Contributions

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**Independent Auditors' Statement about Contributions, made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the trustees, of the New Airways Pension Scheme.**

We have examined the summary of contributions payable under the schedule of contributions to the New Airways Pension Scheme in respect of the Scheme year ended 31 March 2007 which is set out on page 33.

This statement is made solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditors' statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustees, as a body, for our work, for this statement, or for the opinions we have formed.

## **Respective Responsibilities of Trustees and Auditors**

As described on page 31, the Scheme's Trustees are responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The Trustees have a general responsibility for procuring that contributions are made to the Scheme in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid to the Scheme and to report our opinion to you.

We read the Trustees' report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

## **Basis of Statement About Contributions**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

## **Statement About Contributions Payable Under the Schedule**

In our opinion contributions for the scheme year ended 31 March 2007 as reported in the summary of contributions and payable under the schedule have been paid in all material respects at least in accordance with the schedule of contributions certified by the actuary on 26 January 2004.

**KPMG LLP**  
**Chartered Accountants**

**27 June 2007**  
**8 Salisbury Square**  
**London**  
**EC4Y 8BB**

# Summary of Contributions

## Statement of Trustees' Responsibilities in Respect of Contributions

The Scheme's Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustees are also responsible for keeping records of contributions received in respect of any active member of the scheme and for procuring that contributions are made to the scheme in accordance with the schedule.

## Trustees' Summary of Contributions Payable Under the Schedule in Respect of the Scheme Year Ended 31 March 2007

This Summary of Contributions has been prepared on behalf of, and is the responsibility of the Trustees. It sets out the employer and member contributions payable to the Scheme under the schedule of contributions certified by the Actuary on 26 January 2004 in respect of the scheme year ended 31 March 2007. The Scheme Auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

## Contributions Payable Under the Schedule in Respect of the Scheme Year

	£'m
Employer Normal Contributions	236.8
Member Normal Contributions	48.8
	<hr/>
<b>Contributions Payable Under the Schedule (as reported on by the scheme auditors)</b>	<b>285.6</b>

## Reconciliation of Contributions

Reconciliation of contributions payable under the schedule to contributions reported in the accounts in respect of the scheme year:

	£'m
Contributions Payable Under the Schedule (as above)	285.6
Contributions Payable in Addition to Those Due Under the Schedule:	
Member Additional Voluntary Contributions	9.5
Employer Augmentations	29.5
Special Deficit	240.0
Other - Section 75 debt	12.1
	<hr/>
<b>Total Contributions Reported in the Accounts</b>	<b>576.7</b>

This Report was approved by the Board of Trustees on 27 June 2007 and was signed on their behalf by:

**John Birch**  
Secretary

# Scheme Actuary's Report

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The Scheme Actuary signed and issued his formal report on the 2006 valuation on 29 March 2007. His report is available to Scheme members on request, but the following extract is a summary of the results and conclusions set out in the report.

The current valuation takes account of the information set out in the Statement of Funding Principles dated 7 February 2007. In particular, as part of the valuation process, the Trustees and BA agreed the assumptions to be used. The principal conclusions of the current valuation are:

On the basis of the Statement of Funding Principles the accumulated assets of the Scheme as at the valuation date represented 77.2% of the Scheme's Technical Provisions (after allowing for the cap on future pensionable earnings increases) in respect of past service benefits; this corresponded to a funding shortfall of £1,723 million. This funding level improves to 87.3% when allowance is included for the lump sum payments of £240 million and £560 million described below.

Allowing for the changes to benefits and to member contributions from 1 April 2007 the Trustees and BA have agreed that Participating Employer contributions with effect from 1 April 2007 will be:

	Percentage of Pay for contribution purposes	
	Plan 60	Plan 65
General Staff	19.1%	18.1%
Air Cabin Crew	21.7%	20.7%
Pilots and Officers	25.9%	23.9%

The Trustees and BA have also agreed that BA will pay additional contributions of:

- £240 million on 9 February 2007 and £560 million by 2 April 2007, and
- £10.547 million per month from 1 April 2007 for 9 years increasing in line with Pension Increase (Review) Orders every April thereafter

BA will pay further sums up to £50 million in respect of each of its financial years ending 31 March 2007, 2008 and 2009. These sums will be paid if the Free Cash reported in BA's consolidated preliminary results exceeds specified levels.

BA has arranged a guarantee of £150 million to be paid to the Scheme, in full or in part, in certain circumstances including BA's insolvency. The guarantee expires on 31 March 2010, but there are provisions for renewal depending on the financial position of the Scheme as at 31 March 2009. The amount of the guarantee will be reduced by any amounts paid under (4) above.

The above contributions exclude those required to fund any augmentations made.

Administrative and investment related expenses are met by the Scheme. However, levies required by the PPF Board are payable by BA.

The results determined on the basis set out under Section 179 of the Pensions Act 2004 show that assets were insufficient to provide the benefits payable by the Pension Protection Fund. The level of coverage on this basis was around 77% at the valuation date.

If the Scheme had been discontinued at 31 March 2006 and had then been wound up, there would have been insufficient assets to buy out the accrued benefits through the purchase of annuity policies with an insurer. The corresponding discontinuance funding level (or solvency position) for the Scheme as at the valuation date, on the assumptions specified in Section 4, is estimated to be 52%.

The financial position of the Scheme and the level of contributions required will be reviewed at the next actuarial valuation which is expected to be carried out as at 31 March 2009.

**G R Alexander**  
Fellow of the Faculty of Actuaries  
Watson Wyatt Limited  
29 March 2007

Watson House  
London Road  
Reigate  
Surrey, RH2 9PQ

Authorised and regulated by the Financial Services Authority

# Schedule of Contributions

**Period covered by this schedule:** From the date of certification of this Schedule by the Actuary until 31 March 2016

**Level of contributions payable:**

By members: As specified in the rules of the Scheme

By the Employers: Contributions at the following rates until 31 March 2007 in respect of FSS members:

the following multiples of members' standard contributions:

General Staff	2.5
Air Cabin Crew	2.5
Pilots and Officers	3.8

plus £9,560,000 per month from 1 January 2004 increasing every April in line with pension increases (the increase in April 2004 being a quarter increase)

plus £240,000,000 on 9 February 2007

plus contributions in respect of BAMPS members at the rates specified in Rule 37 of the Scheme Rules

Subject to review at future actuarial valuations, ongoing contributions from 1 April 2007 in respect of FSS members at the following percentages of Pay for Contribution Purposes:

	NRA 60	NRA 65
General Staff	19.1%	18.1%
Air Cabin Crew	21.7%	20.7%
Pilots and Officers	25.9%	23.9%

plus deficit contributions of £10,547,000 per month, increasing each April from 2008 at the rate specified in the Pensions Increase (Review) Orders as certified by the Actuary

plus £560,000,000 by 2 April 2007

plus contributions (if any) payable under Clause 3.1 (c) and (d) of the Agreement between the Trustee and British Airways dated 7 February 2007.

plus contributions in respect of BAMPS members at the rates specified in Rule 37 of the Scheme Rules.

**Due date for payment of contributions**

All contributions (from both members and the Employers except where noted otherwise above) are payable monthly and are due to be paid to the Scheme by the 19th day of the month following that to which the contributions relate.

Note: This schedule of contributions relates to the payment of normal contributions to the Scheme payable under Rule 5; it does not relate to payments by any Participating Employer on the cessation of participation in the Scheme, nor to the payment of additional voluntary contributions (AVCs) under Rule 32, nor to contributions payable under Rule 31. Pension Protection Fund levies are to be paid directly by BA plc in addition to the amounts specified in this Schedule.

Agreed on behalf of the Management Trustees

Agreed on behalf of the Employers

**J Birch**  
Secretary to the Management Trustees

**K Williams**  
Chief Financial Officer

# Actuarial Certificate

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Name of Scheme: The New Airways Pension Scheme

## Adequacy of Rates of Contributions

- 1 I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2006 to be met by the end of the period specified in the recovery plan dated 29 March 2007.
- 2 I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

## Adherence to Statement of Funding Principles

- 3 I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 7 February 2007.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

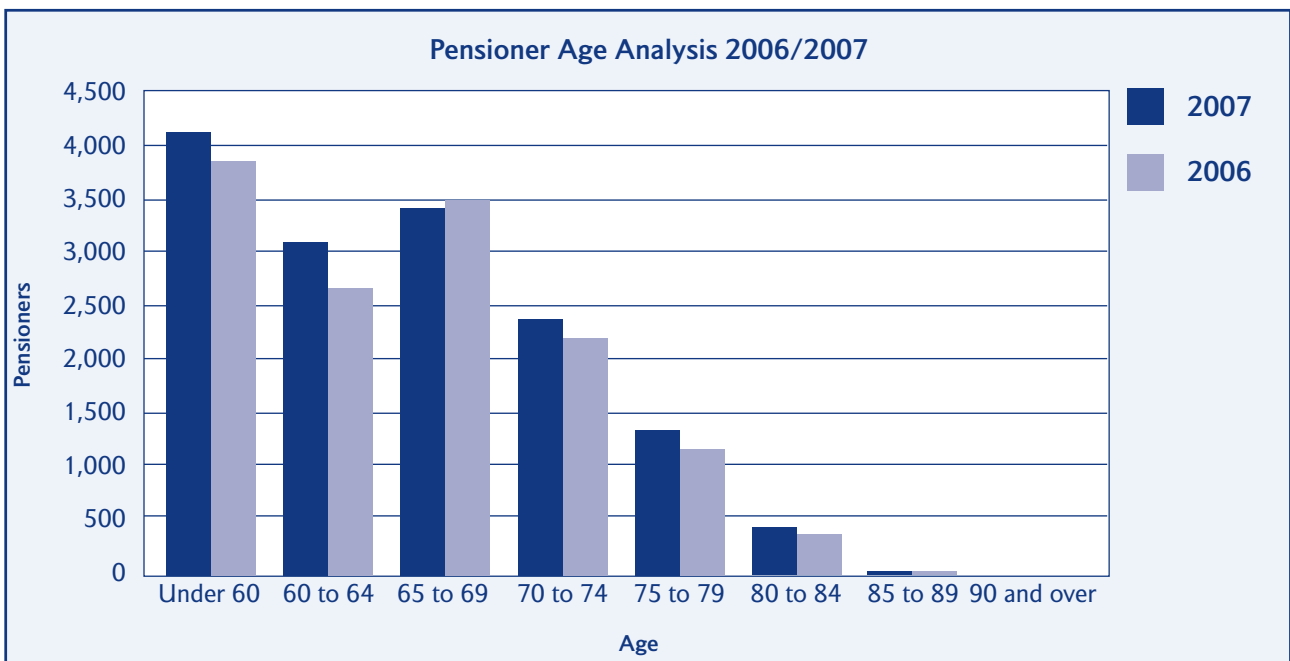
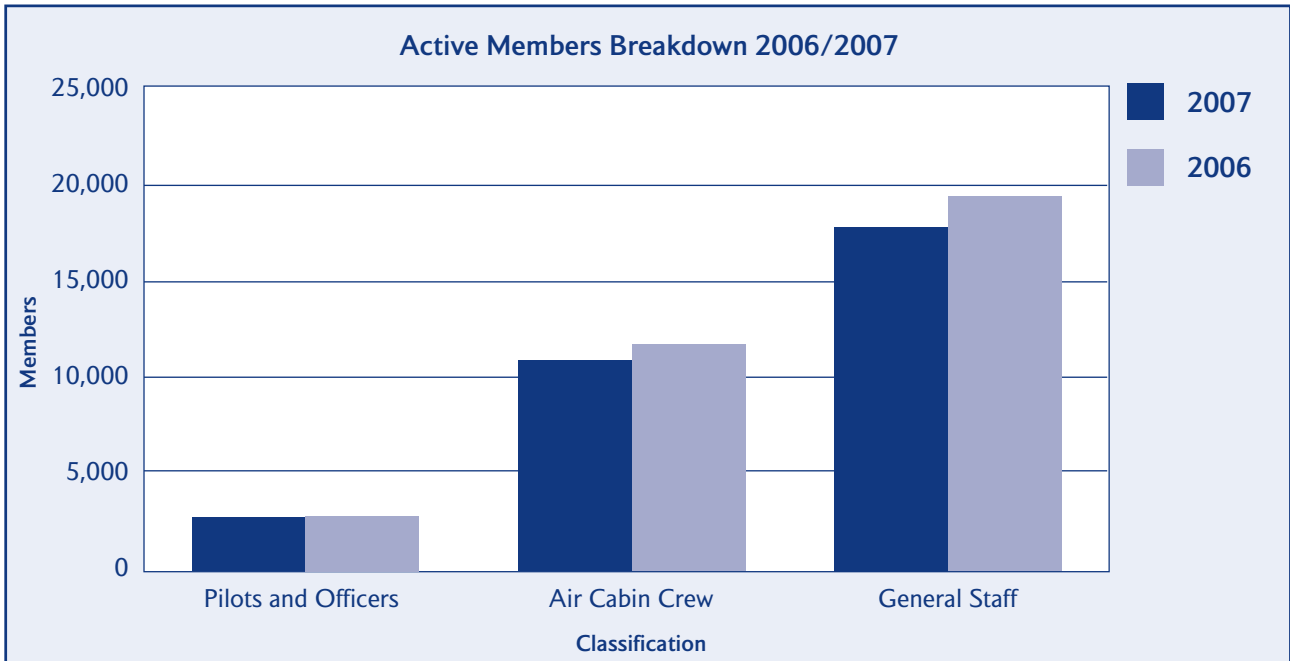
**G R Alexander**  
Fellow of the Faculty of Actuaries  
Watson Wyatt Limited

Watson House  
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RH2 9PQ

29 March 2007

# Membership Information

	2007	2006
Active Members	31,499	33,528
Pensioners in Payment	14,300	13,199
Dependant Pensioners	2,410	2,249
Deferred Pensioners	21,124	20,520
	<u>69,333</u>	<u>69,496</u>



# Compliance Statement

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## The Scheme

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

NAPS was established under a Trust Deed dated 16 March 1984 and has been the current scheme for eligible new employees of BA since 1 April 1984. A new section of NAPS, called the "British Airways Money Purchase Section" (BAMPS) was established on 1 April 1993. The original section of the Scheme is now called the "Final Salary Section" (FSS).

On 15 May 1996 the Trustees of NAPS resolved to amend the Rules of the Scheme to introduce a new sub-section of the FSS, to be known as 'NAPS2'. The original FSS is now called 'NAPS1'.

NAPS is no longer available to employees joining after 31 March 2003.

NAPS benefits structure for benefits earned from 1 April 2007 was amended to provide a choice of two arrangements; Plan 60 and Plan 65.

From 1 April 2007 NAPS members may pay up to 30% of salary in pension contributions.

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 Pension (formerly known as the State Earnings-Related Pension Scheme). NAPS BAMPS is contracted-in to the State Second Pension.

## Membership

Membership of the Scheme is voluntary and members can opt out on giving one month's notice in writing to the Trustees.

Members of NAPS have the opportunity to switch between FSS and BAMPS during their membership. The number of switching opportunities and the frequency of switching are at the Trustees' discretion, but currently members can switch between sections (in either direction) on unlimited occasions by giving one calendar month's notice in writing to the Trustees.

Members who opt out of NAPS will not be permitted re-entry into NAPS unless at British Airway's discretion and only in special circumstances as determined by British Airways such as a member opting out of NAPS1 specifically in order to join NAPS2 for future service.

## Internal Dispute Resolution Procedure (IDRP)

The Trustees are required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The Trustees have appointed John Birch, Managing Director of BAPSL, as the designated person to deal with the first stage adjudication. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House.

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