

Annual Report and Accounts 2008

New Airways Pension Scheme



**Year ended
31 March 2008**

Annual Report and Accounts

| Contents | Page |
|--|------|
| Chairman's Review | 2 |
| Trustees and Advisers | 4 |
| Trustees' Report | 5 |
| Investment Report | 13 |
| Independent Auditors' Report | 17 |
| Fund Account | 18 |
| Net Assets Statement | 19 |
| Notes to the Accounts | 20 |
| Independent Auditors' Statement About Contributions | 30 |
| Summary of Contributions | 31 |
| Schedule of Contributions | 32 |
| Actuarial Certificate | 34 |
| Membership Information | 35 |
| Compliance Statement | 36 |

All queries about the Scheme should be addressed to
British Airways Pensions, Whitelocke House,
2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU
Tel: (020) 8513 2100
Fax: (020) 8572 6235

Chairman's Review

Last year our agenda was dominated by the three-yearly actuarial and funding valuation and the process of reaching agreement with British Airways in relation to the recovery plan to repair the deficit. This year the Trustees have taken advantage of a relatively less intense workload to focus attention not only on ongoing business but also on the way that we conduct that business. The key themes have been the continued monitoring of the financial and funding positions of the Schemes, investment policy and governance. We have kept members up-to-date with developments in these and other areas by making extensive use of our In Focus publication.

Headline Results

The net asset value of the fund has increased from £6,602.0 million at the start of the year to £7,366.8 million on 31 March 2008. Michelle McGregor Smith, CEO BAPIML, provides more information on investment conditions during the year in the Investment Report which is on page 13. 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. As well as the routine employer and member annual contributions the fund received a lump sum payment of £560 million paid by British Airways on 2 April 2007 and a further £50 million lump sum in March 2008. These were paid in accordance with the terms of the agreed deficit recovery plan.

Scheme funding

A new piece of work for the Trustees in the autumn of 2007 was an update of the valuation position at 31 March 2007. The results of this update valuation were communicated to members in the Annual Funding Statement which was sent to all members in January 2008 and are summarised here on page 5. The Actuary used the membership information from the update valuation to conduct an interim analysis of mortality rates since the 2006 valuation. Although the mortality assumptions were not updated for the purposes of the annual update, the analysis of the latest data which included general mortality statistics suggested that a faster rate of improvement may need to be allowed for in the next formal valuation in 2009. Interestingly, in February 2008 the Pensions Regulator issued a consultation document concerning its proposed approach to mortality assumptions especially in relation to the possible strengthening of allowances for future improvements.

The next annual update will be in 2008. Preparatory work for the next full three-yearly valuation (as at 31 March 2009) will begin in September 2008.

Valuation vs Annual Report & Accounts 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 i.e. net assets of the fund on a particular day, in this case 31 March 2008. The valuation process 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.

Investment

Following a period of extreme market volatility, the Trustees adopted a dynamic switching framework that will help to identify advantageous switching opportunities and provide a process that allows the Trustees, in conjunction with BAPIML, to capitalise on them. More detail about this mechanism for switching from equities to bonds is on page 8.

Chairman's Review

Governance Review

The existing governance arrangements, including the Committee structure which is now a common feature of most large UK schemes, were introduced in the wake of a major external review of the Trustee Governance arrangements in 2002. In 2007 the Trustees commissioned a further independent review to ensure that the current arrangements remain appropriate given the significant changes in the regulatory environment. As part of this review the Trustees were asked to consider the extent to which the current arrangements facilitate sound management and effective decision making. The conclusion of the review was that the current arrangements are 'fit for purpose' although some improvements, mostly concerned with ensuring adequate Committee support and resources, could be made. The issues that have been identified will be tackled in 2008 to ensure that our arrangements continue to represent 'best practice'.

More details about the operation of Scheme's governance arrangements are on page 6 and more detail about the activities of the Governance Committee are on page 7.

Trustee Board Appointments and Retirements

Following the ballot of the New Airways Pension Scheme (NAPS) members in the Engineering and TMGs constituency Ian Rycraft was re-elected as a Member Nominated Trustee. The term of office of Ian Bretherton, Member Nominated Trustee from the Pilots' Constituency was due to expire on 31 March 2008 but he was re-appointed unopposed with effect from 1 April 2008. The term of office for Trustees was extended to between five and five and a half years with effect from 1 October 2007. In terms of Company appointments Paul Douglas retired on 30 September 2007 and BA appointed Jon Round as his replacement with effect from 1 October 2007.

The Year Ahead

The aim of focussing on governance issues over the past year was to ensure that the Trustees continue to have the training, skills and resources (internal and external) that are needed for future work. The key tasks will be the continued monitoring of the employer covenant, the annual valuation update, investment strategy, continuous assessment of the governance framework, and the preparatory work required for the 2009 valuation process.

Finally I would like to thank my fellow Trustees for the work they have undertaken over the past year. I would also like to acknowledge the demands that have been made on the teams at British Airways Pension Investment Management Ltd (BAPIML) and British Airways Pension Services Ltd (BAPSL) and the way in which both organisations rose to those challenges. In 2007/08 the BAPSL team were very busy implementing the NAPS benefits changes as well as the raft of other changes necessitated by the 'A Day' legislation. The Trustees also recognise that they have benefited from BAPIML's expertise in helping to develop and then efficiently execute the changes to the investment strategy.

ROGER MAYNARD
Chairman of Trustees
June 2008

Trustees and Advisers

Appointed by British Airways

Roger Maynard
Director of Investments
and Alliances

Robert Boyle
Commercial Director

Ruth Cassidy
Head of People
Open Skies

Steve Gunning
MD BA World Cargo

Raj Mehta
GM MMCO

Jon Round
GM Short Haul

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

Paul Douglas
BA appointed

Advisers

Scheme's Actuary
Greg Alexander
Watson Wyatt Ltd

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 Until 30 June 2007

**Financial Advisers &
Internal Auditors**
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

The New Airways Pension Scheme - Pension Scheme Registry Number: 10057029

* 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 provides more detail concerning the main activities undertaken during the year. There are sections on the updated Funding Position of the Scheme, Scheme Governance, Investment, Scheme Changes and Pensions Administration Matters. The final section contains general information about the Trustees' responsibilities. The financial statements have been prepared and audited in accordance with regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

SCHEME FUNDING POSITION - VALUATION UPDATE

According to the actuarial assessment of the funding position as at 31 March 2006, the Scheme had a £2.1 billion deficit. During 2006/07 the Trustees and British Airways agreed a 10-year recovery plan which involved changes to future pension build up and required British Airways to make substantial payments to the Scheme.

In September 2007, the Trustees commissioned an assessment of the up-to-date funding position of the Scheme as at 31 March 2007. The results were communicated to members in January 2008 in the form of a 'summary funding statement' as required by the new funding legislation.

This update did not involve the detailed analysis which takes place as part of the formal three yearly valuation but some of the underlying assumptions were updated to reflect actual investment conditions as at 31 March 2007. A particularly important assumption is how long pensioners will live. The 2006 valuation assumed that pensioners' life expectancy would continue to grow. The details of this assumption have not been updated, but analysis of the latest data suggests that a faster rate of improvement may need to be allowed for in the next formal valuation in 2009.

The following table shows the approximate funding level of the Scheme to provide the level of benefits promised under the Rules of the Scheme as they fall due (known as the 'technical provisions'¹). The recovery plan agreed with British Airways is designed to reach a funding level of 100% by March 2016, however, there is no guarantee that this will be the case and the position will be formally reviewed each year.

| Date | 31 March 2006 | 31 March 2007 | 2 April 2007* |
|------------------------------------|---------------|---------------|---------------|
| Technical provisions funding level | 74% | 83% | 90% |

As part of the recovery plan British Airways has paid additional lump sums of £240 million (February 2007), £560 million (April 2007) and £50 million (March 2008). Under the terms of the recovery plan an additional amount of £50 million may be paid in respect of the financial year end 31 March 2009 if the Free Cash reported in BA's consolidated preliminary results exceed specific levels.

An additional feature of the recovery plan is the guarantee of £150 million which BA has arranged to be paid to the Scheme, in full or in part, in certain circumstances including BA's insolvency.

As at 31 March 2007 the Scheme funding had an approximate 17% funding shortfall (£1,320m) which was improved, two days later*, to approximately a 10% funding shortfall (£760m). There was a significant improvement in the funding position over the year and this was mainly due to the change in the definition of pensionable pay (now capped at the rate of price inflation) and the recovery plan contributions paid by British Airways.

British Airways will pay recovery plan contributions of £131 million a year (increasing each year in line with price increases) until 2016 to clear the remaining shortfall. These contributions are in addition to British Airways' normal contributions to the Scheme. The next formal valuation is due to take place as at 31 March 2009 and this level of British Airways' contribution will be reassessed at that time.

1. The term technical provisions refers to the amount needed for the Scheme to pay the liabilities as they fall due.

Trustees' Report

Scheme Funding Position (continued)

Member communications have not only provided funding information concerning the funding level in relation to technical provisions but have also set out the funding levels on two other measures: a) if the Company withdrew its support (e.g. in the event of insolvency) but with the Trustees continuing to run the Scheme on; and b) on the basis that the Trustees bought out the benefits with an insurance company. On these measures the funding levels have also improved from 59% to 65% and 52% to 57% respectively.

The Actuary will be asked to carry out another annual review as at 31 March 2008 and members will be notified of the outcome of that review once that work is complete.

SCHEME GOVERNANCE

Trustee Governance

The Pensions Regulator has identified the main priorities for pension scheme governance as:

- Trustee Knowledge and Understanding
- Conflicts of Interest
- Monitoring of the Employer Covenant
- Relations with advisers
- Administration
- Process for investment choice

The Trustees have governance policies in place which cover all of these areas. Over the course of 2007 the Regulator has focussed particularly on the first three of these governance priorities.

Trustee Knowledge and Understanding (TKU)

The Trustees have a formal training policy the foundation of which is the TKU framework.

An induction programme is provided for new Trustees on appointment. Thereafter each year all Trustees are asked to complete an individual skills gap analysis which informs future training provision. The content, frequency and level of training is tailored to the outcomes of the assessment of the Trustees' particular learning needs but is also related to the Committee on which each Trustee serves. Each Committee produces an annual business plan which

identifies the topics and issues that are to be discussed and determined during the year. Appropriate training sessions are then scheduled to support these activities.

Training is provided in a range of formats by a variety of providers. The Actuary and other advisers provide training to some or all of the Trustees either in routine Main Board or Committee meetings or in specially arranged events. Bespoke training is also provided by BAPIML and BAPSL. Trustees are actively encouraged to supplement this formal training plan by accessing other resources such as the Pension Regulator's Trustee Toolkit, specific industry conferences, seminars, training modules and publications.

Records of course attendance are maintained and Trustees are encouraged to undertake formal qualifications. All Trustees who were appointed before October 2007 have successfully completed the Pensions Management Institute Trustee Certificate.

Conflicts of Interest

The Trustees recognise that they are in a position of trust and need to have policies and arrangements in place to identify, monitor and manage conflicts. The Trustees have taken legal advice to ensure that they have appropriate processes in place to manage conflicts of interest. In February 2008 the Regulator published a consultation document relating to the governance of conflicts of interest. The Trustees will benchmark the existing arrangements against the Regulator's guidance and, if necessary, take any action to ensure 'best practice' in this area.

Monitoring of the Employer Covenant

The Trustees consider it critical that they understand and monitor the financial strength and covenant of the employer on a continuing basis. PricewaterhouseCoopers, who advised the Trustees on employer covenant issues during the 2006/07 funding valuation process, have been asked to provide six-monthly updates to the Trustees. They reported to the Trustees in June and December 2007, providing an analysis of the Company's financial results to 31 March 2007, the prospective forecasts for the year to March 2008 and a longer term prognosis of the Company's financial position.

Under the terms of the funding agreement a reporting framework was agreed with BA to ensure that the Trustees receive regular updates on the business activities and financial position of BA. These arrangements have worked well over the past year. Mr Keith Williams, CFO BA, and other representatives from BA have made several presentations to the Trustees to provide an update on the financial activities of the Company.

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 Trustee arrangements for NAPS are as follows:

- The Scheme is administered by 12 Trustees
- Six of the Trustees are appointed by BA
- Five of the Trustees are elected by active members of the Scheme. Each will come from different occupational groups. These Trustees must be active members of NAPS
- One of the Trustees is elected by pensioner members* of the Scheme and must be a pensioner member of NAPS
- A Trustee may remain in office for a minimum of five years and a maximum of five and a half years and is eligible for re-appointment (provided that he/she still meets the eligibility criteria for the relevant vacancy) (This was adopted with effect from 1 October 2007 - previously the term was for three/three and a half years)
- Nominations for Trustees elected from the active membership must be supported by at least 20 members in the relevant constituency and, if there is more than one nomination for a vacancy, a postal ballot of the relevant members is held. The result is decided on a simple majority of the votes cast. For Trustees elected from the pensioner membership nominations must be supported by at least 10 pensioner members. (This was adopted with effect from 1 October 2007 - previously all nominations had to be supported by 20 members)
- An elected Trustee may be removed from office following a postal ballot in which two thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustees by 50 of the relevant members

Committees

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 the Schemes 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 the 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 and operates under clear Terms of Reference which govern its activities. Each Committee constructs a forward looking annual business plan which is used to allocate budgetary resources and informs the development of the Trustee training programme. A description of the work undertaken by each Committee is set out below:

Governance Committee: This Committee, which is chaired by Roger Maynard, 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. Where appropriate the Committee 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 Codes of Practice relating to Trustee Knowledge and Understanding, Notifiable Events and Reporting Breaches of the Law. The Committee also oversaw the 2007 governance review to ensure that the current arrangements remain appropriate given the significant changes in the regulatory environment. Whilst the conclusion was that the existing framework is 'fit for purpose' and facilitates sound management and effective decision making, the Committee will monitor the implementation of the recommended enhancements, particularly in relation to resources. The Committee met four times during the year.

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

Trustees' Report

Governance Committee (continued)

The Trustees are committed to high standards of governance in all aspects of the Scheme's operations. The Trustees acknowledge their responsibility for the Scheme's system of internal controls and for reviewing its effectiveness. These internal controls, the effectiveness of which are routinely reviewed by the Governance Committee, are designed to manage risk and control the business and financial activities of the Scheme. To achieve these objectives the Trustees have adopted a robust risk control framework. The robustness of the risk control framework is validated by independent Internal Auditors, PricewaterhouseCoopers LLP, whose audit activities are directed by the Governance Committee.

Operations Committee: This Committee, which is chaired by Ruth Cassidy, 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 detailed issues concerning the adoption and/or implementation of the scheme changes itemised on pages 10 and 11 were considered in the Committee forum before review by the full board. 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. In addition, over the past year the Committee has conducted a detailed review of the Variable Pension Option, monitored the withdrawal of participating companies and the associated exit debts, considered the policy options in relation to the chargeable amounts arising when the Lifetime Allowance is exceeded, reviewed transfers in relation to AVC benefits and reviewed data privacy issues. The Committee also considered the methodology for calculating the EBF (Equity Biased Fund) and BAMPS (British Airways Money Purchase Scheme) annual return declaration. A review of the draft regulations concerning transfer values, which are expected to come into effect on October 2008, has also been completed. In addition the Committee has spent time finalising the rule amendments required, initially implemented by an Interim Deed, by the Finance Act 2004 and age discrimination legislation. Finally, the Committee

actively monitored the process to consolidate the Trust Deed and Rules in the wake of these changes. The Committee met 13 times during the year.

Investment Committee: The Committee is chaired by Robert Boyle and usually meets five times a year. The Committee, which is supported by 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. Over the course of the year the Committee has monitored the funding position of the Scheme, reviewed the investment strategy in the light of improving bond yields and also in the context of possible risk reduction strategies. The output from these reviews was the adoption of the dynamic switching framework described in the investment section below. The Committee has spent time considering currency management (hedging and active management), a liability driven review of the bond benchmark, performance measurement of private equity investments and reviewing the stock lending arrangements, as well as the current allocations to UK and International equities. They have also investigated investment in other 'diversifying assets' (e.g. emerging market bonds, infrastructure and leverage loans). The Committee actually met seven times during the year.

Performance of Trustees

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

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.

Investment

The Trustees have adopted a dynamic risk reduction strategy that operates in relation to the funding position of the Scheme. Should this monitoring tool identify funding levels have improved sufficiently beyond the level envisaged in the recovery plan, reductions will be made in the level of equities with equivalent increases in the allocations to bonds.

Trustees' Report

| Trustee | Governance Committee | Investment Committee | Operations Committee | Main Board | Period of Appointment |
|--------------------------|----------------------|----------------------|----------------------|------------|-----------------------|
| Roger Maynard (Chairman) | 4/4 | 4/7 | - | 3/4 | Whole year |
| Robert Boyle | - | 7/7 | - | 3/4 | Whole year |
| Ian Bretherton | - | 6/7 | - | 3/4 | Whole year |
| Ruth Cassidy | - | - | 11/13 | 3/4 | Whole year |
| Paul Douglas | - | - | - | 1/1 | To Sept 2007 |
| Micky Grey | - | - | 12/13 | 4/4 | Whole year |
| Steve Gunning | - | - | - | 4/4 | Whole year |
| Nikki Jones | - | - | 11/13 | 4/4 | Whole year |
| Geoff Le Boutillier | 4/4 | - | - | 4/4 | Whole year |
| Raj Mehta | 4/4 | - | 11/13 | 4/4 | Whole year |
| Jon Round | - | - | - | 3/3 | From Oct 2007 |
| Ian Rycraft | - | 7/7 | - | 4/4 | Whole year |
| David Southcott | 4/4 | - | - | 4/4 | Whole year |

These reductions will be triggered if the funding levels on a technical provisions basis and on a self-sufficiency² 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.

Statement of Investment Principles (SIP)

A revised SIP was adopted with effect from December 2007 which reflected the adoption of the dynamic switching framework. This document was subsequently amended from May 2008 to reflect the amendment to the investment policy such that 1% of equity assets were allocated to the leveraged loan asset class.

A copy of the SIP is available on request from the Secretary's office or can be accessed on the www.mybapension.com website.

² Self sufficiency refers to a situation where BA is unwilling or unable to financially support the Scheme

Compliance with the Myners Principles

The Trustees are satisfied that the Scheme remains compliant with the Myners Principles but have continued to monitor developments in this area.

In 2007 the National Association of Pension Funds (NAPF) published its review of the 2001 Myners Principles following a year-long consultation period with the pensions industry. The report which was undertaken at the request of HM Treasury concluded that overall standards of governance of UK pension schemes had continued to improve although progress, particularly amongst smaller schemes, had been uneven. The NAPF made recommendations to bring the Myners Principles in line with current best practice and to reduce the number of Principles from the current 10 to six high level Principles. HM Treasury welcomed the report and said it would use the findings to consider future changes. In March 2008 HM Treasury, the Department for Work and Pensions and the Pensions Regulator launched a consultation for updating the Myners principles. The consultation proposes a set of refreshed and simplified, higher level principles and the development of a comprehensive suite of authoritative best practice guidance and tools which will assist trustees to improve investment decision making and governance. The period for consultation closes in June 2008.

Trustees' Report

Measuring performance

In accordance with the Myners' 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.

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 has outperformed the benchmark by 1.36%. In terms of the performance target, although BAPIML has outperformed the benchmark (12.67% compared with the benchmark of 12.64%) as assessed over a rolling five-year period, they fell short of the performance target. A more detailed explanation of the factors which contributed to investment performance during the period under review can be found on pages 14 and 15.

Security of Assets

The Custodian Trustee of NAPS, British Airways Pension Trustees Limited (BAPTL), 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 CHANGES

Pensioners with deferred AVC accounts

Occasionally pensioners draw their main Scheme benefit but leave their AVC accounts deferred within the Scheme. In the past the Rules of the Scheme have not permitted these AVC accounts to be transferred to an external pension arrangement, but the Trustees have amended the Rules to allow this facility. Each pensioner concerned has received an individual letter advising of this new arrangement.

Transferring Benefits

It is expected that in Autumn 2008 the regulations governing transfers from one scheme to another will be amended which will have the effect of increasing the amount of cash available to be transferred between schemes. Those members and, in particular deferred pensioners, who are considering transferring their benefits from the Scheme to another pension arrangement, will want to bear this information in mind when deciding the timing of any potential transfer. The Trustees recommend that members/deferred pensioners considering transferring benefits out of the Scheme consult their independent financial adviser about the timing of the transfer.

SmartPension

All members have been sent information from the Company concerning its new salary sacrifice scheme known as SmartPension. Scheme Rules have been amended to reflect this new arrangement, but all levels of benefits will be unaffected by the new arrangements. However, because of the way SmartPension works, members who pay maximum AVCs, i.e. 30% of pay, now pay more AVCs. Conversely, those members who are not paying maximum AVCs, but are nevertheless paying AVCs as a percentage of pay (rather than a fixed monetary amount), will pay a slightly lower amount of AVCs. As a result, AVC contributors have been advised to bear this point in mind and, if necessary, let the staff at Whitelocke House know if they wish to make any amendments to their AVC arrangements.

NAPS Option Review Date - Plan 60 and/or accrual changes

The Trustees have established 1 July as the regular annual date on which members of NAPS will have the opportunity to vary their options under the revised NAPS arrangements within the constraints contained in the Rules.

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. In the event that the complainant is not satisfied with the outcome the matter is then referred to the Operations Committee or, in certain circumstances, the Governance Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House or on our website.

The Pensions Act 2007 includes provision for trustees of occupational schemes to replace the two stage IDRP with a single stage. The Trustees decided to retain the existing two stage process as it provides complainants with a right to respond to a decision. The process will again be reviewed following the publication of the Pension Regulator's Code of Practice which was laid before Parliament in March 2008.

PENSIONS ADMINISTRATION MATTERS

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 12-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 2007 Order, pensions were increased by 3.6% on 9 April 2007 and, in accordance with the 2008 Order, by 3.9% on 7 April 2008.

Pensions in deferment and payment under the Rules of the British Caledonian, Golden Lion, Dan-Air, Davies and Newman, Arrowsmith and British Airways Associated Companies Scheme, which are paid by NAPS, have been increased as variously provided for under the Rules of the relevant scheme.

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

Trustees' Report

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- 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 whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also 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 also 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 a 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, including the maintenance of appropriate internal controls.

This Report was approved by the Board of Trustees on 25 June 2008 and was signed on their behalf by:

John Birch
Secretary

REVIEW OF THE YEAR

Once again the Fiscal year could be split into two distinct phases, with the early part characterised by rising equity markets and weakening bond markets. Initially confidence in the economy was relatively strong and there continued to be high volumes of takeover activity, especially at the larger market capitalisation end of the market, largely due to private equity and debt driven buyers. This pushed equity markets higher and bond markets retreated. Whilst concerns over the level of economic growth in the US were justified, overall China and other developing nations exhibited healthy growth due to a mix of infrastructure investment and the growth of the domestic consumer. Europe also benefitted from export volumes to these nations as well as the gains from years of restructuring.

The resource rich countries and companies continued to perform well as demand for oil, metal and food commodities rose. These countries invested the healthy trade and budget surpluses in a mixture of domestic and overseas investments, moving further away from the safe haven of Government bonds and into corporate acquisitions, both buying stakes and outright takeovers. The emergence onto centre stage of the Sovereign Wealth Funds and the Reserve Funds led to more frenzied takeover speculation and debate over how they would invest this growing cash pile, raising market confidence. As it turned out there were many investment opportunities later in the year without paying a market premium as financial institutions needed to find corporate backers. We will return to this later in the Review. The market commentators who were concerned over potential threats from these Reserve Funds had to admit that they acted as an important stabiliser in the second part of the year.

Liquidity from these reserve funds, combined with high levels of debt in private equity funds, hedge funds and healthy corporate cash flows chased yields on 'riskier' assets.

In general, earnings and dividend growth was healthy, leading to strong levels of corporate cash flow. Whilst activity was at high levels, many central banks continued to raise interest rates and caution on the outlook for inflation, which caused yields to move higher in bond markets.

The second phase in markets began when the effects of the US sub-prime crisis rattled the markets in late summer. The extent of the write downs by financial companies and the far reaching effect on other asset structures resulted in a crises of confidence which paralysed the financial system. The use of highly geared, inflexible structures were undermined with the withdrawal of liquidity from the system. These often off-balance sheet vehicles had to be funded by the banks or hedge funds themselves as other market participants were no longer willing or able to provide capital. This was compounded by a lack of transparency leading to difficulties in assessing counterparty risk. There were hedge fund failures and bank bailouts in various guises in the developed economies. The Sovereign Wealth Funds and Reserve Funds were present in many recapitalisations.

The central banks have injected liquidity through a variety of methods in a move designed to avert further collapse and recently financial institutions have begun raising capital from the wider stakeholder-base. Parallels have been drawn with the 1930's and indeed many of the actions of the US Federal Reserve have followed the textbooks written after the depression on how to re-liquify the financial system.

Against this backdrop equities fell heavily amid stories of forced sellers and fraud, and bonds performed well, rallying strongly. Government bonds attracted a safe haven premium as investors were unsure on the underlying risk in other financial institutions and products. The central banks got what they wished for as yield curves steepened with short term rates very low, usually the precursor to recovery in the economy.

In recent weeks confidence has returned, equities have risen and bonds have fallen back slightly. Markets appear to believe the action by the US Federal Reserve and other central banks is sufficient to avert a major crisis. There is concern over the high level of commodity prices and inflation pressures leading to worries that the world economy will enter a period of stagflation.

Investment Report

| Asset Category | Actual % 31 Mar 2008 | Benchmark % 31 Mar 2008 | Actual % 1 Apr 2007 | Benchmark % 1 Apr 2007 |
|-------------------------|-------------------------|----------------------------|------------------------|---------------------------|
| Equities | 61.2 | 61.0 | 66.0 | 63.0 |
| UK | 26.7 | 30.5 | 33.5 | 31.5 |
| International | 34.5 | 30.5 | 32.5 | 31.5 |
| Bonds & Cash | 29.9 | 28.0 | 25.5 | 28.0 |
| UK Fixed | 10.5 | 13.0 | 11.7 | 13.0 |
| Overseas Fixed | 1.8 | | 0.8 | |
| UK Index-Linked | 12.6 | 14.0 | 11.2 | 14.0 |
| Overseas Index-Linked | 0.9 | | 0.9 | |
| Cash | 4.1 | 1.0 | 0.9 | 1.0 |
| Commodities | 1.0 | 1.0 | 0.5 | 1.0 |
| Property | 7.9 | 10.0 | 8.0 | 8.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Asset Allocation and Benchmarks

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

At the beginning of the year the benchmark weighting in equities was reduced by 2% as planned, with an increase of 2% in the property weighting. Further contributions received from BA plc in April were invested in line with the prevailing tactical asset allocation albeit with a slight increase in the tactical weighting to bonds and cash away from equities.

The Trustees and their Advisers have set bandwidths around the strategic benchmarks shown above. 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.

Performance

Overall at a benchmark level, returns in equity markets were mixed with UK, US and Japanese Equities falling during the year, whilst European, Asia Pacific and Emerging Market equities produced positive results. Emerging Market equities produced the strongest returns, only beaten by commodities. Overall bonds beat returns on cash, with index-linked bonds producing double digit returns, fixed interest bond returns above cash, whilst

corporate bonds produced a lower return than cash, affected by concerns over the credit crunch.

Property assets fell after many years of strong returns. This was due to concerns that the debt-driven buyers of recent years would not be able to access finance because of the credit crunch, as well as worries over illiquidity of the asset class rather than any tenant defaults.

In terms of alternative assets, private equity produced positive results, largely a lagging indicator reflecting previous equity strength. Commodities produced the best results of all asset classes driven by global activity, developing economies and the emergence of bio-fuels demand.

The Fund's benchmark has a high weighting in equities and the negative returns from this asset class resulted in a negative result for the benchmark overall. The Fund also hedges a proportion of holdings in overseas assets by converting these back to Sterling. Whilst this helps to reduce volatility in the long run, it reduced returns this year.

Investment Report

Fund's 10 Largest Stock Holdings as at 31 March 2008

| Stock Name | Security Type | £M | % Portfolio |
|-------------------------------------|-----------------|-------|-------------|
| UK Treasury 2.5% 2020 Index-Linked | Government Bond | 360.7 | 4.9 |
| UK Treasury 4% 2009 | Government Bond | 281.8 | 3.8 |
| UK Treasury 2.5% 2024 Index-Linked | Government Bond | 270.9 | 3.7 |
| UK Treasury 4% 2016 | Government Bond | 175.2 | 2.4 |
| BP | UK Equity | 135.2 | 1.8 |
| HSBC Holdings | UK Equity | 118.2 | 1.6 |
| Vodafone Group | UK Equity | 103.6 | 1.4 |
| UK Treasury 5% 2014 | Government Bond | 100.2 | 1.4 |
| GlaxoSmithKline | UK Equity | 93.4 | 1.3 |
| UK Treasury 1.25% 2017 Index-Linked | Government Bond | 83.2 | 1.1 |

During the period under review, the fund outperformed its target returning 0.0% versus the benchmark return of -1.36%. The longer term performance is shown in the table below:

| | 2008 | 2006 | 2004 | 1999 |
|-----------|--------|---------|---------|----------|
| | | /2008 | /2008 | /2008 |
| | 1 year | 3 years | 5 years | 10 years |
| | %pa | %pa | %pa | %pa |
| NAPS | 0.00 | 10.10 | 12.67 | 6.00 |
| Benchmark | -1.36 | 9.78 | 12.64 | 5.75* |

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

In general, equity stock selection performance was good with most Fund Managers outperforming their benchmarks as they adopted a cautious stance when selecting stocks. This reflected concern over the pricing of risk in the market and slowing economic growth. Stocks such as financials were underweighted and there was a bias towards less economically sensitive stocks. In bonds the Fund suffered in index-linked gilts as the fund is tactically underweight the low-yielding, long-duration stocks which outperformed. Selection also suffered in corporate bonds. As we expect liquidity to return to the corporate bond market, we expect this sector to improve its performance. Holdings of overseas bonds boosted performance and property once again out performed the benchmark.

Asset allocation benefitted the funds, especially within International Equities. Overall the Fund reduced the tactical weighting in equities during the year, increasing the weighting in bonds and cash, also adopting a cautious stance. The Fund has reduced the tactical weighting in UK equities due to the slowing economy and concern that the budget deficit and inflation would hinder the flexibility of the UK Government and the Bank of England Monetary Policy Committee to react appropriately.

AVCs

The Mixed Portfolio Fund recorded a return of -1.3%, outperforming the strategic benchmark return of -3.4%. The external AVC comparators returned -5.0%. The returns were driven by similar factors to those described above with the high benchmark weighting in equity, standing at 80%, the main reason for the negative return. The relative outperformance to benchmark reflected the strong outperformance of equity stock selection within this. Over the longer term, the Fund continued to exceed the return of these external providers when measured on a three, five and 10-year basis. In the year to 31 March 2008 the Short Dated Gilt Fund returned 5.08% and the Equity Biased Fund returned 11.07%.

Investment Report

Outlook

In recent weeks, confidence has returned to 'riskier' asset classes such as equity and corporate bonds.

The fund is relatively close to benchmark weight in most asset classes, having reduced equities and property earlier in the year.

Whilst equity market levels in general represent good long-term value relative to bonds, we believe the slowdown in the US, continued write-downs associated with the credit crunch and high oil and food prices will restrain profit and earnings growth. We believe this will limit equity performance over the coming months, but there may be opportunities to increase exposure to equities. Overall we expect growth in Asia and Emerging Markets to continue at adequate levels. An increasing part of these economies exhibit domestically-generated economic growth and investment, which will act as a balance to the US and UK slowdown.

The Fund remains underweight in UK equities. We believe concerns over the housing market will inhibit consumer confidence and with a high budget deficit, the Government has little room for manoeuvre. UK bond markets appear expensive on long-term valuations after turmoil in the financial system pushed yields down. Over the year, we expect inflation to moderate slightly but to remain close to the high end of the range we have experienced during this decade. We continue to look for long-term opportunities in alternative asset classes.

Corporate Governance

The Fund Managers follow the Institutional Shareholders Committee principles, monitoring and engaging with companies on aspects of corporate governance and exercising voting rights in all regions through our custodian bank. In the UK in particular, research on aspects of corporate social responsibility is also taken into account to assess impacts on shareholder value. The outcomes of these programmes are reported back to the Trustees of NAPS. The voting records of the fund manager are held on our website:

www.mybapensions.com/corporategovernance on the 'Corporate Governance' page. These records are updated on the website each year, usually in August.

Independent Auditors' Report

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 2008 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 12, 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.

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 2008 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

25 June 2008
8 Salisbury Square
London
EC4Y 8BB

Fund Account

| | Note | 2008 £'m | 2007 £'m |
|--|------|----------------|----------------|
| Contributions and Benefits | | | |
| Contributions Receivable | 4 | 984.2 | 576.7 |
| Transfers In | 5 | 1.2 | 0.9 |
| Funded Pensions Receivable | | 4.8 | 4.8 |
| | | <u>990.2</u> | <u>582.4</u> |
| Benefits Payable | 6 | (193.1) | (194.7) |
| Leavers | 7 | (13.3) | (22.5) |
| Administration Expenses | 8 | (5.6) | (7.2) |
| | | <u>(212.0)</u> | <u>(224.4)</u> |
| Net Additions from Dealing with Members | | 778.2 | 358.0 |
| Return on Investments | | | |
| Investment Income | 9 | 213.4 | 162.3 |
| Change in Market Value of Investments | 10 | (222.1) | 239.7 |
| Investment Management Expenses | 8 | (4.7) | (4.0) |
| Net Return on Investments | | (13.4) | 398.0 |
| Net Increase in Funds | | 764.8 | 756.0 |
| Net Assets of the Scheme | | | |
| At 1 April 2007 | | 6,602.0 | 5,846.0 |
| At 31 March 2008 | | <u>7,366.8</u> | <u>6,602.0</u> |

Net Assets Statement

| | Note | 2008 £'m | Reclassified (see note 2) 2007 £'m |
|--|-------------|----------------|---|
| Investments | | | |
| Fixed Interest Securities | | 1,299.2 | 931.4 |
| Index-Linked Securities | | 980.1 | 777.4 |
| Equities | | 4,012.6 | 4,078.8 |
| Derivatives | | 7.8 | 13.3 |
| Private Equity | | 127.5 | 47.1 |
| Property | | 39.0 | 49.3 |
| Property Unitised Fund | | 532.4 | 467.2 |
| Private Equity Unitised Fund | | 61.7 | 57.1 |
| AVC Mixed Portfolio Fund | | 78.6 | 84.3 |
| Other Investments | | 76.9 | 58.2 |
| Cash | | 229.2 | 55.4 |
| | | <u>7,445.0</u> | <u>6,619.5</u> |
| Investment Liabilities: | | | |
| Derivatives | | (40.8) | (0.3) |
| Other Investments | | (33.2) | (23.3) |
| | | <u>7,371.0</u> | <u>6,595.9</u> |
| Total Net Investments | 11,12,13,14 | | |
| External AVC Investment | 16 | 1.0 | 1.1 |
| | | <u>7,372.0</u> | <u>6,597.0</u> |
| Total Investments | | | |
| Current Assets | | 0.4 | 10.1 |
| Current Liabilities | | (5.6) | (5.1) |
| | | <u>7,366.8</u> | <u>6,602.0</u> |
| Net Assets of the Scheme at 31 March 2008 | | | |

These accounts were approved by the Board of Trustees on 25 June 2008 and were signed on their behalf by:

Roger Maynard Management Trustee

Michael Grey Management Trustee

John Birch Secretary

Notes to the Accounts

1. Basis of Preparation

These accounts summarise the transactions of NAPS for the year ended 31 March 2008 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 Scheme funding position takes account of such obligations and an update is provided on page 5 of the Trustees' Report and should be read in conjunction with these accounts.

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. The revised SORP was issued in May 2007 and needs to be fully implemented for the financial year end 31 March 2009. The changes relating to derivatives have been adopted early and are reported in the Scheme's financial statements. Where appropriate prior year comparatives have been amended. Further details are given in note 2 below.

2. Prior Year Reclassifications

In prior years the Scheme's investment in futures contracts was presented using the economic exposure methodology. The Revised SORP no longer recommends using this basis and instead recommends the use of fair value. Therefore prior year comparatives have been restated to remove the economic exposure amounts and investments have been reclassified to comply with the new requirements as follows:

| | Previously stated £m | Adjustment £m | Reclassified £m |
|-------------------|-------------------------|------------------|--------------------|
| Equities | 4,187.3 | (108.5) | 4,078.8 |
| Derivatives | - | 13.0 | 13.0 |
| Other Investments | 37.9 | (3.0) | 34.9 |
| Cash | (43.1) | 98.5 | 55.4 |
| Total | 4,182.1 | - | 4,182.1 |

3. 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.

Employer normal contributions include contributions payable to the Scheme under salary sacrifice arrangements, which commenced from 1 February 2008.

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 received 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

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.

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

Derivatives are stated at fair value.

Exchange traded derivatives are stated at market value determined using market quoted prices.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

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 statement date differs from the Scheme year-end.

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 both Chartered Surveyors. 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 accruals 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

4. Contributions Receivable

| | 2008 £'m | 2007 £'m |
|-------------------------------|--------------|--------------|
| Employer | | |
| Normal | 181.3 | 114.6 |
| Deficit Funding | 126.6 | 122.2 |
| Augmentations | 1.3 | 29.5 |
| Special deficit contributions | 610.0 | 240.0 |
| Section 75 debts | - | 12.1 |
| Employee | | |
| Normal | 50.1 | 48.8 |
| Additional Voluntary | 14.9 | 9.5 |
| | <u>984.2</u> | <u>576.7</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.

5. Transfers In

| | 2008 £'m | 2007 £'m |
|--|-------------|-------------|
| Individual transfers in from other schemes | 1.2 | 0.9 |
| | <u>1.2</u> | <u>0.9</u> |

6. Benefits Payable

| | 2008 £'m | 2007 £'m |
|--------------------------------------|----------------|----------------|
| Pensions | (153.9) | (140.6) |
| Commutations | | |
| - Normal | (28.4) | (36.4) |
| - Additional Voluntary Contributions | (7.6) | (14.4) |
| Lump sum death benefits | (3.2) | (3.3) |
| | <u>(193.1)</u> | <u>(194.7)</u> |

7. Payment to and on Account of Leavers

| | 2008 £'m | 2007 £'m |
|---|---------------|---------------|
| Individual transfers to other pension schemes | (13.3) | (22.5) |
| | <u>(13.3)</u> | <u>(22.5)</u> |

8. Administrative and Investment Management Expenses

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

Notes to the Accounts

9. Investment Income

| | 2008 | 2007 |
|---------------------------------------|--------------|--------------|
| | £'m | £'m |
| Income from Fixed Interest Securities | 64.3 | 35.3 |
| Income from Index-Linked Securities | 19.1 | 15.1 |
| Net Dividends from Equities | 122.7 | 104.4 |
| Income from Cash Balances | 5.0 | 6.4 |
| Rental Income | 0.8 | 0.3 |
| Other Income | 1.5 | 0.8 |
| | <u>213.4</u> | <u>162.3</u> |

10. Change in Market Value of Investments

| | Reclassified Opening Value 2007 £'m | Purchase Costs & Derivative Payments £'m | Sale Proceeds & Derivative Receipts £'m | Change in Market Value £'m | Closing Value 2008 £'m |
|------------------------------|---|--|---|--|---------------------------------|
| Fixed Interest Securities | 931.4 | 1,230.2 | (865.6) | 3.2 | 1,299.2 |
| Index-Linked Securities | 777.4 | 321.5 | (213.3) | 94.5 | 980.1 |
| Equities | 4,078.8 | 1,827.2 | (1,712.6) | (180.8) | 4,012.6 |
| Derivatives | | | | | |
| - Commodity | - | 0.2 | (15.2) | 15.0 | - |
| - Futures | 3.0 | 32.9 | (27.4) | (3.2) | 5.3 |
| - Forward Foreign Exchange | 10.0 | 90.7 | (24.2) | (114.8) | (38.3) |
| Private Equity | 47.1 | 200.6 | (128.8) | 8.6 | 127.5 |
| Private Equity Unitised Fund | 57.1 | 7.6 | (16.0) | 13.0 | 61.7 |
| Property | 49.3 | - | - | (10.3) | 39.0 |
| Property Unitised Fund | 467.2 | 158.4 | (46.9) | (46.3) | 532.4 |
| AVC Mixed Portfolio Fund | 84.3 | 7.1 | (12.0) | (0.8) | 78.6 |
| Other Investment | 34.9 | 8.6 | - | 0.2 | 43.7 |
| Cash | 55.4 | 174.3 | - | (0.5) | 229.2 |
| External AVC Investments | 1.1 | - | (0.2) | 0.1 | 1.0 |
| Total Investments | <u>6,597.0</u> | <u>4,059.3</u> | <u>(3,062.2)</u> | <u>(222.1)</u> | <u>7,372.0</u> |

The change in market value of investments includes 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 £13.6m (2007: £17.2m) Property Unitised Fund, £0.7m (2007: £0.3m) Private Equity Fund and £2.9m (2007: £2.7m) AVC Mixed Portfolio Fund.

Notes to the Accounts

11. Investments

| | 2008 £'m | Reclassified (see note 2) 2007 £'m |
|-------------------------------------|----------------|---|
| Fixed Interest Securities: | | |
| UK public sector quoted | 738.8 | 497.5 |
| UK other quoted | 428.1 | 351.2 |
| Overseas quoted | 132.3 | 82.7 |
| | <u>1,299.2</u> | <u>931.4</u> |
| Index-Linked Securities: | | |
| UK public sector quoted | 832.9 | 706.7 |
| UK other quoted | 84.5 | 15.4 |
| Overseas quoted | 62.7 | 55.3 |
| | <u>980.1</u> | <u>777.4</u> |
| Equities: | | |
| UK quoted | 1,909.6 | 2,085.5 |
| Overseas quoted | 2,103.0 | 1,993.3 |
| | <u>4,012.6</u> | <u>4,078.8</u> |
| Derivative Assets: | | |
| Futures – exchange traded | 5.3 | 3.0 |
| Forward foreign exchange | 2.5 | 10.3 |
| | <u>7.8</u> | <u>13.3</u> |
| Private Equity | 127.5 | 47.1 |
| Private Equity Unitised Fund | 61.7 | 57.1 |
| Property | 39.0 | 49.3 |
| Property Unitised Fund | 532.4 | 467.2 |
| AVC Mixed Portfolio Fund | 78.6 | 84.3 |
| Other Investment Assets | 76.9 | 58.2 |
| Cash | 229.2 | 55.4 |
| | <u>7,445.0</u> | <u>6,619.5</u> |
| Derivative Liabilities | | |
| Forward foreign exchange | (40.8) | (0.3) |
| Other Investment Liabilities | (33.2) | (23.3) |
| | <u>(74.0)</u> | <u>(23.6)</u> |

Included in the above are securities loaned as at 31 March 2008 of £1,457.2m (2007: £1,060.6m). 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 or 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

12. Property

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

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

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 (BAPNNL) and 30% are held in the name of British Airways Pension APS Nominees Limited (BAPANL). 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 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;

| | 2008 | 2007 |
|-----------------|--------------|--------------|
| | £'m | £'m |
| JPUT holding | 39.00 | 49.20 |
| General Partner | 0.01 | 0.02 |
| Total | <u>39.01</u> | <u>49.22</u> |

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

| | 2008 | 2007 |
|-------------------|----------------|----------------|
| | £'m | £'m |
| Gross Assets | 507.2 | 536.0 |
| Gross Liabilities | <u>(466.6)</u> | <u>(466.0)</u> |
| Net Investment | 40.6 | 70.0 |

Notes to the Accounts

13. 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 75% 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 75% of the exposure in USD, EUR, and JPY.

| Period | Maturity Date | Broker | Nominal Value m | Fair Value £'m |
|------------------------------|---------------|--------|--------------------|-------------------|
| 3 Months forward to sell EUR | 15 May 08 | RBS | €22.5 | (1.2) |
| 4 Months forward to sell JPY | 16 Jun 08 | BARC | ¥12.8 | Nil |
| 6 Months forward to sell EUR | 5 Sep 08 | UBS | €676.3 | (24.8) |
| | 25 Jul 08 | | | |
| | 15 Sep 08 | | | |
| 6 Months forward to sell USD | 5 Sep 08 | RBS | \$836.3 | Nil |
| | 25 July 08 | | | |
| | 15 Sep 08 | | | |
| 6 Months forward to sell JPY | 05 Sep 08 | BARC | ¥33,730 | (6.3) |
| | 16 Sep 08 | | | |
| 6 Months forward to sell JPY | 25 Jul 08 | DEUT | ¥14,000 | (2.8) |
| 7 Months forward to sell EUR | 16 Jun 08 | UBS | €28 | (2.3) |
| 7 Months forward to sell USD | 16 Jun 08 | RBS | €7 | (0.1) |
| 7 Months forward to sell JPY | 16 Jun 08 | BARC | ¥1,200 | (0.8) |
| Total | | | | (38.3) |

Commodity SWAP Contracts

The Scheme entered into the following Total Return SWAP contracts in February 2008. The contracts were rolled forward on the 30 March 2008.

| Nature | Duration | Collateral Value | Counterparty | Notional Value m | Fair Value |
|---|----------|------------------|--------------|---------------------|------------|
| S&P GSCI Maximum Velocity Total Return D2 Strategy | Sep 2008 | Nil | Goldman | \$8.3 | Nil |
| S&P GSCI Maximum Carry Total Return D5 Strategy | Sep 2008 | Nil | Goldman | \$8.3 | Nil |
| S&P GSCI Total Return E65 Strategy | Sep 2008 | Nil | Goldman | \$149.8 | Nil |

US Treasury Bill of \$151.2m are held to cover the interest contract arising on the commodity SWAP contracts.

Notes to the Accounts

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 |
|-------------------------------|--------|-----------------|----------|---|
| FTSE 250 stock futures | Sold | 3,160 | Jun 2008 | (31.6) |
| FTSE100 stock futures | Bought | 5,310 | Jun 2008 | 30.3 |
| Total UK Futures | | | | (1.3) |
| Dow Jones stock futures | Bought | 16,420 | Jun 2008 | 46.5 |
| Topix stock futures | Bought | 5,760,000 | Jun 2008 | 35.4 |
| S&P 500 CME stock futures | Bought | 229,250 | Jun 2008 | 152.7 |
| Total Overseas Futures | | | | 234.6 |

Included within cash balances are £9.4m in respect of initial and variation margins arising on open futures contracts at the year end.

14. Unitised Funds

The units in the following funds are held by APS and NAPS. As at 31 March 2008 NAPS held 81.5% of the units in the AVC Mixed Portfolio Fund, 58.4% 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:

| | 2008 £'m | 2007 £'m |
|-------------------------------------|--------------|--------------|
| Private Equity Unitised Fund | | |
| UK Unlisted | 15.6 | 17.5 |
| Overseas Unlisted | 46.0 | 39.5 |
| Other | 0.1 | 0.1 |
| Total | 61.7 | 57.1 |
| Property Unitised Fund | | |
| UK Property | 428.5 | 379.9 |
| Property Unit Trust | 104.2 | 95.7 |
| Other Managed Funds | 13.6 | 12.1 |
| Loan * | (12.3) | (20.0) |
| Other | (1.6) | (0.5) |
| Total | 532.4 | 467.2 |

All of the Other Managed Funds and 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 2008 £21m of this facility had been utilised of which the Scheme's proportion was £12.3m. During the year a loan of £19m was redeemed. Interest rate risk is managed by using an interest rate swap.

| | 2008 £'m | 2007 £'m |
|---------------------------------|-------------|-------------|
| AVC Mixed Portfolio Fund | | |
| Fixed Interest Securities | 8.7 | 8.3 |
| Index-Linked Securities | 3.8 | 3.3 |
| Equities | 64.5 | 70.8 |
| Cash | 1.6 | 1.9 |
| Total | 78.6 | 84.3 |

Notes to the Accounts

15. Additional Voluntary Contributions (AVCs)

Internal AVC Schemes

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

| | 2008 £'m | 2007 £'m |
|------------------------|-------------|-------------|
| Short-dated Gilts Fund | 16.6 | 17.3 |
| Equity Biased Fund | 77.1 | 60.0 |
| | <u>93.7</u> | <u>77.3</u> |

16. External AVC Investments

Within the Net Assets are four external AVC 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:

| | 2008 £'m | 2007 £'m |
|---|-------------|-------------|
| British Caledonian Group Pension & Life Prudential | 0.7 | 0.7 |
| Davies and Newman and Dan Air | | |
| Scottish Life | 0.1 | 0.2 |
| Equitable Life Assurance | 0.1 | 0.1 |
| Norwich Union | 0.1 | 0.1 |
| | <u>1.0</u> | <u>1.1</u> |

17. Money Purchase Scheme

Within NAPS is the British Airways Money Purchase Section (BAMPS). These assets are not held separately, but members receive an annual statement informing them of the value of their entitlement. The total figures are shown below:

| | 2008 £'m | 2007 £'m |
|----------------------------------|-------------|-------------|
| Balance of BAMPS at 1 April 2007 | 4.4 | 3.8 |
| Contributions | 0.2 | 0.2 |
| Interest | 0.6 | 0.6 |
| Transfers out | (0.3) | (0.2) |
| | <u>4.9</u> | <u>4.4</u> |

Notes to the Accounts

18. Contingent Liabilities and Contractual Commitments

The following contractual commitments existed at the year-end

| | 2008 | 2007 |
|------------------------------|--------------|--------------|
| | £'m | £'m |
| Private Equity | 209.0 | 110.4 |
| Private Equity Unitised Fund | 20.9 | 27.7 |
| Property Unitised Fund | 16.3 | 24.0 |
| | <u>246.2</u> | <u>162.1</u> |

19. 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.

20. Related Party Transactions

The employees of the Pension Scheme are employed by BA Plc, BAPIML or BAPSL. All employee costs are borne by the Schemes.

BAPSL provides secretariat and financial administration to the British Airways Retirement Pension Plan. BA Plc is recharged for these services. BA 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 BA Plc can be members or pensioners of either APS or NAPS. If they are members or pensioners then their pension rights are on terms normally granted to members.

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

BAPTL, a company limited by guarantee, holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the unitised funds. The Directors of BAPTL are all Trustees of either APS or NAPS. The companies described below are all wholly owned by BAPTL.

BAPSL provides administration services and BAPIML 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

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 2008 which are set out on pages 32 to 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 2008 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 29 March 2007.

KPMG LLP
Chartered Accountants

25 June 2008
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 2008

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 29 March 2007 in respect of the Scheme year ended 31 March 2008. 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 | 181.3 |
| Employer deficit funding | 126.6 |
| Member normal contributions | 50.1 |
| Special deficit | 610.0 |
| Contributions payable under the Schedule (as reported on by the scheme auditors) | 968.0 |

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) | 968.0 |
| Contributions payable in addition to those due under the Schedule: | |
| Member additional voluntary contributions | 14.9 |
| Employer augmentations | 1.3 |
| Total contributions reported in the accounts | 984.2 |

This Report was approved by the Board of Trustees on 25 June 2008 and was signed on their behalf by:

John Birch
Secretary

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

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:

Salary sacrifice members: Nil

FSS members who are not salary sacrifice members:

| | Plan 65 | Plan 60 | Option 55 |
|-----------------|---------|---------|-----------|
| Accrual rate 60 | 5.25% | 8.5% | 17.5%* |
| Accrual rate 56 | 8.25%* | 11.5%* | 20.5%* |
| Accrual rate 52 | 11.25%* | 14.5%* | 23.5%* |

* or at such other rates as may from time to time be specified by the Company

All rates subject to variation as specified in the Scheme Rules

BAMPS members who are not salary sacrifice members: the percentage of Pay for Contribution Purposes elected by the member in accordance with Scheme Rule 5(a)

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 38 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:

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

plus, in respect of salary sacrifice members, an amount equal to the contributions that would be payable by the members if they were not salary sacrifice members

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 38 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

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.

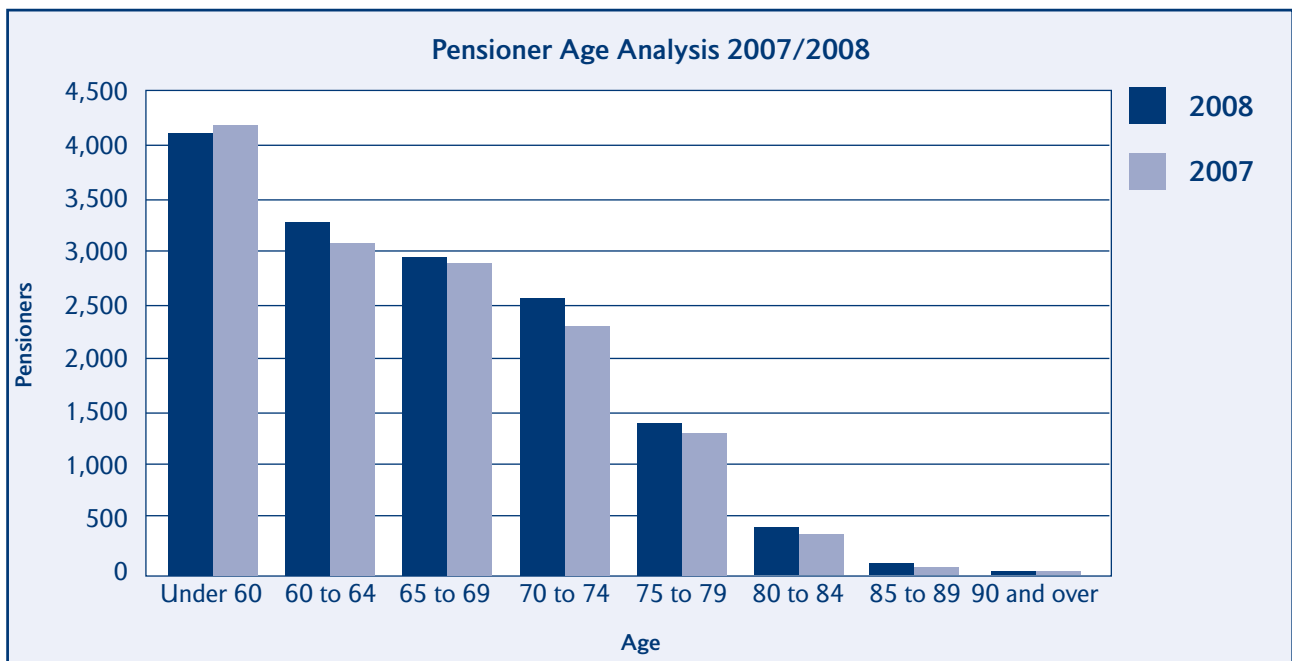
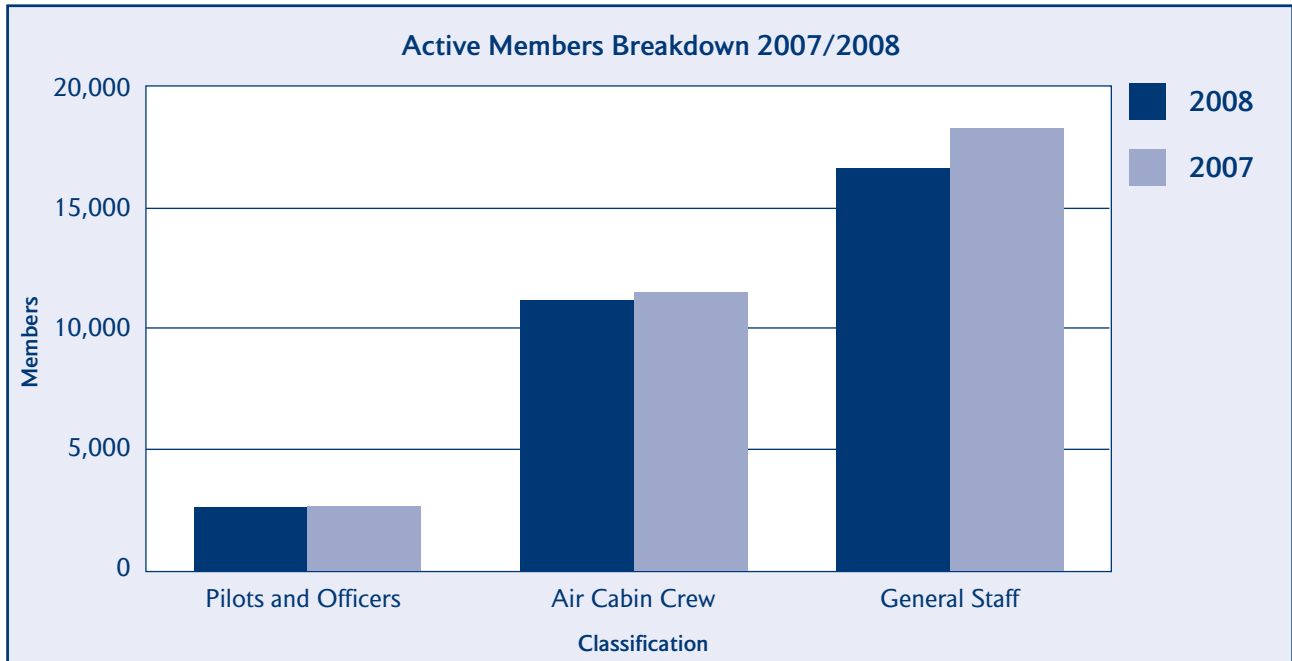
G R Alexander
Fellow of the Faculty of Actuaries
Watson Wyatt Limited

Watson House
London Road
Reigate
Surrey
RH2 9PQ

11 April 2008

Membership Information

| | 2008 | 2007 |
|-----------------------|---------------|---------------|
| Active Members | 29,546 | 31,499 |
| Pensioners in Payment | 15,030 | 14,300 |
| Dependant Pensioners | 2,574 | 2,410 |
| Deferred Pensioners | 21,972 | 21,124 |
| | <u>69,122</u> | <u>69,333</u> |



Compliance Statement

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 Airways' 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.

British Airways Pensions
Whitelocke House
2-4 Lampton Road
Hounslow
Middlesex TW3 1HU
Tel: 020 8513 2222