

Annual Report and Financial Statements 2015

New Airways Pension Scheme



**Year ended
31 March 2015**

Annual Report and Financial Statements

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Chairman's Review

This is my last report as Chairman of the New Airways Pension Scheme (NAPS) and as well as warmly welcoming my successor, Virginia Holmes, I wanted to take this opportunity to place on record my appreciation of the work undertaken on your behalf by my fellow Trustees.

The last five years has been a challenging period for British Airways' (BA) defined benefit schemes. Changes in the aviation industry, for example as BA Plc responds to the industry trend towards consolidation, are no less relevant to the Scheme than significant recent changes within the pension industry. When investment markets and economic conditions are added to the mix, particularly current low yields and the uncertainty about the path of future real yields, the result is a challenging landscape within which the Trustees must steer a difficult course to ensure the best outcomes for the Scheme's membership. The Scheme's funding valuation exercise is a critical process where an assessment of the risks associated with each of the key factors (covenant, investment and funding) must be integrated to determine the optimal approach to funding, contributions and investment risk over the lifetime of the Scheme. The various work streams associated with the 31 March 2015 funding valuation are well advanced and the statutory deadline for completion is 30 June 2016.

This report and the following pages are intended to update you on the key funding, governance, investment and administration issues. Over this period we have also published a quarterly newsletter on the member website to keep members up to date.

Headline Results

As shown on page 20, the net value of the assets held by NAPS has gone up from £11.7 billion (as at 31 March 2014) to £13.3 billion (as at 31 March 2015). The key factors contributing to this rise were: the contributions paid by BA; investment income; and an increase in the market value of the equity, fixed interest bond and index linked bond portfolios. In relation to the last of these factors, gilt yields fell over the relevant period which corresponds to rising bond prices.

The improvement in the value of the NAPS assets held is welcome but needs to be understood in the wider funding context. These financial statements show the balance of assets after deducting the benefit payments paid out over the year (2014/15) whereas the funding valuation seeks to estimate the costs of all of the benefits that have been built up in the Scheme, many not yet in payment, to be paid over the entire lifetime of the Scheme. The value placed on the liabilities will depend on a range of factors including mortality assumptions and market conditions. For example, changes in interest rates, inflation and bond yields can have an impact on the value placed on the liabilities. Importantly, the impact of these changes is not necessarily correlated with the impact on the assets so that in some circumstances an increase in assets can be offset by an increase in the liabilities.

Funding

The last formal triennial valuation was at 31 March 2012 at which time the deficit on a technical provisions basis was £2.7bn, which improved to £1.9bn as at 31 March 2013 and further improved to £1.7bn as at 31 March 2014.

Although the 31 March 2014 position showed an improvement it does not take account of changes in investment conditions since 31 March 2014, in particular the significant falls in yields available on Government bonds (gilts). If this and other changes were reflected in the 31 March 2014 funding position, the deficit would be larger, possibly significantly, than the £1.7bn figure shown above.

Investment policy and performance

As part of the valuation process the Trustees will undertake a full review of the investment strategy. NAPS needs to earn investment returns which, when taken together with Company contributions, will be sufficient to repair the funding deficit. A certain level of risk needs to be taken to achieve the required return, whilst avoiding a situation where the deficit could rise in the event of poor returns. The aim is to therefore take the most efficient risks and hedge the poorly rewarded ones.

The current investment strategy includes a 68% allocation to return seeking assets, with the majority invested in equities. In June 2015 NAPS replaced the equity protection strategy (originally put in place in 2010) to cover c.£1bn of the NAPS equity exposure. The Trustees have also focussed on the level of liability hedging with a view to reducing the sensitivity, both to movements in yields and how these are expected to change over time. When market conditions are volatile, as they are now, it is important that de-risk decisions take account of the prevailing market conditions. The Scheme has set up governance processes involving daily monitoring and has appointed a subcommittee which can be convened at short notice in response to specific triggers to seek to ensure that opportunities are not missed.

More information about the management of the Scheme's investments and the 2014/15 investment and economic environment can be found on pages 13 to 14. The day to day management of the Scheme's investments is delegated to British Airways Pension Investment Management Ltd (BAPIML). The Trustees closely monitor BAPIML's performance. BAPIML's track record over the near and long term is shown on pages 15 to 17.

Trustee Board

During the year since last reporting to you there have been some changes to the employer appointed Trustees; Peter Simpson left British Airways and Jo Boswell stepped down as a Trustee. We welcomed Ian Howick and Nick Goddard as their replacements. Along with myself, Alan Buchanan also ceases to be an employer appointed Trustee from October 2015.

The composition of the Trustee Board has not been static over the five and half years I have been Chairman but what has been consistent is the commitment demonstrated by all who have served on the Trustee Board in fulfilling their duties and responsibilities. I have every confidence that my successor, with the Trustees, will continue to exercise their responsibilities for the benefit of the Trust and you the beneficiaries. I have received unwavering support from the British Airways Pension Services Ltd (BAPSL) Executives who administer the Scheme and the in-house team (BAPIML) who manage the assets and liabilities. My huge thanks to them and I have no doubt they will continue that excellent professional support to my successor and the Trustees.

I have greatly enjoyed working with my fellow Trustees and those that support them in their work.

Paul Spencer CBE
Chairman of Trustees
September 2015

Trustees and Advisers

Appointed by British Airways Plc (the Company)

Paul Spencer CBE
(Chairman)
Independent Trustee

Charlie Maunder
Head of Flight
Operations
British Airways Plc

Ian Howick
Director of Heathrow
British Airways Plc
Appointed 22 April 2015

Alan Buchanan
Former Employee

Philip Osmond
Director of Airport
Transformation
British Airways Plc

Nick Goddard
Risk Management &
Internal Audit Manager
International Airlines Group Plc
Appointed 1 April 2015

Members elected

Ian Bretherton
Captain

Graham Fowler
Pensioner elected

Geoff Le Boutillier
Pensioner elected

Ian Rycraft
Technician

Dave Southcott
Senior Customer Services Agent

Adrian Smith
Eurofleet Purser

Retired during the year

Peter Simpson
Resigned 28 February 2015

Jo Boswell
Resigned 31 March 2015

Advisers*

Scheme Actuary
James Wintle
Towers Watson Ltd

Legal Advisers
Eversheds LLP
Freshfields Bruckhaus
Deringer LLP

Bankers
BNY Mellon

External Custodian
State Street Bank and
Trust Co

Investment Advisers
Towers Watson Ltd
BAPIML

Auditors
KPMG LLP

Convenant Advisers
PricewaterhouseCoopers LLP

Independent Investment Advisers

AllenbridgeEpic Investment Advisers Ltd
Geoff Lindey, Andrew Threadgold, Phillip Williams

Administration

British Airways Pension Services Ltd (BAPSL)
Teresa Suriyae
Managing Director & Scheme Secretary

Investment Management

**British Airways Pension Investment
Management Ltd (BAPIML)**
Michelle McGregor Smith, Chief Executive Officer

* In addition to the Scheme's principal advisers the Trustees have appointed legal and other advisers to provide advice on specific matters as required.

New Airways Pensions Scheme – Pension Scheme Registry Number: 10057029

Trustees' Report

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 funding position of the Scheme, investment, Scheme governance, Scheme changes and pension administration matters.

The financial statements of the Scheme for the year ended 31 March 2015, as set out on pages 19 to 32 have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Scheme funding position

Formal valuations are carried out every three years and the formal valuation for 31 March 2015 is currently underway. The Scheme Actuary provides an interim update which is reported to the membership in an annual funding statement to show how the funding position is evolving. The interim update does not involve the detailed analysis required for a formal valuation but some of the underlying assumptions can be updated to reflect changed conditions e.g. investment return expectations. It is not necessary to agree the results of an interim update with BA and contributions do not have to be revised, unlike for a formal valuation. However, an interim update provides a useful guide as to developments between formal valuations. A summary of the Scheme Actuary's 2014 findings is set out below. More information regarding the Scheme Actuary's findings was included in the February 2015 edition of In Focus (also available on the member website www.mybapension.com).

The 31 March 2014 update showed that the funding level had improved from 85.1% at 31 March 2013 to 87.3% as at 31 March 2014. The main reasons for this were deficit contributions paid by BA during the year to 31 March 2014 and greater than expected investment returns. The deficit has reduced from £1.9bn at 31 March 2013 to £1.7bn at 31 March 2014. Although the 31 March 2014 position showed an improvement it does not take account of changes in investment conditions since 31 March 2014, in particular the significant falls in yields available on Government bonds (gilts). If this and other changes were reflected in the 31 March 2014 funding position, the deficit would be larger, possibly significantly, than the £1.7bn shown below.

The funding levels are shown below:

	31 March 2014 (£m)	31 March 2013 (£m)	31 March 2012 (£m)
Liabilities*	(13,388)	(12,962)	(12,275)
Assets	11,687	11,025	9,615
(Deficit)	(1,701)	(1,937)	(2,660)
Funding level	87.3%	85.1%	78.3%

* The liabilities are based on the technical provisions agreed between the Trustees and BA at the 31 March 2012 valuation, updated by the Scheme Actuary in line with changes in market conditions as at 31 March 2013 and 31 March 2014.

The recovery plan

The Scheme has a recovery plan in place to address the deficit. Under the terms of the recovery plan the Trustees and the Company have agreed to repair the deficit by:

- The Company continuing to pay lump sum contributions to the Scheme at the amounts agreed following the 2009 valuation, starting from around £15 million per month increasing each year to around £32 million per month by 2026. Part of the lump sum contributions are to eliminate the deficit (around £8 million per month increasing each year incrementally to around £25 million per month by 2026) with the remainder being used to cover part of the cost of continued accrual of benefits in the Scheme.
- Making an allowance for investment returns at 0.5% a year in excess of the discount rate.
- If the assumptions in the recovery plan are borne out in practice, the deficit is expected to be eliminated by 31 March 2026.

PricewaterhouseCoopers LLP (PwC) is engaged by the Trustees to carry out extensive and on-going reviews of the Company's financial position and future cash flows. PwC has advised the Trustees that the contributions that the Company has committed to pay to the Scheme and the Airways Pension Scheme (APS) are set at the level that the Company can reasonably afford in current circumstances. The airline industry is volatile and the Trustees have agreed protections in the event that the Company's position were to deteriorate but have also agreed a cash sweep

Trustees' Report

mechanism which means that the Scheme will receive additional contributions in the event that the Company's 31 March cash balance exceeds prescribed thresholds.

BA paid £23.0m to the Scheme in respect of the 31 March 2014 cash sweep payment, received and accounted for in the current year's financial statements, and £227.3m in respect of the 31 March 2015 cash sweep payment, which will be accounted for in the 2015/16 financial statements. BA also paid its December 2014 to September 2015 deficit contributions in advance in December 2014.

Scheme investment

The current broad strategic asset allocation as at 31 March 2015 is shown below:

Investment category	Allocation
Return seeking	68%
Liability matching	32%

Return seeking assets are those chosen with long term returns expected to exceed risk-free assets – which compensates for the higher risk exposure. Equities (UK and overseas), private equity, property and alternatives are return seeking assets.

Liability matching assets are those held to be aligned with the Scheme's future benefit payments and are intended to reduce the amount of risk. Government bonds are an example of a liability matching asset.

Dynamic de-risking framework

The Trustees have put in place suitable arrangements to dynamically manage risk as funding levels improve, to move the weighting from return seeking assets towards liability matching assets and to take opportunities from market volatility. Such weighting adjustments will be made by reference to daily monitoring of the Scheme's funding ratio and market conditions.

The dynamic nature of these policies means that the strategic asset allocation described above will move over time towards a position with a higher allocation to liability matching assets. Such movement will be linked to the funding position and appropriate market conditions.

Liability hedging

The Trustees have also established liability hedging arrangements involving interest rate and inflation hedging triggers. The aim of the liability hedging programme is to better align the Scheme's assets with the liabilities by hedging the Scheme's exposure to interest rates and inflation which are the key drivers in relation to the value placed on the liabilities. A range of instruments can be used for this purpose including Government bonds and swaps.

Statement of Investment Principles (SIP)

No changes were made to the SIP during the year to 31 March 2015.

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

Measuring investment performance

The Trustees have adopted a customised strategic benchmark as this ensures that the investment performance objectives are related directly to the circumstances of the Fund.

The Trustees monitor the Fund's performance by comparing the returns achieved against this 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 the Scheme. BAPIML's expenses are charged to the Scheme at cost and routine or day to day investment decisions are delegated 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 the Trustees will continue to monitor performance over a range of different time periods.

Details of the Fund performance can be found on pages 15 to 17.

Trustees' Report

Statement of compliance with the Myners Principles

The Myners Investment Principles, a voluntary code of conduct for Institutional Investors published by the Government in October 2008, have been reviewed on a self-assessment basis by AllenbridgeEPIC Investment Advisers Ltd, and it was concluded that the Scheme is fully compliant with the Principles.

Notwithstanding full compliance with these high level principles, it is recognised that standards can continue to be improved and developed in line with emerging industry-wide practice. The Investment Committee Business Plan provides for maintaining compliance with the Principles and improving their practices and procedures accordingly.

SCHEME GOVERNANCE

Trustee knowledge and understanding (TKU)

The Trustees have a formal training policy, the foundation of which is the Pension Regulator's TKU regime. The Trustees conduct a detailed review of their approach to training biennially.

An induction programme is provided for new Trustees on appointment. The amount of material covered in the induction programme is significant and will usually take several months to complete. This is consistent with the law on TKU which allows 6 months for a new Trustee to be trained before they are expected to have achieved the required level of knowledge and understanding. After the initial training Trustees are encouraged to undertake a formal pensions qualification.

Further requirements for training are established by asking Trustees 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 each Trustee's particular learning needs but is also related to the Committee(s) on which the Trustee serves. The Trustee Board and each of its Committees produce 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 Scheme 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 sessions. Bespoke training is also provided by BAPIML and BAPSL and Trustees are actively encouraged to supplement this formal training plan by accessing other resources including the Regulator's Trustee Toolkit, pensions related publications and, where appropriate, industry conferences, seminars and publications. Records of all training undertaken are maintained in respect of each individual Trustee.

Conflicts of interest

The Trustees understand that they are in a position of trust and need to have policies and arrangements in place to identify, monitor and manage conflicts. The Scheme's primary legal advisers are Eversheds LLP and they are also the primary legal advisers for APS. To ensure that appropriate processes are in place to manage conflicts of interest, Freshfields Bruckhaus Deringer LLP acts for NAPS in relation to matters which require separate legal advice.

The Scheme's policy and procedure for managing conflicts of interest was reviewed and an updated conflicts of interest policy was adopted in April 2015.

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 and in order to achieve this PricewaterhouseCoopers (PwC) act as advisers to the Trustees on employer covenant issues. A reporting framework was agreed with the Company during the 2012 valuation to ensure that the Trustees receive regular updates on the business activities and financial position of the Company.

Trustees' Report

Trustee arrangements

- The Scheme is administered by twelve Trustees.
- Six of the Trustees are appointed by the Company.
- Four of the Trustees are elected by active members of the Scheme. Each will come from a different occupational group. These Trustees must be active members of NAPS.
- Two of the Trustees are elected by pensioner members* of the Scheme and must be pensioner members* 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).
- Nominations for elected active member Trustees must be supported by at least twenty members in the relevant constituency and nominations for pensioner member* Trustees must be supported by ten pensioner members. 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.
- Members taking flexible retirement cannot apply to be a pensioner member* Trustee and an active member Trustee at the same time however flexible retirement members are eligible to vote in both active member and pensioner member* Trustee elections.
- 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 fifty of the relevant members.

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

Committees

NAPS and APS have separate Trustee Boards and Committees however much of the business of the two Schemes is common. Although separate meetings are held when required, most Main Board and Committee meetings have been held jointly 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. Each Committee 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.

The Governance and Audit Committee is principally concerned with legislative compliance, audit and risk management. It monitors the management of the risks to which the Scheme is exposed and oversees 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, reviewing the performance of the Scheme Advisers, budget reviews and internal procedures, such as ballot processes.

The Operations Committee considers a range of matters requiring Trustee discretion (e.g. payment of death-in-service benefits) and second stage applications under the internal dispute resolution procedures. In addition, the Committee considers certain proposed Rule changes, monitors legislative developments, oversees the Scheme's communication strategy and monitors levels of service.

The Investment Committee, which is supported by independent and strategic 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. In valuation years it also undertakes a detailed review of the Scheme's investments in the context of its liabilities which includes an asset liability modelling (ALM) study.

In addition to the three main Trustee Committees, sub-committees are established where a small number of Trustees are tasked with a detailed investigation into one or more defined issues.

Performance of Trustees

Attendance records for Trustee and Committee meetings have been maintained and are shown on the following page. Although the Main Board is scheduled to meet quarterly, the number of matters requiring the Trustees' attention necessitated the convening of additional meetings which were often called at short notice.

Trustees' Report

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of Appointment to Main Board
Paul Spencer (Chairman)	4/4	7/7	-	9/9	Whole year
Jo Boswell	-	0/7	-	0/9	Whole year
Ian Bretherton	-	7/7	-	8/9	Whole year
Alan Buchanan	4/4	-	5/7	5/9	Whole year
Graham Fowler	-	-	7/7	7/9	Whole year
Geoff Le Boutillier	4/4	-	-	9/9	Whole year
Charlie Maunder	-	-	6/7	8/9	Whole year
Philip Osmond	-	-	-	8/9	Whole year
Ian Rycraft	-	6/7	-	7/9	Whole year
Peter Simpson	-	-	-	5/7	Part year
Adrian Smith	3/4	-	-	7/9	Whole year
Dave Southcott	-	-	5/7	7/9	Whole year

On occasions that Trustees are not able to attend a meeting, the Rules provide for them to appoint an alternate to attend and vote for them. During the period under review this has been standard practice. In addition, some Trustees attended, as observers, meetings of Committees to which they were not formally appointed. Such occurrences are not included in the attendance list.

Security of assets

The Custodian Trustee of the Scheme, British Airways Pension Trustees Ltd, holds the assets of the Scheme on behalf of the Trustees, however physical custody of the Scheme's securities (i.e. bonds and shares) has been delegated to independent external custodians, State Street Bank and Trust Co.

Defined contribution (DC) governance statement

Additional Voluntary Contributions (both money purchase and cash balance AVCs and contributions made to the BAMPS section) are considered in some respects to be Defined Contribution (DC) Benefits by the Pensions Regulator. In this regard the Trustees of the Scheme annually review and assess the systems, processes and controls across key governance functions (the "controls") to ensure that they are consistent with the Standards of Practice set out in the Pensions Regulator's DC Code of Practice and Regulatory Guidance. The Trustees are satisfied that the controls are consistent with that Code,

however, were the annual review to identify any areas where those Standards of Practice are not met, the Trustees would consider the reason for those differences and whether any changes to current practice are required.

SCHEME CHANGES

Factor review

Scheme factors are reviewed from time to time and at least every three years, usually at the end of the formal valuation process. Updating factors sooner during the valuation process is under discussion but, as changes generally reflect updated assumptions, it is often the case that a final conclusion cannot be reached until later in the valuation process. Whilst it is not possible at this stage to say which factors may change and how and when they will change, once any changes together with an implementation date have been agreed, a period of notice will be given.

Guidance and financial advice requirement

The Government has introduced a requirement for members to take appropriate financial advice if transferring a defined benefit which exceeds a value of £30,000 to a defined contribution arrangement. As members may now be able to access more of their benefits as cash, risk warnings from the Pensions Regulator have been published on the Scheme website.

Trustees' Report

Defined contribution flexibility

From April 2015 the Government introduced changes allowing greater access to defined contribution benefits from age 55 in response to which a new Scheme option has been made available. Members can now transfer part or all of their AVC account/s independently of their main Scheme benefits to an external provider. BAMPS members now have the option to draw their BAMPS account as cash, 25% of which is currently tax-free.

Transfer flexibility

Under new legislation members have a statutory right to transfer a particular category of benefits provided certain conditions are met including that no further benefit accrual (build up) is allowed in the particular type of benefit that has been transferred.

State Pension changes

- The New State Pension will replace the Basic State Pension and earnings related State Pension for members reaching State pension age on or after 6 April 2016, affecting men born after 6 April 1951 and women born after 6 April 1953.
- Changes to the application of increases paid to the amount equivalent to the Guaranteed Minimum Pension from State pension age for individuals reaching State pension age from 6 April 2016 onwards will be introduced.
- The State pension age is potentially increasing again from age 67 to age 68 by the mid-2030s and from age 68 to age 69 in the mid-2040s.

Contracting out

Contracting out will cease from 6 April 2016 and as a result the lower rate of National Insurance contributions applicable to active Scheme members will no longer be available. BA has announced that in October they will be starting a 60 day consultation with members about proposed changes to the Scheme.

Trust Deed amendments

The following amendments were made during the year:

- Meetings of members – the Trustees agreed changes that; limit meetings to 1 in a 12 month period, allow a meeting request to be declined and permit the use of electronic technology in relation to meeting procedures.
- Confidential Information – provisions relating to disclosure/non-disclosure of confidential information.
- Shared parental leave – changes to give members on shared parental leave the same rights as those on maternity leave.
- Defined contribution flexibility, commutation and transfers – changes in relation to small pensions, introduction of AVC only transfer option and BAMPS uncrystallised funds lump sum option.
- Member disputes – historical arbitration rule replaced with the Scheme's internal dispute resolution procedure.
- Appointment of Management Trustee alternates – update to clarify the effective date of 10 December 2013.
- Confirmation of deeds dated 1 April 2015 – confirmation of validity of the Shared Parental Leave Deed and the Defined contribution flexibility, Commutation and Transfers Deed.

Copies of the Deeds implementing these changes can be viewed on the member website www.mybapension.com.

Trustees' Report

PENSION 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 (Orders), subject to a maximum of 5% per year. The Orders currently reflect the rise in the Consumer Prices Index (CPI) over a twelve-month period measured up to the end of the preceding September. Increases apply to indexed pensions payable under the Rules of the Scheme (whether in deferment or currently in payment). The 2015 Order was 1.2% and in accordance with the Scheme Rules, pensions were increased by 1.2% on 6 April 2015.

Pensions in deferment and in 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 the Scheme, 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.

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 designated person to deal with the first stage adjudication is Kate Tollis, Head of Trustee Governance & Secretariat, BAPSL. In the event that the complainant is not satisfied with the outcome the matter is then referred to the Trustees' Operations Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House.

Tax allowance changes

Changes have been introduced to the annual allowance where DC benefits are accessed flexibly as cash from an external arrangement. An annual allowance of £10,000 a year will apply to all future DC pension savings if benefits are accessed flexibly and a reduced annual allowance will apply to any DB benefits.

This report was approved by the Board of Trustees on 30 September 2015 and was signed on their behalf by:

Teresa Suriyae
Scheme Secretary

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

The Trustees have 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.

Investment Report

REVIEW OF THE YEAR

Economic growth in most regions appeared fragile and once again relied upon the continued support from policymakers as growth struggled to be self-sustaining in some major economies. Both the Japanese authorities and the European Central Bank acted to provide support by injecting liquidity into the system, implementing various packages to stimulate growth or even resist deflation in the case of the Eurozone. In contrast the debate in the US and UK has been around when extraordinary monetary policy can be removed as economic growth has been better and unemployment rates have fallen. Nevertheless expectations of the timing for interest rate increases were pushed into 2015 and beyond due to concerns over low inflation and growth both domestically and in other regions.

The fiscal year had begun with markets being concerned over Russia/Ukraine tensions which continued to overhang market sentiment and allied with rising Middle Eastern tensions, provided an uneasy backdrop throughout the year. On a positive note the banking system in the US carried on improving and also in Europe, where there were signs of stability and even growth in the peripheral countries such as Italy and Spain. Overall Europe is better placed to withstand shocks, which is vital given the on-going bailout and restructuring in Greece.

The Chinese authorities continued to encourage the economy to rebalance. More recently the slowdown in the pace of Chinese economic growth and the devaluation of the currency has unnerved global markets.

Returns in all of the asset classes were positive with the exception of the Fund's emerging market benchmark which was the worst performer for the third year running, falling by 4.5%. As we reflected last year, this bespoke benchmark includes Latin America, Russia, South Africa and emerging Europe. The Russia/Ukraine tensions as well as continuing unfavourable domestic policies in a number of these areas undermined market sentiment and subdued returns. These markets have higher exposure to global growth as the indices tend to be heavily weighted towards basic materials. Oil prices fell as OPEC left production unchanged in the

face of increased supply from new entrants and commodity prices came under further pressure.

Whilst the Chinese authorities are still encouraging the economy to rebalance and growth is slowing, the Japanese and Asian equity markets both exhibited strong performances overall. The Fund had increased weightings in Asia as valuations looked relatively attractive and political developments in countries such as India and Indonesia had the potential to create positive structural reforms.

The UK equity market was the second worst performer, with single digit returns. This reflected a high weighting in the index of poorly performing oil and basic industrials and lacklustre demand once the overseas interest in potential takeover targets fizzled out. Corporate balance sheets outside the emerging markets remained strong and corporate activity has picked up again in recent months.

Bond markets performed well, reflecting subdued inflation and the realisation that interest rates would be lower for longer in developed economies taking already low yields to multi-year lows. The spread of bond returns was wide with longer-dated bonds out-performing shorter dated bonds.

Sterling strengthened against the euro and the Japanese yen but weakened against the US dollar over the year.

The UK real estate market once again performed well, with the IPD benchmark returning 17.1% as demand from domestic and overseas investors remained high. In most sectors tenant demand for prime properties was buoyant.

The Fund began the year overweight in equities, although with many developed equity markets close to all-time highs we had moderated the weightings in those areas that have performed well such as North American equities, whilst beginning to increase the Asian exposure. We remained nervous on emerging markets. In bonds the focus was on the effects of rising interest rates into 2015 and we were cautious. In reality as interest rate increases were delayed and inflation was lower than expected, bonds performed very well.

Investment Report

Asset allocation and benchmarks

The Trustees and their advisers have set bandwidths around the strategic benchmarks shown below. The strategic benchmark is composed of assets which can broadly be categorised as having a principal focus of either return seeking or liability matching. The bandwidths around the strategic benchmark 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 the allowed bandwidths.

Strategic benchmark and performance

The Trustees' Investment Committee sets a business plan each year which deals with the annual monitoring of performance and activities such as corporate governance alongside work on developing the strategic benchmark to improve the risk return profile of the Fund where possible, as well as having a trigger based dynamic governance framework to be able to take advantage of opportunities as they arise. AllenbridgeEpic Investment Advisers Ltd monitor the Investment Committee's achievement against the business plan and during the year the Committee met the targets. As part of a multi-year plan, the weighting of real assets increased from 2% to 3% in the benchmark and bonds reduced from 30% to 29%.

During the last year, the Fund increased the inflation hedging as inflation rates fell and reached a level which was considered attractive for long term hedging in the yield trigger framework developed by the Investment Committee. This is part of the liability hedging portfolio.

The performance of the Fund is shown in the three tables below. Table 1 shows the performance of the Fund including the liability hedging portfolio which includes the derivatives held for hedging equities as well as those held to hedge interest rate and inflation risk. Table 2 and Table 3 show the performance of the Fund compared to agreed strategic benchmarks. Table 2 shows the performance including overseas currency hedging (as described below) and Table 3 shows the performance excluding overseas currency hedging.

Table 1 – Including options, interest rate and inflation swaps

Fiscal years to 31 March 2015	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	12.82	10.52	9.43	8.32

The Fund reduces currency risk by hedging a proportion of overseas assets (shown as including hedging in the Fund performance table below). Since 1 April 2011 the overseas currency hedging policy has been incorporated into the strategic benchmark and BAPIML will manage the hedging tactically within agreed limits.

Asset Category		Actual % 31 Mar 2015	Benchmark % 31 Mar 2015	Actual % 31 Mar 2014	Benchmark % 31 Mar 2013
Return Seeking	Equities	53.8	50.0	53.3	50.0
	UK	14.8	15.0	15.9	15.0
	Overseas	39.0	35.0	37.4	35.0
	Private equity	3.9	4.5	4.2	4.5
	Alternatives	3.9	4.5	3.6	4.5
	Property	8.6	9.0	8.2	9.0
Liability Matching	Real assets	1.5	3.0	1.3	2.0
	Bonds	26.3	29.0	25.7	30.0
	UK fixed	14.6	19.0	13.6	19.0
	Overseas fixed	0.3	-	0.6	-
	UK index-linked	10.7	10.0	10.9	11.0
	Overseas index-linked	0.7	-	0.6	-
Cash	2.0	-	3.7	-	
Total	100.0	100.0	100.0	100.0	

Investment Report

Table 2 – Including hedging (excluding options, interest rate and inflation swaps)

Fiscal years to 31 March 2015	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	15.01	11.25	9.87	8.54
Benchmark	16.85	11.71	10.00	8.55

Tactical asset allocation and stock selection performance

The fund managers are set an outperformance target of 0.5% per annum relative to the strategic benchmark over a five year rolling period. The long run returns are shown below:

Table 3 – Excluding hedging, options, benchmark interest rate and inflation swaps

Fiscal years to 31 March 2015	1 year %pa.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	15.01	11.25	9.81	8.97
Benchmark	16.85	11.71	9.93	8.90
Relative performance	(1.57)	(0.41)	(0.10)	0.07

In the year under review (1 April 2014 to 31 March 2015) the Fund underperformed the benchmark. In relation to the outperformance target of 0.5% per annum relative to

the strategic benchmark over a rolling five year period, the Fund underperformed the benchmark (returning 9.81% compared to a benchmark return of 9.93%).

The results in table 3 include BAPIML's tactical performance managing the interest rate and inflation swaps for liability hedging.

In equities the UK, European, Japanese and emerging markets portfolios all exceeded the five year outperformance targets, and in the latest year North American equities outperformed the benchmark. Private equity, alternative assets and property also continued to exceed the five year targets. However for the second year running, government bonds, both fixed and index-linked, underperformed their respective benchmarks as longer-dated bonds outperformed the shorter dated maturities and yields declined. These latest two years undermined the longer term record. Overall currency positioning was positive for the Fund however cash was a drag on asset allocation, exacerbated by some of the illiquid assets such as real assets and alternatives being slower to call cash for investment.

The Fund outperformed the benchmark in every rolling 10 year period for the last 10 years.

Fund's 10 largest stock holdings as at 31 March 2015

Stock Name	Security Type	£m	% Portfolio
UK Treasury 1.25% Index-Linked 2032	Government Bond	662.1	5.0
UK Treasury 4.75% 2015	Government Bond	513.6	3.9
UK Treasury 4.25% 2040	Government Bond	359.3	2.7
UK Treasury 1.25% Index-Linked 2027	Government Bond	279.0	2.1
UK Treasury 3.25% 2044	Government Bond	208.6	1.6
UK Treasury 0.75% Index-Linked 2034	Government Bond	205.4	1.6
Network Rail 1.75% Index-Linked 2027	Government Bond*	185.5	1.4
UK Treasury 2% 2016	Government Bond	139.8	1.1
UK Treasury 4.5% 2042	Government Bond	132.8	1.0
UK Treasury 4.25% 2036	Government Bond	131.9	1.0

*Government Guaranteed Corporate Bond

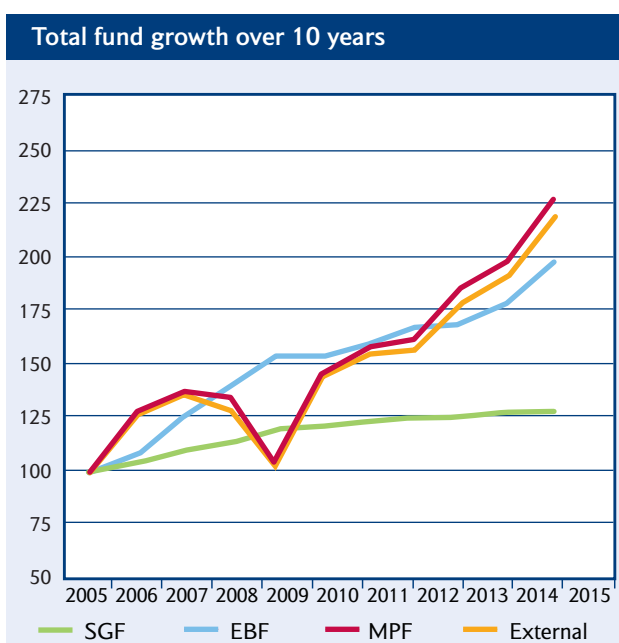
Investment Report

AVCs

The MPF returned 13.85% in the year to March 2015. The Trustees set a benchmark for each type of asset (shares, bonds etc.) held within the Fund and use this to monitor the Fund's performance. The Fund outperformed the benchmark by 0.46% over the year as the benchmark returned 13.33% overall. Whilst the Fund has also exceeded the benchmark over three, five and ten years it did not achieve the investment objective to outperform the benchmark by 0.5% per annum over five years. The MPF returns were below those of other large AVC providers in the market place over the latest year, which returned an average of 14.02%. Over the longer term however, the Fund performance exceeded external providers when measured over three, five and ten years.

In the year to March 2015, the Short Dated Gilt Fund returned 1.08% and the Equity Biased Fund returned 9.98%. Further information on the performance of the Funds can be found in the annual AVC Funds Investment commentary at www.mybapensions.com.

The long term returns for all of the AVC Funds are shown in the chart and table below.



Fund	EBF %	SGF %	MPF %	External %
10 years	6.98	2.52	8.49	8.09
5 years	5.06	1.08	9.28	8.60
3 years	5.69	0.78	11.98	11.58
1 year (to 2015)	9.98	1.08	13.85	14.02

The MPF benchmark has a high weighting in equities, standing at 80%. In the latest year, returns in all of the asset classes were positive with the exception of the Fund's emerging market benchmark which was the worst performer for the third year running, falling by 4.5%. All of the international equity portfolios exceeded or met their respective benchmark returns. Bond markets performed well, reflecting subdued inflation and the realisation that interest rates would be 'lower for longer' in developed economies. The Fund benefitted from the currency and asset allocation positions relative to the benchmark. In particular the Funds were overweight US dollar assets and underweight euro denominated assets.

The MPF hedges a proportion of holdings in overseas assets by converting these back to Sterling. These returns are shown as the 'including hedging' returns in the following table. From 1 January 2012 the currency hedging was incorporated into the strategic benchmark and will be tactically managed by BAPIML within agreed tolerances, a similar policy to NAPS.

Fiscal years to 31 March 2015	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Including hedging				
MPF	13.85	11.97	9.27	8.49
Excluding hedging				
MPF	13.85	11.97	9.30	9.16
Benchmark	13.33	11.74	8.97	8.75
Relative performance	0.46	0.20	0.31	0.38

Investment Report

Corporate governance

The fund managers follow the UK Stewardship Code, which has its origins in the earlier Code of Responsibilities of Institutional Investors issued by the Institutional Shareholders' Committee (ISC). The aim of the Stewardship Code is to improve and enhance the quality of engagement between companies and institutional investors. The fund managers monitor and engage with companies on aspects of corporate governance and exercising voting rights in all regions through our custodian bank. Research and

monitoring aspects of corporate social responsibility are also taken into account to assess impacts on shareholder value. In respect of climate change, the fund manager participates in the carbon disclosure project investor initiatives to encourage investee companies to disclose their impact on the environment and natural resources. The outcomes of these programmes are reported back to the Trustees of APS and NAPS on an annual basis. The voting records of the fund manager are held on our website; www.mybapension.com on the 'Corporate Governance' page. These records are updated each year.

Independent Auditor's Report

Independent auditor's report to the Trustees

We have audited the financial statements of the New Airways Pension Scheme for the year ended 31 March 2015 set out on pages 19 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Scheme's 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 auditor's 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's Trustees, as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustees and the auditor

As explained more fully in the statement of Trustees' responsibilities set out on page 12, the Scheme's Trustees are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2015 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;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; 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.

Karen MacKenzie

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Date: 27 October 2015

15 Canada Square

Canary Wharf

London E14 5GL

Fund Account

	Note	2015 £'m	2014 £'m
Contributions and Benefits			
Contributions	3	474.6	430.3
Benefits	4	(297.9)	(275.1)
Leavers	5	(78.8)	(40.5)
Administrative expenses	6	(6.7)	(6.0)
		<u>(383.4)</u>	<u>(321.6)</u>
Net additions from dealings with members		<u>91.2</u>	<u>108.7</u>
Returns on Investments			
Investment income	7	271.2	259.8
Change in market value of investments	8	1,236.7	300.2
Investment management expenses	16	(6.4)	(6.4)
Net return on investments		<u>1,501.5</u>	<u>553.6</u>
Net increase in the Fund during the year		<u>1,592.7</u>	<u>662.3</u>
Net assets of the Scheme at the beginning of the year		<u>11,687.0</u>	<u>11,024.7</u>
Net assets of the Scheme at the end of the year		<u>13,279.7</u>	<u>11,687.0</u>

Net Assets Statement

	Note	2015 £'m	2014 £'m
Investment assets:			
Equities		6,645.3	5,837.5
Fixed interest securities		2,628.0	2,198.0
Index-linked securities		1,511.9	1,320.0
Property		1,142.4	956.7
Derivatives		90.6	78.6
Alternative investments		741.3	568.9
Private equity		530.1	492.2
AVC mixed portfolio fund		134.3	122.1
Cash		178.7	145.3
Other investment balances		99.4	97.5
		<u>13,702.0</u>	<u>11,816.8</u>
Investment liabilities:			
Derivatives		(383.7)	(74.4)
Other investment balances		(32.1)	(48.7)
		<u>13,286.2</u>	<u>11,693.7</u>
Total net investments	8,9,10,11,12,13		
		13,286.2	11,693.7
External AVC investments	14	0.7	0.7
		<u>13,286.9</u>	<u>11,694.4</u>
Total investments			
		13,286.9	11,694.4
Current assets		3.0	1.7
Current liabilities		(10.2)	(9.1)
		<u>13,279.7</u>	<u>11,687.0</u>
Net assets of the Scheme at 31 March			
		13,279.7	11,687.0

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with on page 5 of the Trustees' Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Board of Trustees on 30 September 2015 and were signed on their behalf by:

Paul Spencer CBE **Management Trustee**

Ian Rycraft **Management Trustee**

Teresa Suriyae **Scheme Secretary**

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the guidance set out in the Statement of Recommended Practice Financial Reports of Pension Schemes (Revised May 2007). In the current year minor presentational changes have been made for compliance purposes.

2. Accounting Policies

The principal accounting policies of the Scheme are as follows:

a. Contributions

- i. Members' contributions, including AVCs, are accounted for when they are deducted from pay by the Employer.
- ii. Employer normal contributions are accounted for on the same basis as the members' contributions, in accordance with the Schedule of Contributions in force during the year. Employer normal contributions include contributions payable to the Scheme under salary sacrifice arrangements.
- iii. Employer augmentation contributions are accounted for in accordance with the agreement under which they are payable.
- iv. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the Employer and the Trustees.
- v. Income from cash and short term deposits is accounted for on an accruals basis.

b. Payments to members

- i. Pensions in payment are accounted for in the period to which they relate.
- ii. Benefits are accounted for in the period in which the member notifies the Trustees of their decision on the type or amount of benefit to be taken, or if there is no member choice, the date of retiring or leaving.
- iii. Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

c. Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

d. Investment income

- i. Dividends from equities are accounted for on the ex-dividend date.
- ii. Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- iii. Rental income is accounted for on an accruals basis.

e. Investment change in market value

The change in market value of investments during the year comprises 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.

Notes to the Financial Statements

f. Investments

Investments are included at fair value as described below:

- i. Quoted securities in active markets are usually valued at either the current bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the reporting date.
- ii. Private equity and alternative investments are valued at the best estimate of fair value taking the latest available valuations issued by the managers and adjusting for any cash movements occurring between the date of the valuation and the Scheme year-end.
- iii. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- iv. Exchange traded derivatives are stated at market value determined using market quoted prices.
- v. Over the counter (OTC) derivatives are stated at fair value.

g. 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 financial statements at the market value of units held by the Scheme at the year end.

Investment properties have been valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS 1.1 Valuation for Financial Statements taking into consideration the current estimate of the rental values and market yields. The valuations have been carried out by Cushman & Wakefield, chartered surveyors, who have the appropriate knowledge and experience to value such assets. The Scheme's interest in the Tesco Red Limited Partnership has been accounted for as an associate using the equity method.

Indirect property investments in the unitised funds are included at year-end open market valuations and have been valued at the latest valuation provided by each of the external managers.

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

h. Foreign currencies

Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Notes to the Financial Statements

3. Contributions	2015	2014
	£'m	£'m
Employer		
Normal	159.0	160.8
Deficit funding - regular	264.3	242.3
Deficit funding – cash sweep	23.0	-
Augmentation	0.3	0.2
Member		
Normal	3.0	3.1
Additional voluntary contributions	25.0	23.9
	<u>474.6</u>	<u>430.3</u>

Employer normal contributions include contributions in respect of salary sacrifice arrangements.

Deficit funding contributions as set out in the Schedule of Contributions on pages 35 to 36 per month are due until 31 March 2026 in order to remove the deficit.

Included within deficit funding are prepaid contributions covering the period April to September 2015 of £110.5m (2014: prepaid contributions covering the period April to June 2014 of £51.3m). Further details regarding contributions are included in the Summary of Contributions on page 34.

4. Benefits paid or payable	2015	2014
	£'m	£'m
Pensions	245.9	234.0
Commutations of pensions and lump sum retirement benefits	47.9	37.9
Lump sum death benefits	4.1	3.2
	<u>297.9</u>	<u>275.1</u>

5. Payment to and on account of leavers	2015	2014
	£'m	£'m
Individual transfers to other schemes	<u>78.8</u>	<u>40.5</u>

Notes to the Financial Statements

6. Administrative expenses

The Scheme bears the cost of administration. However, the levies required by the Pension Protection Fund are payable by BA Plc. The New Airways Pension Scheme bears 70% (2014: 65%) of the costs of BAPSL except where a cost relates specifically to the Scheme. The administrative expenses include the in-house costs of running the BAPSL team who provide pension administration services, finance operations and secretariat support. They also include the costs of external advisers engaged by the Trustees including the auditor, actuary, financial advisers, lawyers and compliance costs. The split of costs at the year-end are as follows:

	2015 £'m	2014 £'m
BAPSL in-house administration and processing	3.6	3.4
External professional fees	3.1	2.6
	<u>6.7</u>	<u>6.0</u>

7. Investment income

	2015 £'m	2014 £'m
Dividends from equities	157.0	148.0
Income from fixed interest securities	94.6	89.1
Income from index-linked securities	11.3	10.8
Net rents from properties	3.2	2.8
Annuity income	4.9	4.8
Interest on cash deposits and foreign currency revaluation	(2.1)	0.5
Other income	2.3	3.8
	<u>271.2</u>	<u>259.8</u>

Notes to the Financial Statements

8. Reconciliation of investments

	Value at 31 March 2014	Purchases of cost & derivative of payments	Sale proceeds & derivative receipts	Change in market value	Value at 31 March 2015
	£'m	£'m	£'m	£'m	£'m
Equities	5,837.5	3,935.5	(3,813.4)	685.7	6,645.3
Fixed interest securities	2,198.0	1,421.2	(1,219.2)	228.0	2,628.0
Index-linked securities	1,320.0	-	-	191.9	1,511.9
Property	956.7	136.3	(115.4)	164.8	1,142.4
Derivatives					
Inflation-linked swaps	22.9	15.5	-	(203.2)	(164.8)
Swaptions	2.9	-	-	7.1	10.0
Options	(44.8)	1.8	(1.8)	(69.5)	(114.3)
Futures	4.5	18.6	(74.8)	51.6	(0.1)
Forward foreign exchange	18.7	124.9	(135.1)	(32.4)	(23.9)
Alternative investments	568.9	188.3	(114.2)	98.3	741.3
Private equity	492.2	81.0	(141.0)	97.9	530.1
AVC mixed portfolio fund	122.1	13.0	(17.1)	16.3	134.3
External AVC investments	0.7	-	(0.2)	0.2	0.7
	<u>11,500.3</u>	<u>5,936.1</u>	<u>(5,632.2)</u>	<u>1,236.7</u>	<u>13,040.9</u>
Cash	145.3				178.7
Other investment balances	48.8				67.3
Total investments	<u>11,694.4</u>				<u>13,286.9</u>

The change in market value includes income of £41.9m (2014: £35.3m) in relation to the property unitised fund and £3.3m (2014: £3.1m) in relation to the AVC mixed portfolio fund.

Included within the above purchase and sales figures are transaction costs of £13.2m (2014: £13.3m). Pooled investment vehicle costs are taken into account when calculating the bid/offer spread of these investments.

Notes to the Financial Statements

9. Investments	2015 £'m	2014 £'m
Equities:		
UK quoted	1,794.4	1,756.2
Overseas quoted	4,850.9	4,081.3
	<u>6,645.3</u>	<u>5,837.5</u>
Fixed interest securities:		
UK public sector quoted	1,725.8	1,425.4
UK other quoted	857.7	700.9
Overseas quoted	44.5	71.7
	<u>2,628.0</u>	<u>2,198.0</u>
Index-linked securities:		
UK public sector quoted	1,210.8	1,220.5
UK other quoted	215.9	30.0
Overseas quoted	85.2	69.5
	<u>1,511.9</u>	<u>1,320.0</u>
Property	1,142.4	956.7
Derivative assets:		
Inflation-linked swaps	8.7	33.6
Swaptions	39.9	9.7
Options	0.4	10.1
Futures – exchange traded	3.0	4.5
Forward foreign exchange	38.6	20.7
	<u>90.6</u>	<u>78.6</u>
Alternatives:		
UK	233.4	176.3
Overseas	507.9	392.6
	<u>741.3</u>	<u>568.9</u>
Private equity:		
UK	20.5	24.4
Overseas	509.6	467.8
	<u>530.1</u>	<u>492.2</u>
AVC mixed portfolio fund	134.3	122.1
External AVCs	0.7	0.7
Cash		
Cash deposits	178.7	145.3
Net collateral due	-	-
	<u>178.7</u>	<u>145.3</u>
Other investment assets	99.4	97.5
Total investment assets	<u>13,702.7</u>	<u>11,817.5</u>

Notes to the Financial Statements

9. Investments (continued)

	2015 £'m	2014 £'m
Derivative liabilities		
Inflation-linked swaps	(173.5)	(10.7)
Swaptions	(29.9)	(6.8)
Options	(114.7)	(54.9)
Futures – exchange traded	(3.1)	-
Forward foreign exchange	(62.5)	(2.0)
	<u>(383.7)</u>	<u>(74.4)</u>
Other investment liabilities	(32.1)	(48.7)
Total investment liabilities	<u>(415.8)</u>	<u>(123.1)</u>

There were no individual investments which comprised greater than 5% of the net assets of the Scheme (2014: none).

10. Unitised funds

Property/alternatives/private equity

Included within the property, alternatives and private equity values are a number of investments which are held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme. As at 31 March 2015 the value of these funds are as follows:

Property	% held	2015 £'m	2014 £'m
Property unitised fund			
UK property		929.6	760.9
Property unit trusts		70.8	74.0
Other managed funds		67.0	52.6
Other		1.0	(3.8)
Total property unitised	78.89%	<u>1,068.4</u>	<u>883.7</u>
Direct investments		74.0	73.0
		<u>1,142.4</u>	<u>956.7</u>

Property unit trusts valued at £52.7m (2014: £56.7m) were managed by companies operated outside the UK and £18.1m (2014: £17.3m) in the UK. For the managed funds £56.1m (2014: £35.6m) were managed by Jersey companies and £10.7m (2014: £17.0m) by UK companies.

Included in the investments are securities loaned as at 31 March 2015 of £690.9m (2014: £893.6m). 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 Financial Statements

10. Unitised funds (continued)

Alternatives	% held	2015 £'m	2014 £'m
Alternative unitised fund	49.37%	2.4	10.9
Direct investments		738.9	558.0
		<u>741.3</u>	<u>568.9</u>

All the alternatives investments are managed funds.

Private equity	% held	2015 £'m	2014 £'m
Private equity unitised fund	49.37%	20.3	22.8
Direct investments		509.8	469.4
		<u>530.1</u>	<u>492.2</u>

All the private equity investments are managed funds.

11. 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.

Inflation-Linked swaps

The Scheme had 57 (2014: 48) inflation-linked swap contracts with a combined value of £(164.8)m (2014: £22.9m) as at the year-end. The total notional value of the contract amounts to £1,381.1m (2014: £1,156.1m).

Options

The investment committee agreed to protect approximately £1 billion of the NAPS quoted equity exposure. The strategy seeks to provide protection against the equity market downside risk and finances this through paying away some equity upside. The total notional traded as at end of March amounts to circa £1 billion.

Combined fair value of the put and call option spreads expiring in June 2015 across UK, US and Europe amounts to an asset of £0.4m (2014: £10.1m).

Combined fair value of the put and call option spreads expiring in June 2015 across UK, US and Europe amounts to a liability of £114.7m (2014: £54.9m).

Included within cash balances are £71.6m (2014: £38.8m) in respect of initial and variation margins arising on open futures and options contracts as at the year end.

Notes to the Financial Statements

11. Derivative contracts (continued)

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/ Contract Size	Duration	Fair Value £'m
FTSE100 stock futures	Sold	£22,130	Jun 2015	(2.4)
Total UK futures				(2.4)
TOPIX stock futures	Bought	¥15,520,000	Jun 2015	1.9
DJ STX 50 stock futures	Bought	€29,690	Jun 2015	1.1
EMINI S&P stock futures	Bought	\$134,600	Jun 2015	(0.7)
Total overseas futures				<u>2.3</u> <u>(0.1)</u>

Included within cash balances are £71.6m (2014: £38.8m) in respect of initial and variation margins arising on open futures and options contracts at the year end.

Foreign Currency Risk

The Scheme holds investments in a number of currencies and their policy is to hedge within agreed limits.

The Scheme enters into foreign exchange forward contracts to offset the impact of currency fluctuations in foreign currency. The open FX contracts at the year-end were as follows:

Period	Maturity Date	Nominal Value £'m	Fair Value £'m
EUR			
Forward to buy EUR	Jul 15-Jul 15	€ 97.0	(2.1)
Forward to sell EUR	Apr 15-Aug 15	€ 1,111.4	38.4
JPY			
Forward to buy JPY	Jul 15-Jul 15	¥11,489.5	0.2
Forward to sell JPY	Jul 15-Aug 15	¥52,917.8	(2.6)
USD			
Forward to sell USD	Apr 15-Sep 15	\$2,439.83	(57.4)
AUD			
Forward to sell AUD	Aug 15-Aug 15	AUD 72	(0.4)
			<u>(23.9)</u>

Notes to the Financial Statements

12. Collateral

Collateral is used by the Scheme to manage counterparty risk. The collateral balances at the year-end are as follows:

Counterparty	Type collateral	Pledge £'m	Derivative position
Goldman Sachs	UK Gilt	(136.0)	Inflation swaps & FX forwards
Morgan Stanley	UK Gilt	(56.8)	FX forwards & options
UBS	UK Gilt	(26.6)	FX forwards/options/inflation swap
JP Morgan	UK Gilt	(7.0)	Inflation swaps & FX forwards
RBS	UK Gilt	(20.4)	Inflation swaps & FX forwards
Barclays	UK Gilt	(14.3)	Inflation swaps/FX forwards/swaptions
		<u>(261.1)</u>	

Collateral pledged with counterparty is reflected as a negative value.

13. Additional Voluntary Contributions (AVCs)

There are three additional voluntary contribution funds. The mixed portfolio fund, which is a separately managed unitised fund, the short-dated gilts fund and the equity biased fund, which are held within the investments. The values of these funds are as follows:

	% held	2015 £'m	2014 £'m
Mixed portfolio fund			
Equities		112.8	102.3
Fixed interest		18.6	16.0
Index-linked		-	-
Cash		2.9	3.8
Total mixed portfolio fund	87.31%	134.3	122.1
Short-dated gilts fund		20.6	20.7
Equity biased fund		134.0	114.9
		288.9	257.7

Notes to the Financial Statements

14. External AVC investments

Within the net assets are four external additional voluntary contribution schemes. They are run for members who transferred from the British Caledonian Group Pension & Life Assurance Scheme ('British Caledonian'), the Davies & Newman Holdings Plc Pension and Life Assurance Scheme ('Davies & Newman') and the Dan Air Services Ltd Pension and Life Assurance Scheme ('Dan Air'). These funds have been separately invested for the benefit of the individuals. The values of these funds are as follows:

	2015 £'m	2014 £'m
British Caledonian		
Prudential	0.5	0.6
Davies & Newman and Dan Air		
Scottish Life	0.1	0.1
Equitable Life Assurance	0.1	-
Aviva	-	-
	<u>0.7</u>	<u>0.7</u>

15. Money purchase scheme

Within NAPS is the British Airways Money Purchase Section (BAMPS). This section was terminated on 30 September 2012. Some of the members transferred out and any remaining members are deferred. 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:

	2015 £'m	2014 £'m
Balance of BAMPS at 1 April	3.9	3.9
Interest	0.4	0.2
Transfers out	-	(0.1)
Retirements	-	(0.1)
Balance of BAMPS at 31 March	<u>4.3</u>	<u>3.9</u>

16. Investment management expenses

The Scheme bears the cost of investment management expenses. The New Airways Pension Scheme bears 50% (2014: 50%) of the costs of BAPIML except where a cost relates specifically to the Scheme.

Notes to the Financial Statements

17. Contingent liabilities and contractual commitments

The following contractual commitments existed at the year-end

	2015	2014
	£'m	£'m
Property unitised fund	72.3	26.5
Alternative investments	139.0	109.5
Private equity	308.5	244.3
	<u>519.8</u>	<u>380.3</u>

18. Self-investment

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

19. Related party transactions

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.

Some of the Trustees appointed by BA Plc are members or pensioners of APS or NAPS with the exceptions of Paul Spencer, Peter Simpson and Philip Osmond who are not members of the Scheme. If they are members or pensioners then their pension rights are on terms normally granted to members.

Paul Spencer was remunerated by BA Plc in respect of his services as Chairman of the Trustees and Alan Buchanan was remunerated by the Company in respect of his services as an Employer appointed Trustee. Pensioner elected Trustees were also eligible for payment by the Company.

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 Property Holdings (Number 2) Ltd hold the legal title to some of the properties held by the Scheme.

British Airways Pension NAPS Nominees Ltd, a 100% owned subsidiary of BAPTL, holds the legal title to units held in the Jersey Property Unit Trust for investment in the Tesco Red Limited Partnership. The Jersey Property Unit Trust holds 49.95% interest in The Tesco Red Limited Partnership UK Ltd (LP). BAPTL has 50% ownership of Tesco Red (GP) Ltd of which 70% is held in its capacity as Custodian Trustee for the Scheme.

Independent Auditor's Statement About Contributions

Independent auditor's statement about contributions to the Trustees

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 2015, which is set out on page 34.

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 auditor's 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 auditor

As explained more fully in the statement of Trustees' responsibilities set out on page 34, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing 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 are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer 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.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedule of contributions.

Statement about contributions payable under the schedule of contributions

In our opinion contributions for the Scheme year ended 31 March 2015 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 28 June 2013.

Karen MacKenzie

**For and on behalf of KPMG LLP, Statutory Auditor,
Chartered Accountants**

Date: 27 October 2015

**15 Canada Square,
Canary Wharf, London, E14 5GL**

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 2015

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 28 June 2013 in respect of the Scheme year ended 31 March 2015. The Scheme auditor reports on contributions payable under the schedule in the auditor's statement about contributions.

Contributions payable under the schedule in respect of the Scheme year

	£'m
Employer normal contributions	159.0
Employer deficit funding - regular	205.1
Employer deficit funding – cash sweep	23.0
Member normal contributions	3.0
Contributions payable under the schedule (as reported on by the scheme auditor)	390.1

Reconciliation of contributions

Reconciliation of contributions payable under the schedule to contributions reported in the financial statements in respect of the Scheme year:

	£'m
Contributions payable under the schedule (as above)	390.1
Contributions payable in addition to those due under the schedule:	
Prepaid deficit funding contribution April – September 2015	110.5
Deficit funding contribution April – June 2014 prepaid in 2013/14	(51.3)
Member additional voluntary contributions	25.0
Employer augmentations	0.3
Total contributions reported in the financial statements	474.6

This report was approved by the Board of Trustees on 30 September 2015 and was signed on their behalf by:

Teresa Suriyae

Scheme Secretary

Schedule of Contributions

The New Airways Pension Scheme Schedule of Contributions

Period covered by this schedule: From the date of certification of this Schedule by the Actuary until 31 March 2026

Level of contributions payable:

By members: Salary sacrifice members: Nil

FSS Members who are not salary sacrifice members: As specified in the tables below. In addition, members may elect not to pay for spouse's benefits, in which case the contribution rates will be 1.5% lower than shown below. All rates are subject to variation as specified in the Scheme Rules.

	% Pay for contribution purposes		
	Option 55	Plan 60	Plan 65
Accrual rate 75	17.5% *	8.5% *	5.25%
Accrual rate 67	19.75% *	10.75% *	7.5% *
Accrual rate 60	22.0% *	13.0% *	9.75% *

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

Part of the above contributions may be paid by the Employers for lower paid members.

By the Employers: Contributions at the following rates to cover the cost of accrual in respect of FSS members:

	% Pay for contribution purposes	
	Plan 60	Plan 65
General Staff	15.0%	13.8%
Air Cabin Crew	13.5%	13.2%
Pilots and Officers	18.2%	17.1%

Schedule of Contributions

Year to 31 March	Additional allocation to cover the balance of cost of accrual in respect of FSS members on technical provisions basis (£)	Estimated contributions to eliminate the funding shortfall (£)	Total monthly lump sum contribution (£)
2013	6,431,275	8,318,725	14,750,000
2014	6,601,982	9,314,685	15,916,667
2015	6,753,802	10,329,531	17,083,333
2016	6,873,550	11,543,117	18,416,667
2017	6,962,375	12,870,958	19,833,333
2018	7,030,115	14,386,552	21,416,667
2019	7,037,969	16,045,364	23,083,333
2020	7,025,035	17,808,298	24,833,333
2021	6,945,197	19,804,803	26,750,000
2022	6,869,351	21,963,982	28,833,333
2023	6,736,139	22,847,194	29,583,333
2024	6,593,181	23,740,152	30,333,333
2025	6,375,015	24,708,318	31,083,333
2026	6,065,806	25,850,861	31,916,667

- In addition, for salary sacrifice members, an amount equal to the contributions that would be payable by the members if they were not salary sacrifice members. Similarly, for any lower paid members who are not salary sacrifice members, an amount equal to any difference between the rates in the member contribution tables above and the amounts actually paid by the lower paid members.

The Trustees and BA have agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. As part of these arrangements, a one-off payment of £11,250,000 was paid in June 2012 as part of the cash sweep arrangement

In accordance with the 2013 Funding Agreement, any payment made under Section 75 of the Pensions Act 2004 may be treated as a pre-payment of amounts due under this schedule.

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 6 and these rates include an allowance for administrative and non-investment expenses. This Schedule does not relate to the payment of any amounts under the separate legal agreement, nor to the payment of additional voluntary contributions (AVCs) under Rule 36, nor to contributions payable under Rule 35. Pension Protection Fund levies are to be paid directly by BA Plc in addition to the amounts specified in this Schedule.

Date of Schedule (for reference purposes): 28 June 2013

Agreed on behalf of the Trustees of the Scheme
Paul Spencer
Chairman of the Trustees

Agreed on behalf of the Employers of the Scheme
Robert French
Treasurer

Actuarial Certificate

Actuarial Certificate Schedule of Contributions

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 2012 to be met by the end of the period specified in the recovery plan dated 28 June 2013.
- 2 I also certify that any rates of contributions forming part of this Schedule which the Scheme requires me to determine 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 28 June 2013.

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.

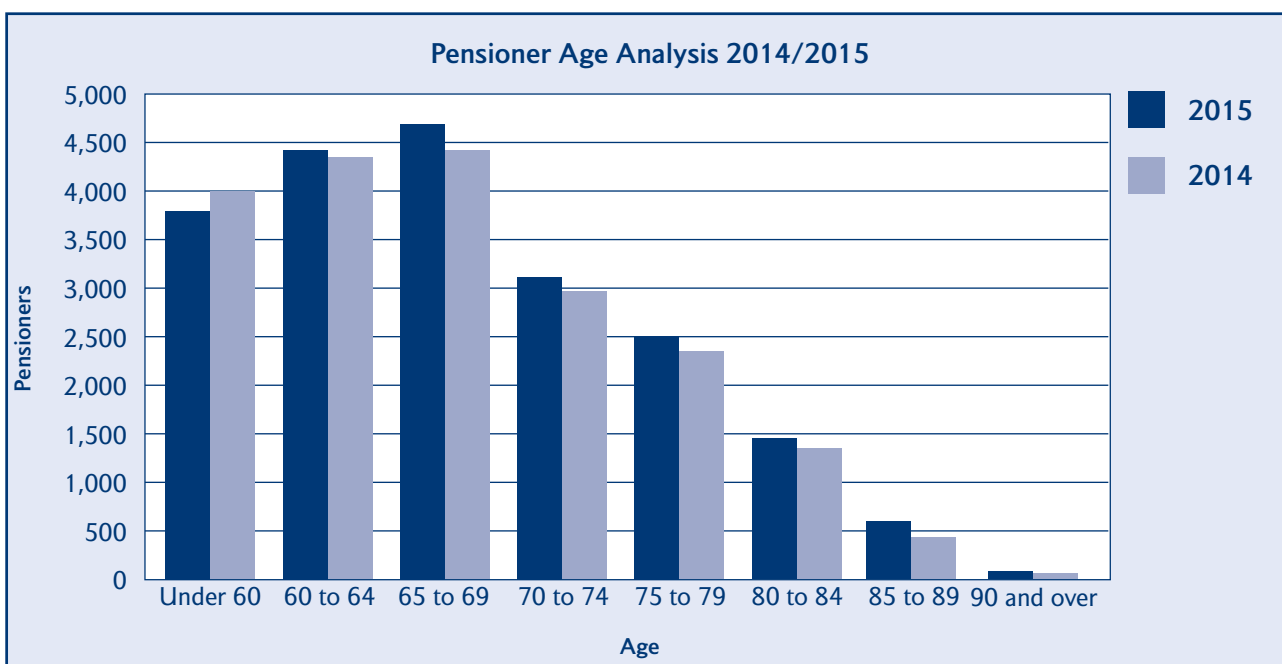
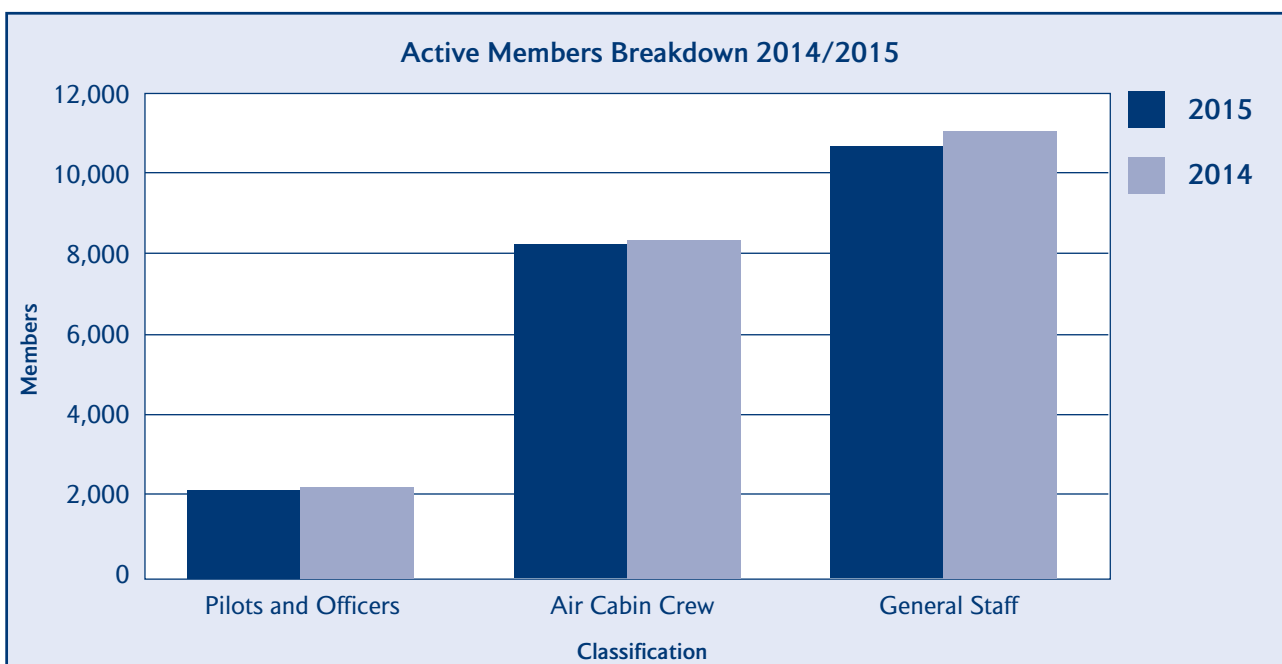
James C Wintle
Fellow of the Institute and Faculty of Actuaries

28 June 2013

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Membership Information

	2015	2014
Active members	20,719	21,477
Pensioners in payment	20,278	19,724
Dependant pensioners	3,690	3,505
Deferred pensioners	22,353	22,636
	<u>67,040</u>	<u>67,342</u>



Compliance Statement

The Scheme

The Scheme 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.

The Scheme was established under a Trust Deed dated 16 March 1984 and was the Scheme offered to eligible new employees of BA between 1 April 1984 and 31 March 2003. On 1 April 1993 the "British Airways Money Purchase Section" ("BAMPS"), a section within the Scheme, was established. The original section of the Scheme is referred to as the "Final Salary Section" ("FSS").

On 15 May 1996 the Trustees of the Scheme 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'.

The Scheme is no longer offered to employees joining after 31 March 2003.

The Scheme's 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 October 2010 the standard accrual within the Scheme was reduced from 1/60th to 1/75th and maximum contributions were increased to 50%.

BAMPS contributions and BAMPS Contributory Service ceased from 1 October 2012.

The Scheme was "exempt approved" by the Inland Revenue and is now a registered scheme under the Finance Act 2004. NAPS FSS is currently 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. Contracting-out is due to cease from 6 April 2016.

Membership

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

Members who opt out of the Scheme will not be permitted re-entry into the Scheme unless at the Company's discretion and only in special circumstances as determined by the Company such as a member opting out of NAPS 1 specifically in order to join NAPS 2 for future service. They may opt into the British Airways Retirement Plan, a defined contribution pension scheme offered by BA Plc.

British Airways Pension Services Limited
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Middlesex TW3 1HU