

# Annual Report and Financial Statements 2016

New Airways Pension Scheme



**Year ended  
31 March 2016**

# Annual Report and Financial Statements

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# Chair's Review

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Welcome to my first report since becoming Chair of the Trustees of the New Airways Pension Scheme (Scheme). During the year, we have shared news about the Scheme in our *In Focus* newsletter and quarterly newsletters on the member website. In this Annual Report and Financial Statements, we look back at the whole year and set out the key issues for the Scheme – in funding, governance, investment and administration.

## Agreeing our 2015 valuation

We have to carry out a formal funding valuation at least every three years. This is a detailed investigation into whether, over the long term, the Scheme is likely to be able to pay the benefits due according to its rules. This is distinct from the Annual Report and Financial Statements, which describe the financial position of the fund on a particular day.

On 26 October 2016, we reached an 'in principle' agreement with British Airways (BA) on our funding valuation for 31 March 2015. We have submitted this to the Pensions Regulator.

The three main conclusions from the valuation agreement are:

1. The funding level has increased from 78.3% at the last valuation in 2012 to 82.7%.
2. The funding shortfall has slightly increased from £2,660m in 2012 to £2,785m.
3. BA will increase their contributions to £300m a year, to address the deficit. They will pay this as £25m a month from January 2017 to September 2027. As a result, the deficit is expected to clear in 12.5 years from the valuation date.

As part of the agreement, we have also updated the detailed measures that further protect and support the Scheme. This includes the potential for BA to contribute up to an extra £150m a year, depending on specific financial situations.

We are now working with BA to finalise the legal and actuarial documents necessary to formally conclude the valuation process.

## Managing the challenge of the referendum result

There have been many news reports of the potential impact of the EU referendum result on UK defined benefit schemes. Against this backdrop, our Scheme has proved itself to be resilient, although we expect the funding shortfall will have increased since 31 March 2015, because interest rates have fallen.

We will continue to analyse developments as the Brexit negotiations progress, and will review our long-term investment strategy if that is appropriate. We will also work with our advisers to assess how events might affect BA and the support it gives the Scheme.

## Updating our corporate structure

To bring us in line with the best practice of large pension schemes such as ours, we have adjusted our structure to manage the Scheme through a Corporate Trustee. New Airways Pension Scheme Trustee Limited was appointed as the sole Management Trustee of the Scheme on 26 October 2016. The individual Trustees are now Trustee Directors of the Corporate Trustee. They remain responsible for managing the Scheme through the Corporate Trustee.

We have published a Frequently Asked Questions document on the member website – [www.mybapension.com](http://www.mybapension.com). This gives more information about the change to our structure, and how it benefits the Scheme.

# Chair's Review

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## **Appointing a new Scheme Secretary and CEO**

In September 2016, Teresa Suriyae retired from the roles of Managing Director of British Airways Pension Services Limited and Scheme Secretary, after 38 years' service. The Trustee Directors and I would like to express our immense gratitude for Teresa's service to the Scheme and its members over such a long period.

Teresa has been succeeded by Fraser Smart. Fraser joins us as Scheme Secretary and Chief Executive Officer of BA Pensions, with responsibility for both British Airways Pension Services Limited and British Airways Pension Investment Management Limited. Fraser is an actuary with over 25 years' experience in pensions. He will be focussing particularly on member services – for example, improving our communications with members.

## **Welcoming new Trustees**

Andrew Fleming and I joined the Trustees in October 2015, followed by Bill Francis in September 2016. In April 2016 we also welcomed Jack Wheale as a Pensioner Trustee and, in June, Neil Blackburn as a Trustee elected by Cabin Crew. Meanwhile, Geoff Le Boutillier completed his term of office as a Pensioner Trustee, and Adrian Smith and Nick Goddard have also left us.

My thanks to all our Trustees and Trustee Directors past and present for their dedicated service, support and diligence. I would especially like to thank my predecessor as Chair, Paul Spencer, for his outstanding contribution to the Scheme during his term of office. As pension schemes in the UK continue to face choppy seas, I am confident that our Trustee Directors will navigate them with professionalism and expertise, ably supported by the team at BA Pensions.

**Virginia Holmes**  
**Chair of the Trustee**  
**October 2016**

# Trustees & Advisers

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## Appointed by British Airways Plc (the Company)

**Virginia Holmes**  
(Chair)  
Independent Trustee  
Appointed 1 October 2015

**Charlie Maunder**  
Head of Flight  
Operations  
British Airways Plc

**Ian Howick**  
Director of Heathrow  
British Airways Plc

**Andrew Fleming**  
Head of Legal and  
Company Secretary  
British Airways Plc  
Appointed 1 October 2015

**Philip Osmond**  
Director of Airport  
Transformation  
British Airways Plc

**Bill Francis**  
Head of Group IT  
International Airlines Group Plc  
Appointed 1 September 2016

## Members elected

**Ian Bretherton**  
Captain

**Graham Fowler**  
Pensioner elected

**Ian Rycraft**  
Technician

**Dave Southcott**  
Senior Customer  
Services Agent

**Neil Blackburn**  
Cabin Crew Purser  
Appointed 1 June 2016

**Jack Wheale**  
Pensioner elected  
Appointed 1 April 2016

## Retired during the year

**Paul Spencer CBE**  
Resigned 30 September 2015

**Alan Buchanan**  
Resigned 30 September 2015

**Geoff Le Boutillier**  
Resigned 31 March 2016

**Adrian Smith**  
Resigned 31 March 2016

**Nick Goddard**  
Resigned 31 August 2015

## Advisers\*

**Scheme Actuary**  
James Wintle  
Willis Towers Watson

**Legal Advisers**  
Eversheds LLP  
Freshfields Bruckhaus  
Deringer LLP

**Bankers**  
BNY Mellon

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

**Investment Adviser**  
Willis Towers Watson  
BAPIML

**Auditor**  
KPMG LLP

**Convenant Advisers**  
PricewaterhouseCoopers LLP

## Independent Investment Advisers

AllenbridgeEPIC Investment Advisors Ltd  
Geoff Lindey, Andrew Threadgold, Ian Maybury, James Maggs (Mercer)

## Administration

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

## Investment Management

**British Airways Pension Investment  
Management Limited (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.

The 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 2016, as set out on pages 20 to 36 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 close to finalisation. In the years between formal valuations 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. As the valuation for 31 March 2015 is in progress an interim update is not applicable. As a reminder, a summary of the Scheme Actuary's 2014 findings is set out below.

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 had 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 did 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 have been 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

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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 £227.3m to the Scheme in respect of the 31 March 2015 cash sweep payment, received and accounted for in the current year's financial statements, and £283.0m in respect of the 31 March 2016 cash sweep payment, which is accounted for in the 2016/17 financial statements.

## SCHEME INVESTMENT

The broad strategic asset allocations as at 31 March 2016 are 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 2016.

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](http://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

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## 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 current policy and procedure for managing conflicts of interest 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.

### 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.



# Trustees' Report

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- 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.

# Trustees' Report

## Performance of Trustees

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

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.

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.

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of Appointment to Main Board
Paul Spencer ( <i>Chair</i> )	2/2	3/3	-	4/4	Part Year
Virginia Holmes ( <i>Chair</i> )	2/2	4/4	-	3/3	Part Year
Ian Bretherton	-	6/7	-	6/7	Whole year
Alan Buchanan	-	2/2	1/1	4/4	Part Year
Andrew Fleming	1/2	-	4/4	3/3	Part Year
Graham Fowler	-	-	6/8	6/7	Whole year
Nick Goddard	2/2	-	3/3	7/7	Whole Year
Ian Howick	-	-	-	7/7	Whole Year
Geoff Le Boutillier	4/4	-	-	6/7	Whole year
Charlie Maunder	-	-	7/8	7/7	Whole year
Philip Osmond	-	-	-	6/7	Whole year
Ian Rycraft	-	6/7	-	5/7	Whole year
Adrian Smith	1/4	-	-	3/7	Whole year
Dave Southcott	-	-	7/8	7/7	Whole year

# Trustees' Report

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## SCHEME CHANGES

### Factor review

Scheme factors are reviewed from time to time approximately every three years, usually at the end of the formal valuation process. A review of factors will be undertaken upon finalisation of the 31 March 2015 valuation. Once any changes together with an implementation date have been agreed, a period of notice will be given.

### Transfer value factors

Following the Government's introduction of measures allowing greater access to defined contributions benefits an early review of factors used to calculate transfer values was undertaken. From 1 April 2016 transfer value factors were updated leading, in general, to a fall in transfer values calculated on or after this date for members close to, at or over Normal Retirement Age and an increase in transfer values for younger members.

### State pension changes

The Government replaced the Basic State Pension and earnings related State Pension for members reaching State Pension Age on or after 6 April 2016 with a New State Pension, affecting men born after 6 April 1951 and women born after 6 April 1953. It also changed the way it pays increases to the State Pension once in payment for these members. The Scheme will still provide pension increases in the same way it always has. Members who reached State Pension Age before 6 April 2016 will see no change.

### Contracting-out

With the introduction of the New State Pension from 6 April 2016, contracting-out of the state earnings related pension scheme ceased. BA undertook a 60 day consultation with employee members of the Scheme under State Pension Age on how it intended to pass the resulting increase in employer National Insurance Contributions (NICs) onto members, as permitted by statutory override legislation. Upon completion of the consultation the following changes from 6 April 2016 were confirmed:

- For members choosing to stay on the same build-up rate, pension contributions increased by 3.1% of Band Earnings (total pay within a band set by the Government each year, currently between £5,824 and £40,040) until State Pension Age.
- An option was introduced to enable employee members who did not wish to pay the 3.1% increase to choose a new lower pension build-up rate of 1/83. Personal NICs still increased by 1.4% of Band Earnings for those electing this option.
- Option dates for electing to change pension build-up rates are currently 1 April and 1 October each year. For 2016, an additional option date of 1 July was agreed.
- Crystallised active members (members at or after their NRA who have elected to cease pension contributions but delay drawing their pension) are enrolled into the British Airways Retirement Plan.

### Pensionable dependants

The following point of law was clarified: where a pensioner's pension commenced after 1 July 2008, legislation restricts the Scheme paying an adult survivor's pension to an adult child over age 23 unless the adult child is mentally or physically impaired. Payment outside of the legislation would be an unauthorised payment with tax implications for the dependant and the Scheme. Adult survivor pension applications are considered on an individual basis by the Trustees.

# Trustees' Report

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## Trust Deed amendments

The following amendments were made during the year:

- Bankruptcy and forfeiture – amended to reflect current overriding legislation.
- End of contracting-out: deed implementing statutory override – BA exercised its statutory right to pass on its increase in National Insurance Contributions to members following the abolition of contracting-out from 6 April 2016. Amendments implemented the increase in member contributions to include 3.1% of Band Earnings for members under State Pension Age.
- End of contracting-out: deed amending revaluation of guaranteed minimum pensions – changes agreed to enable the Trustees to retain the ability, with BA's consent, to change the Scheme's revaluation basis for members under guaranteed minimum pension age.
- Delegation powers – amended to align the powers with current best practice.
- BAMPS Account: interest rate – amending the measurement of interest applicable to the Guarantee Component of the BAMPS Credit.
- End of contracting-out: deed implementing statutory override (Dunwoody) – Dunwoody exercised its statutory right to pass on its increase in National Insurance Contributions to members following the abolition of contracting-out with effect from 1 July 2016 by increasing member contributions to include 3.1% of Band Earnings.

Copies of the Deeds implementing these changes can be viewed on the member website [www.mybapension.com](http://www.mybapension.com).

## 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

The 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. The change in CPI as at September 2015 was -0.1% and as a result no Order was issued for 2016. Despite the period of negative inflation, pensions were not reduced and instead the standard pension increase was set at zero. Increases apply to indexed pensions payable under the Rules of the Scheme (whether in deferment or currently in payment).

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.

# Trustees' Report

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## 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

The Lifetime Allowance reduced from £1.25m to £1m with effect from 6 April 2016. Protections are available from HMRC for members who expect their benefit value at the point of drawing to exceed the new lower allowance. A tapered Annual Allowance, which may affect individuals with total earnings subject to income tax (defined by HMRC as Threshold Earnings) of £110,000 or more, was introduced from 6 April 2016. To enable the operation of the tapered Annual Allowance, the period over which a member's Annual Allowance is assessed changed to 6 April to 5 April each year from 6 April 2016. To implement the change in assessment period, the period 2015/16 was split into two tax periods for Annual Allowance purposes, for NAPS this was 1 April to 8 July 2015 and 9 July 2015 to 5 April 2016. For the first of these periods, a member had an Annual Allowance of £80,000 and for the second they had no Annual Allowance, but they were able to take through up to £40,000 unused Annual Allowance from the first period to be used in the second period. Pension savings during a tax year which exceed the Annual Allowance incur an Annual Allowance charge. The standard Annual Allowance is currently £40,000 but if a member is affected by tapering, their Annual Allowance may be reduced by up to £30,000. HMRC has said that it is an individual's responsibility to calculate any tapered Annual Allowance.

## Online address changes

Pensioners and deferred members (not current members) who are registered for e-comms can inform the Scheme of address changes online using the member website, rather than by post, speeding up the process for all concerned and saving costs.

This report was approved by the Board of Trustees on 28 September 2016 and was signed on their behalf by:

**Teresa Suriyae**  
Scheme Secretary

# Statement of Trustees' Responsibilities

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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

(Forming part of the Trustees' Report)

## REVIEW OF THE YEAR

Global Markets exhibited heightened volatility into 2016 as risks, both economic and political in nature, increased across a number of regions. At the beginning of the fiscal year the recovery in developed economies had lost some momentum and continuing weak oil and commodity prices added to global deflationary pressures. Concerns grew as corporate bond credit spreads widened and emerging markets remained unsettled by economic woes following from low commodity prices which increased political instability in some regions. In the summer of 2015, China surprised markets by signalling a change in their foreign exchange regime, devaluing the currency. This led investors to worry about growth prospects in the world's third largest economy which rippled out across Asia and through the rest of the world, leading to a setback in equity markets and a rally in 'safe-haven' securities. In the autumn, calm returned as data supported the view that the level of slowdown was manageable and expectations for global growth were not severely impacted.

In Europe there were positive developments as Greece struck a deal with creditors and headlines turned more supportive with inflation showing tentative signs of improvement. The region, however, had to contend with the difficulties of the migration crisis and the terrorist attacks.

The European Central Bank responded by further monetary easing to stimulate the economy through a broad range of measures to support the banks and add liquidity to the markets. The Japanese central bank carried out further monetary easing but the Japanese yen appreciated in value as investors sought safe havens such as the yen and US dollar, offsetting some of the stimulus. In contrast, the UK and US central banks prepared market participants for interest rate rises and the start of a tightening cycle, bringing an end to the post financial crisis low interest rate environment. Both countries, however, struggled to balance the domestic factors with the weaker external factors already described, alongside strong currencies which had moderated domestic inflation. Eventually, the Federal Reserve increased interest rates in December 2015.

Global investors started 2016 in a nervous mood with attention quickly turning to the forthcoming UK referendum on European Union membership, resulting in sterling weakness and evidence that the uncertainty over the poll result has been a drag on inward investment. Elsewhere politics is also weighing on sentiment with the US Presidential election looming and elections due in a range of other countries where the populations appear to be making more radical candidate choices at each end of the political spectrum.

All of these factors contributed to positive performances from bonds and, in particular government fixed-income reflecting the lower growth, low inflation outlook, safe-haven status and further central bank support in the case of the European Central Bank and the Bank of Japan. Government bonds outperformed corporate bonds and cash. In contrast, many equity markets struggled to produce positive returns as investors were concerned about economic growth stalling, earnings under pressure and valuations close to fair value after the rally in the first half of 2015.

The fund was overweight equities and underweight bonds at the start of the year reflecting a view that whilst equities were close to fair value, low bond yields made bonds relatively unattractive. We reflected that markets would once again focus on the actions of policymakers as the developed world transitioned towards a more 'normal' monetary and fiscal policy. Given the delays in interest rate hikes, little has changed. The 'Brexit' uncertainty, however, led us to moderate the relative weightings towards benchmark.

The outcome of the referendum was a surprise to financial markets. Whilst equity markets fell initially they have since recovered. The most significant lasting effect on the Scheme was through the fall in bond yields which increases the liabilities. The initial fall in yields was in line with that forecast should a 'leave' vote prevail. However, the subsequent action by the Bank of England to introduce further quantitative easing by buying government and corporate bonds surprised investors and this led to a further rally in gilts, suppressing yields even further in the face of low liquidity, also supporting equity markets. Whilst sterling fell initially in line with expectations, the unhedged overseas equity portfolios appreciated in value, offsetting the falls in asset value elsewhere.

# Investment Report

(Forming part of the Trustees' Report)

The only equity benchmark with positive returns was North American equities. Emerging market equities fell for the fourth year running whilst the other regions reversed last year's gains. After a good start in the first half of 2015, equities in general struggled to hold onto gains, with selling pressure in early 2016 as investors sought safe havens. The North American equity portfolio exceeded the benchmark over the year whilst others underperformed their respective benchmarks.

More recently the fund managers have repositioned the fund to be overweight in sterling assets and return seeking assets. The path and shape of the eventual UK exit from the EU is still to be decided and it will take some time for markets to adapt to the exact nature of the exit as it is negotiated.

The illiquid assets such as private equity, property and real assets produced positive returns and the portfolios exceeded their benchmarks. The UK real estate market remained buoyant, with double digit returns over the last one, three and five years.

## 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. monitors the Investment Committee's achievement against the business plan and during the year the Committee met the targets.

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 fund also increased the level of nominal interest rate hedging.

Asset category		Actual % 31 March 2016	Benchmark % 31 March 2016	Actual % 31 March 2015	Benchmark % 31 March 2015
Return seeking	Equities	53.0	50.0	53.8	50.0
	UK	15.9	15.0	14.8	15.0
	Overseas	37.1	35.0	39.0	35.0
	Private equity	4.4	4.5	3.9	4.5
	Alternatives	4.2	4.5	3.9	4.5
	Property	9.8	9.0	8.6	9.0
Liability matching	Real assets	2.0	3.0	1.5	3.0
	Bonds	25.6	29.0	26.3	29.0
	UK fixed	14.8	19.0	14.6	19.0
	Overseas fixed	-	-	0.3	-
	UK index-linked	10.2	10.0	10.7	10.0
	Overseas index-linked	0.6	-	0.7	-
	Cash	1.0	-	2.0	-
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



# Investment Report

(Forming part of the Trustees' Report)

The performance of the fund is shown in the two 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 shows the performance of the fund compared to the agreed strategic benchmark.

**Table 1 – Including options, interest rate and inflation swaps**

Fiscal years to 31 March 2016	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	(0.87)	5.48	7.36	5.84

## 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 2 – Excluding hedging, options, benchmark interest rate and inflation swaps**

Fiscal years to 31 March 2016	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	0.47	6.92	8.10	6.61
Benchmark	0.03	7.37	8.22	6.53
Relative performance	0.44	(0.42)	(0.11)	0.07

In the year under review (1 April 2015 to 31 March 2016) the fund outperformed 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 8.1% compared to a benchmark return of 8.22%).

The results in table 2 include BAPIML's tactical performance managing the interest rate and inflation swaps for liability hedging.

The fund reduces currency risk by hedging a proportion of overseas assets. 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.

In equities the North American portfolio exceeded the benchmark. Private equity and real assets also exceeded the benchmark over the year. Property in particular consolidated the long run performance with another year of strong returns relative to benchmark, also exceeding the target over three, five and ten years. The lower bond yields continued to be challenging for the bond portfolios.

## Fund's 10 largest holdings as at 31 March 2016

Stock Name	Security Type	£m	% Portfolio
UK Treasury 1.25% Index-Linked 2032	Government Bond	385.8	2.9
UK Treasury 3.5% 2045	Government Bond	311.3	2.4
UK Treasury 1.75% 2017	Government Bond	283.1	2.2
UK Treasury 3.25% 2044	Government Bond	209.2	1.6
UK Treasury 0.125% Index-Linked 2065	Government Bond	183.1	1.4
Network Rail 1.75% Index-Linked 2027	Government Bond*	183.1	1.4
UK Treasury 0.125% Index-Linked 2046	Government Bond	167.0	1.3
UK Treasury 0.75% Index-Linked 2034	Government Bond	163.4	1.2
UK Treasury 3.75% 2052	Government Bond	144.8	1.1
UK Treasury 4.25% 2042	Government Bond	123.9	1.0

\* Government guaranteed corporate bond

# Investment Report

(Forming part of the Trustees' Report)

## AVCs

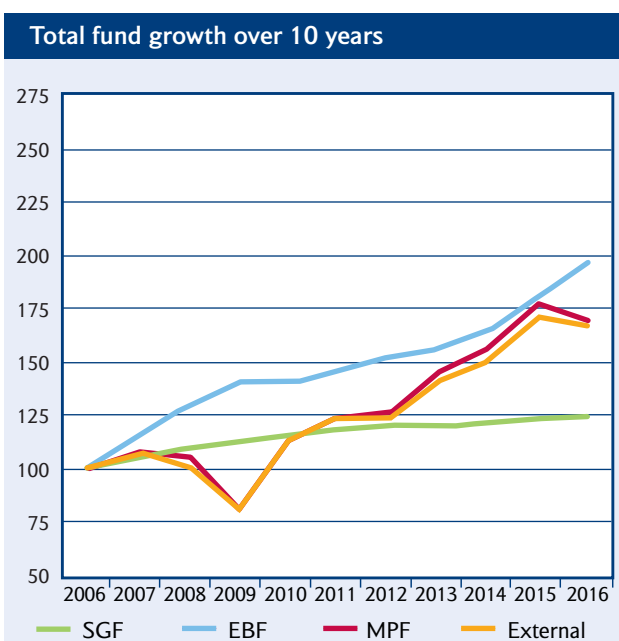
The MPF returned (4.44)% in the year to March 2016.

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 has underperformed the benchmark by (1.4)% over the year as the benchmark returned (3.1)% overall and has not met its target to beat 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 (2.8)%.

Over the longer term however, the fund performance exceeded external providers when measured over ten years.

In the year to March 2016, the short dated gilt fund returned 0.79% and the equity biased fund returned 8.27%. Further information on the performance of the AVC funds can be found in the annual AVC funds investment commentary at [www.mybapensions.com](http://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	6.91	2.18	5.39	5.29
5 years	6.02	0.87	6.42	6.46
3 years	7.81	0.90	5.36	5.96
1 year (to 2016)	8.27	0.79	(4.44)	(2.76)

The MPF benchmark has a high weighting in equities, standing at 80%. The negative returns overall reflect the high weighting of equities in the fund's benchmark as all of the equity benchmarks, except for North America, produced negative returns in 2015/16. Emerging market equities fell for the fourth year running whilst the other regions reversed last year's gains. After a good start in the first half of 2015, equities in general struggled to hold onto gains, with early 2016 seeing selling pressure as investors sought safe havens such as bonds. The North American equity and corporate bond portfolios exceeded the benchmark over the year whilst others underperformed their respective benchmarks. The funds underperformance also reflected an overweight relative to benchmark in equities versus bonds.

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 2016	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
<b>Including hedging</b>				
MPF	(4.45)	5.35	6.41	5.38
<b>Excluding hedging</b>				
MPF	(4.45)	5.35	6.52	6.02
Benchmark	(3.09)	5.79	6.65	5.83
Relative performance	(1.40)	(0.42)	(0.12)	0.18

Note returns slightly different to the table on the previous page due to rounding differences.

# Investment Report

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(Forming part of the Trustees' Report)

## **Corporate governance**

The fund managers follow the UK Stewardship Code which aims 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 yearly to the Trustees of APS and NAPS. The voting records of the fund manager are held on our website: [www.mybapension.com](http://www.mybapension.com) in the 'Corporate Governance' section of the 'Scheme documents' page. These records are updated each year.

# Independent Auditor's Report

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## 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 2016 set out on pages 20 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) (including FRS 102 The Financial Reporting Standard Applicable to UK and Republic of Ireland).

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 13, the Scheme's Trustees are responsible for supervising 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](http://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 2016 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.

**Richard Hinton**

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

**28 September 2016**

**15 Canada Square**

**Canary Wharf, London E14 5GL**

# Fund Account

	Note	31 March 2016 £'m	31 March 2015 £'m
<b>Contributions and Benefits</b>			
Employer contributions		491.6	446.6
Employee contributions		29.9	28.0
<b>Total contributions</b>	3	<u>521.5</u>	<u>474.6</u>
Benefits paid or payable	4	(328.8)	(298.2)
Payments to and on account of leavers	5	(246.8)	(78.5)
Administrative expenses	6	(7.4)	(6.7)
		<u>(583.0)</u>	<u>(383.4)</u>
<b>Net (withdrawals)/additions from dealings with members</b>		<u>(61.5)</u>	<u>91.2</u>
<b>Returns on Investments</b>			
Investment income	7	287.6	271.2
Investment management expenses	8	(7.4)	(6.4)
Change in market value of investments	9	(403.3)	1,236.7
<b>Net return on investments</b>		<u>(123.1)</u>	<u>1,501.5</u>
<b>Net (decrease)/increase in the fund during the year</b>		<u>(184.6)</u>	<u>1,592.7</u>
<b>Net assets of the Scheme at 1 April</b>		13,279.7	11,687.0
<b>Net assets of the Scheme at 31 March</b>		<u><u>13,095.1</u></u>	<u><u>13,279.7</u></u>

The notes on pages 22 to 36 form part of these financial statements.

# Statement of Net Assets

(available for benefits)

	Note	31 March 2016 £'m	31 March 2015 £'m
<b>Investment assets:</b>			
Equities		6,616.7	6,645.3
Fixed interest bonds		2,254.4	2,628.0
Index-linked bonds		1,398.0	1,511.9
Pooled arrangements			
Property		1,285.9	1,142.4
Alternative investments		823.9	741.3
Private equity		582.4	530.1
Derivatives		244.0	90.6
AVC mixed portfolio fund		128.5	134.3
Cash		132.2	178.7
Other investment balances		93.0	99.4
		<u>13,559.0</u>	<u>13,702.0</u>
<b>Investment liabilities:</b>			
Derivatives		(414.4)	(383.7)
Other investment balances		(43.3)	(32.1)
<b>Total net investments</b>	9,10,11,12,13	<u>13,101.3</u>	<u>13,286.2</u>
External AVC investments	14	0.6	0.7
<b>Total investments</b>		<u>13,101.9</u>	<u>13,286.9</u>
Current assets		0.6	3.0
Current liabilities		(7.4)	(10.2)
<b>Net assets of the Scheme at 31 March</b>		<u><u>13,095.1</u></u>	<u><u>13,279.7</u></u>

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 in the report on actuarial liabilities on pages 42 and 43 and these financial statements should be read in conjunction with this report.

The notes on pages 22 to 36 form part of the financial statements.

These financial statements were approved by the Board of Trustees on 28 September 2016 and were signed on their behalf by:

Virginia Holmes    Management Trustee

Ian Rycraft        Management Trustee

Teresa Suriyae     Secretary

# Notes to the Financial Statements

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## 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, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (revised November 2014). This is the first year FRS102 and the revised SORP have applied to the Scheme's financial statements. The Scheme's Trustees have taken advantage of the option to adopt the revised fair value hierarchy outlined in the amendment to FRS102 (March 2016) for an accounting period earlier than that required in the Standard.

## 2. Accounting policies

The principal accounting policies of the Scheme are as follows:

### a. Contributions

- i. Employee 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 Employees' 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 out of the Scheme are accounted for when member liability is discharged which is normally when the transfer amount is paid.

### 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.
- iv. Income from pooled arrangements is accounted for when declared by the fund manager, net of any associated management fees.
- v. Receipts from annuity policies are accounted for as investment income 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

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## **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. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- iii. Exchange traded derivatives are stated at market value determined using market quoted prices.
- iv. Over the counter (OTC) derivatives are stated at fair value.
- v. Swaps are valued by taking the current value of future cash flows arising from the swap determined using discounted cash flow models and relevant market data at the reporting date.
- vi. Annuity policies are deemed to be immaterial and so have not been included in the financial statements.

## **g. Pooled arrangements**

The private equity, alternative and indirect property are invested in externally pooled funds. A proportion of the private equity, alternatives and all of the property investments (direct and indirect) are pooled internally and held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme.

Direct and indirect 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 for the direct properties have been carried out by Cushman & Wakefield, chartered surveyors, who have the appropriate knowledge and experience to value such assets. Indirect properties are valued by the management companies. The Scheme's interest in the Tesco Red Limited Partnership was accounted for as an associate using the equity method.

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.

## **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

	2016 £'m	2015 £'m
<b>Employer contributions</b>		
Normal	153.6	159.0
Deficit funding - regular	110.5	264.3
Deficit funding – cash sweep	227.3	23.0
Augmentation	0.2	0.3
<b>Employee contributions</b>		
Normal	2.9	3.0
Additional voluntary contributions	27.0	25.0
	<u>521.5</u>	<u>474.6</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 39 to 40 are due until 31 March 2026 in order to improve the Scheme's funding position.

In the prior year, included within deficit funding are prepaid contributions covering the period April to September 2015 of £110.5m. Further details regarding contributions are included in the summary of contributions on page 38.

## 4. Benefits paid or payable

	2016 £'m	2015 £'m
Pensions	258.5	245.9
Commutations of pensions and lump sum retirement benefits	64.1	46.2
Lump sum death benefits	3.5	4.1
Taxation where lifetime or annual allowance exceeded	2.7	2.0
	<u>328.8</u>	<u>298.2</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

## 5. Payment to and on account of leavers

	2016 £'m	2015 £'m
Individual transfers out to other schemes	<u>246.8</u>	<u>78.5</u>

# Notes to the Financial Statements

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## 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% (2015: 70%) 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, legal advisers and compliance costs. The split of costs at the year end are as follows:

	2016 £'m	2015 £'m
BAPSL in-house administration and processing	3.9	3.6
External professional fees	3.5	3.1
	<u>7.4</u>	<u>6.7</u>

## 7. Investment income

	2016 £'m	2015 £'m
Dividends from equities	172.8	157.0
Income from fixed interest bonds	91.6	94.6
Income from index-linked bonds	10.3	11.3
Net rents from properties	3.4	3.2
Annuity income	4.9	4.9
Interest on cash deposits	1.3	(2.1)
Other income	3.3	2.3
	<u>287.6</u>	<u>271.2</u>

## 8. Investment management expenses

The Scheme bears the cost of investment management expenses. The New Airways Pension Scheme bears 50% (2015: 50%) of the costs of BAPIML except where a cost relates specifically to the Scheme.

# Notes to the Financial Statements

## 9. Reconciliation of investments

	Value at 31 March 2015	Purchase at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 31 March 2016
	£'m	£'m	£'m	£'m	£'m
Equities	6,645.3	3,916.7	(3,575.5)	(369.8)	6,616.7
Fixed interest bonds	2,628.0	2,104.9	(2,443.0)	(35.5)	2,254.4
Index-linked bonds	1,511.9	658.5	(774.5)	2.1	1,398.0
Pooled arrangements					
Property	1,142.4	182.6	(184.1)	145.0	1,285.9
Alternative investments	741.3	158.9	(109.4)	33.1	823.9
Private equity	530.1	71.0	(119.3)	100.6	582.4
Derivatives					
Inflation-linked swaps	(164.8)	-	-	(159.9)	(324.7)
Interest rate swaps	-	-	(3.5)	110.0	106.5
Total return swaps	-	-	-	4.9	4.9
Swaptions	10.0	-	-	1.7	11.7
Options	(114.3)	172.4	(50.3)	28.7	36.5
Futures	(0.1)	112.6	(59.6)	(49.0)	3.9
Forward foreign exchange	(23.9)	392.0	(167.9)	(209.4)	(9.2)
AVC mixed portfolio fund	134.3	2.9	(2.8)	(5.9)	128.5
External AVC investments	0.7	0.1	(0.3)	0.1	0.6
	<u>13,040.9</u>	<u>7,772.6</u>	<u>(7,490.2)</u>	<u>(403.3)</u>	<u>12,920.0</u>
Cash	178.7				132.2
Other investment balances	67.3				49.7
	<u><u>13,286.9</u></u>				<u><u>13,101.9</u></u>

There were no individual investments which comprised greater than 5% of the net assets of the Scheme (2015: none).

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs analysed by main asset class and type of cost are as follows:

	Fees £'m	Commission £'m	Taxes £'m	2016 Total £'m	2015 £'m
Equities	1.1	12.2	4.2	17.5	15.8
Other	-	0.3	-	0.3	0.2
	<u>1.1</u>	<u>12.5</u>	<u>4.2</u>	<u>17.8</u>	<u>16.0</u>
2015	<u><u>0.9</u></u>	<u><u>12.3</u></u>	<u><u>2.8</u></u>	<u><u>-</u></u>	<u><u>16.0</u></u>

In addition to the transaction costs disclosed above, indirect costs in relation to bonds are incurred through the bid-offer spread. Indirect costs are also incurred in relation to external pooled arrangements, through charges made to those vehicles.

# Notes to the Financial Statements

## 10. Pooled arrangements

### Property/Alternatives/Private equity

The indirect property, alternatives and private equity investments are invested in externally pooled funds. A proportion of the private equity and alternatives, and all of the property investments (direct and indirect) are pooled internally and held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme. The remainder are held directly on behalf of the Scheme. As at 31 March 2016 the value of these funds are as follows:

<b>Property</b>	<b>% held</b>	<b>2016</b>	<b>2015</b>
		<b>£'m</b>	<b>£'m</b>
Externally pooled indirect		319.4	211.8
Direct UK property		966.5	930.6
<b>Total property unitised</b>	<b>82.20%</b>	<b>1,285.9</b>	<b>1,142.4</b>
<b>Alternative</b>	<b>% held</b>	<b>2016</b>	<b>2015</b>
		<b>£'m</b>	<b>£'m</b>
Alternative unitised fund	49.37%	1.8	2.4
Direct investments		822.1	738.9
<b>Total</b>		<b>823.9</b>	<b>741.3</b>
<b>Private equity</b>	<b>% held</b>	<b>2016</b>	<b>2015</b>
		<b>£'m</b>	<b>£'m</b>
Private equity unitised fund	49.37%	18.2	20.3
Direct investments		564.2	509.8
<b>Total</b>		<b>582.4</b>	<b>530.1</b>

# Notes to the Financial Statements

## 11. Derivatives

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.

A summary of the Scheme's outstanding derivative contracts at the year end aggregated by key characteristics were as follows:

### Over the counter swaps and swaptions

Nature	Duration	Nominal amount	Asset value	Liability value
		£'m	£'m	£'m
Inflation-linked swaps	<10 years	411.8	1.1	(8.6)
Inflation-linked swaps	10-20 years	748.9	1.4	(23.0)
Inflation-linked swaps	20-30 years	418.6	-	(103.4)
Inflation-linked swaps	30-40 years	855.3	0.2	(180.4)
Inflation-linked swaps	>40 years	16.0	-	(12.1)
Interest rate swaps	10-20 years	114.0	10.6	-
Interest rate swaps	20-30 years	142.0	19.2	-
Interest rate swaps	30-40 years	205.8	32.3	(3.9)
Interest rate swaps	>40 years	429.9	65.1	(16.7)
Total return swaps	<10 years	283.1	5.4	(0.5)
Swaptions	<10 years	300.0	50.9	(39.2)
<b>Total 2016</b>		<b>3,925.4</b>	<b>186.2</b>	<b>(387.8)</b>
<b>Total 2015</b>		<b>1,681.1</b>	<b>10.0</b>	<b>(164.8)</b>

### 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.

The fair value of the exchange traded put and call option spreads expiring in March 2017 across UK, US and Europe amounts to an asset of £36.8m (2015: £0.4m).

The fair value of the over-the-counter put and call option spreads expiring in March 2017 across UK, US and Europe amounts to a liability of £0.3m (2015: £114.7m).

Included within cash balances are £6.2m (2015: £71.6m) in respect of initial and variation margins arising on open futures and options contracts as at the year end.

# Notes to the Financial Statements

## Futures

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

Nature		Nominal amount/ contract size	Duration	Fair value £'m
FTSE 100 stock futures	Buy	19,440	June 2016	0.2
Total UK Futures				<b>0.2</b>
DJ STX 50 stock futures	Buy	17,510	June 2016	0.1
EMINI S&P stock futures	Buy	41,350	June 2016	1.2
Topix stock futures	Buy	14,050,000	June 2016	2.4
Total overseas futures				<b>3.7</b>
<b>Total 2016</b>				<b>3.9</b>
<b>Total 2015</b>				<b>(0.1)</b>

Included within cash balances are £6.2m (2015: £71.6m) in respect of initial and variation margins arising on open futures and options contracts at the year end.

## Forward foreign exchange contracts

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

The Scheme enters into over the counter 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:

Contract	Maturity date	Nominal value	Asset value £'m	Liability value £'m
<b>EUR</b>				
Forward to buy EUR	Apr16	€ 8.8	0.2	-
Forward to sell EUR	Apr16 – Jun16	€936.3	-	(16.7)
<b>JPY</b>				
Forward to buy JPY	Apr16 – May16	¥14.3	-	(0.7)
Forward to sell JPY	Apr16 - Jun16	¥74,682.3	-	(8.9)
<b>USD</b>				
Forward to sell USD	Apr16 - Jun16	\$2,708.2	16.9	-
<b>Total 2016</b>			<b>17.1</b>	<b>(26.3)</b>
<b>Total 2015</b>			<b>38.6</b>	<b>(62.5)</b>

# 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	(181.9)	Swaps & FX forwards
Morgan Stanley	UK Gilt	(3.0)	FX forwards & options
UBS	UK Gilt	4.9	FX forwards/options/swap
JP Morgan	UK Gilt	(14.4)	Swaps & FX forwards
RBS	UK Gilt	1.4	Swaps & FX forwards
Nomura	Cash	6.8	Swap
Barclays	UK Gilt	(23.3)	Swaps/FX forwards/swaptions
		<u>(209.5)</u>	

Collateral pledged with counterparty is reflected as a negative value.

## 13. Additional Voluntary Contributions (AVCs)

The Trustees hold assets invested separately from the main defined benefit section investments to secure additional benefits on a defined contribution basis for those defined benefit section members electing to pay additional voluntary contributions. Members participating in this arrangement each year receive an annual statement confirming the amounts held in their account and the movements in the year.

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 aggregate amounts of AVC investments are as follows:

	% held	2016 £'m	2015 £'m
Mixed portfolio fund			
Equities		107.8	112.8
Fixed interest		18.4	18.6
Index-linked		0.7	-
Cash		1.6	2.9
Total mixed portfolio fund	87.97%	<u>128.5</u>	<u>134.3</u>
Short-dated gilts fund		19.8	20.6
Equity biased fund		137.1	134.0
		<u>285.4</u>	<u>288.9</u>

# Notes to the Financial Statements

## 14. External AVC investments

In addition to the AVCs shown in note 13 above, there 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:

	2016 £'m	2015 £'m
<b>British Caledonian</b>		
Prudential	0.5	0.5
<b>Davies &amp; Newman and Dan Air</b>		
Scottish Life	-	0.1
Equitable Life Assurance	0.1	0.1
Aviva	-	-
	<u>0.6</u>	<u>0.7</u>

## 15. Defined contribution scheme

Within NAPS is the British Airways Money Purchase Section (BAMPS). This section was closed to further benefit accrual 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:

	2016 £'m	2015 £'m
Balance of BAMPS at 1 April	4.3	3.9
Interest	0.4	0.4
Retirements	(0.1)	-
Balance of BAMPS at 31 March	<u>4.6</u>	<u>4.3</u>



# Notes to the Financial Statements

## 16. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Category (1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Category (2) Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Category (3) Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	As at 31 March 2016			Total £'m
	Category (1) £'m	Category (2) £'m	Category (3) £'m	
Equities	6,616.7	-	-	6,616.7
Bonds	3,652.4	-	-	3,652.4
Pooled arrangements	-	-	2,692.2	2,692.2
Derivatives	40.4	(210.8)	-	(170.4)
AVC mixed portfolio fund	128.5	-	-	128.5
External AVCs	0.6	-	-	0.6
Cash	118.0	14.2	-	132.2
Other investment balances	49.7	-	-	49.7
	<u>10,606.3</u>	<u>(196.6)</u>	<u>2,692.2</u>	<u>13,101.9</u>

	As at 31 March 2015			Total £'m
	Category (1) £'m	Category (2) £'m	Category (3) £'m	
Equities	6,645.3	-	-	6,645.3
Bonds	4,139.9	-	-	4,139.9
Pooled arrangements	-	-	2,413.8	2,413.8
Derivatives	(114.4)	(178.7)	-	(293.1)
AVC mixed portfolio fund	134.3	-	-	134.3
External AVCs	0.7	-	-	0.7
Cash	171.2	7.5	-	178.7
Other investment balances	67.3	-	-	67.3
	<u>11,044.3</u>	<u>(171.2)</u>	<u>2,413.8</u>	<u>13,286.9</u>

# Notes to the Financial Statements

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## 17. Investment risk disclosures

### Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk, inflation risk, and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk, inflation risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

**Inflation risk:** in addition to the above, the Trustees have chosen to disclose inflation risk as this is considered a key risk. Inflation risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in inflation.

The Scheme has exposure to credit, currency, interest rate, inflation and other price risks as a result of the investments it makes to implement its investment strategy described in the Trustees' Report. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment manager and monitored by the Trustees by regular reviews of the investment portfolios.

Further information on the Trustees' approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

#### (i) Investment strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

The Trustees set the investment strategy for the Scheme taking into account considerations such as the strength of the Employer covenant, the long term liabilities and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP) which can be viewed on the member website [www.mybapension.com](http://www.mybapension.com).

# Notes to the Financial Statements

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The current strategy is to hold:

- Liability matching assets - 32% in investments that move in line with the long term liabilities of the Scheme. This is referred to as liability matching investments and comprises UK and overseas government and corporate bonds and inflation and interest rate swaps, the purpose of which is to hedge against the impact of interest rate and inflation movements on long term liabilities.
- Return seeking assets - 68% in return seeking investments comprising UK and overseas equities, equities futures, investment property, alternatives and private equity.

46% of the above investments are in overseas currencies. To minimise the currency risk the Trustees have put in place a currency hedging strategy using forward foreign exchange contracts.

## (ii) Credit risk

The Scheme is subject to credit risk because the Scheme invests in bonds, OTC derivatives, holds cash balances and undertakes stock lending activities.

Credit risk arising on bonds is mitigated by investing predominantly in government bonds where the credit risk is minimal or investment grade corporate bonds which are rated BB or above. The Trustees manage the associated credit risk by requesting that the investment manager diversifies the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to have predominantly investment grade credit quality. This was the position at the year end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). Exchange traded derivatives are guaranteed by a regulated exchange where OTC is not; therefore, the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements (see note 12).

Cash is held with financial institutions which are at least investment grade credit rated. This was the position at the year end.

The Scheme lends certain fixed interest and equity securities under a Trustees-approved stock lending program which is managed at the discretion of, and is fully indemnified by, the custodian State Street Bank and Trust Company. The Trustees manage the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the year end, the Scheme had lent £372.9 million (2015: £574.7 million) of public sector securities and £117.0 million (2015: £116.2million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 105% of stock lent.

The Scheme invests in private equity, alternatives, real assets, and indirect property funds through pooled arrangements and some of these investments are exposed to credit risk and leverage. This risk is mitigated through active management of the funds, the regulatory environments in which the pooled arrangements operate, and diversification of investments amongst a number of funds. Trustees carry out due diligence checks on the appointment of a new fund and on an on-going basis monitor any changes to the management, regulatory, and operating environment of the funds. The Scheme's holdings in pooled investment vehicles are unrated and predominantly held through shares of limited liability partnerships.

# Notes to the Financial Statements

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## (iii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled arrangements. The Trustees limit overseas currency exposure through a currency hedging policy.

The Scheme's total net unhedged exposure by major currency at the year end was as follows:

	2016 £'m	2015 £'m
US Dollar	1,038.4	1,100.3
Euro	270.6	367.0
Other	1,543.5	1,807.7
	<u>2,852.5</u>	<u>3,275.0</u>

## (iv) Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and interest rate swaps. The Trustees have set an interest rate target hedge ratio to decrease the impact of adverse interest rate movements against liability as part of their liability matching investment strategy. Under this strategy, if interest rates fall, the value of liability matching investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability matching investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

## (v) Inflation risk

The Scheme is subject to inflation risk on the liability matching investments comprising index linked bonds and inflation swaps. The Trustees have set an inflation target hedge ratio to decrease the impact of adverse movements in inflation against liability as part of their liabilities matching investment strategy. Under this strategy, if inflation rates rise, the liability matching investments will rise to help match the increase in actuarial liabilities arising from future pension increases. Similarly, if inflation rates fall, the value of liability matching investments will fall in value, as will the actuarial liabilities because the future pension increases will be smaller.

## (vi) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, investments held in pooled arrangements including private equity, alternatives, real assets, investment properties and equity futures. The Scheme has set a target asset allocation of 68% of investments in return seeking assets. This was the position at the year end.

The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

# Notes to the Financial Statements

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## 18. Contingent liabilities and contractual commitments

The following contractual commitments existed at the year end:

	2016	2015
	£'m	£'m
Property	81.2	72.3
Alternative investments	298.0	139.0
Private equity	385.0	308.5
	<u>764.2</u>	<u>519.8</u>

In addition, at the year end the Scheme had committed to the disposal of a property for sales proceeds of £148.8m.

## 19. 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.

## 20. 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 Virginia Holmes, 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.

Virginia Holmes and Paul Spencer were remunerated by BA Plc in respect of their services as Chair 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, held the legal title to units held in the Jersey Property Unit Trust for investment in the Tesco Red Limited Partnership up until they were sold on 25 February 2016. The Jersey Property Unit Trust held 49.95% interest in The Tesco Red Limited Partnership UK Ltd (LP). BAPTL had 50% ownership of Tesco Red (GP) Ltd of which 70% was held in its capacity as Custodian Trustee for the Scheme.

# Independent Auditor's Statement About Contributions

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## **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 2016, which is set out on page 38.

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 13, 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 schedules of contributions**

In our opinion contributions for the Scheme year ended 31 March 2016 as reported in the summary of contributions and payable under the schedules have in all material respects been paid for the period from 1 April 2015 to 22 March 2016 at least in accordance with the schedule of contributions certified by the actuary on 28 June 2013 and subsequently at least in accordance with the schedule of contributions certified by the actuary on 23 March 2016.

**Richard Hinton**

**For and on behalf of KPMG LLP, Statutory Auditor,  
Chartered Accountants  
28 September 2016**

**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 schedules in respect of the Scheme year ended 31 March 2016

This summary of contributions has been prepared on behalf of, and is the responsibility of the Trustees. It sets out the Employer and Employee contributions payable to the Scheme under the schedules of contributions certified by the actuary on 28 June 2013 and 23 March 2016 in respect of the Scheme year ended 31 March 2016. The Scheme auditor reports on contributions payable under the schedules in the auditor's statement about contributions.

## Contributions payable under the schedules in respect of the Scheme year

	£'m
Employer normal contributions	153.6
Employer deficit funding - regular	221.0
Employer deficit funding – cash sweep	227.3
Employee normal contributions	2.9
<b>Contributions payable under the schedules (as reported on by the Scheme auditor)</b>	<b>604.8</b>

## Reconciliation of contributions

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

	£'m
Contributions payable under the schedules (as above)	604.8
Contributions payable in addition to those due under the schedules:	
Prepaid deficit funding contribution April – September 2015	(110.5)
Employer augmentations	0.2
Employee additional voluntary contributions	27.0
<b>Total contributions reported in the financial statements</b>	<b>521.5</b>

This report was approved by the Board of Trustees on 28 September 2016 and was signed on their behalf by:

Teresa Suriyae                      Secretary

# Schedule of Contributions

## 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 83 **	17.5% *	8.5% *	5.25% *
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.

\*\* accrual rate 83 introduced from 6 April 2016.

In addition, for members under State Pension Age and who are not a "2016 Lower Accrual Member", additional contributions of 3.1% of Band Earnings:

- with effect from 6 April 2016 for all Members save for those employed by Dunwoody Airline Services Limited ("Dunwoody")
- with effect from 1 July 2016 in respect of Members employed by Dunwoody.

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

**By the Employers:** Contributions at the following rates of Pay to cover the core 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

Contributions (each month) expressed as lump sums:

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 additional arrangements, payments have been made as part the cash sweep arrangement, including a one-off payment of £11,250,000 paid in June 2012.

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): 3 August 2016

Agreed on behalf of the Trustees of the Scheme

Virginia Holmes  
Chair of the Trustees

Signed for and on behalf of the Participating Employers of the Scheme

Stephen Gunning  
Chief Financial Officer, British Airways Plc

# Actuarial Certificate

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## Actuarial Certificate Schedule of Contributions

Name of Scheme: 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

3 August 2016

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

# Report on Actuarial Liabilities

(Forming part of the Trustees' Report)

## New Airways Pension Scheme Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2012. This showed that on that date:

The value of the technical provisions was: £12,275 million

The value of the assets at that date was: £9,615 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

Long-term future average rate	% p.a.
Discount rate	4.55
Retail Prices Index inflation	3.50
Salary increases	3.50
Deferred pension revaluation	2.75
Pension increases in payment:	
PIRO capped at 5% each year	2.75
Dan Air (3% floor per annum)	3.10
Post 88 GMP (capped at 3% each year)	2.50
LEL increases	2.75

# Report on Actuarial Liabilities

(Forming part of the Trustees' Report)

**Mortality:** the base table of mortality assumed at 31 March 2012 is summarised below. This is based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. The table is then calibrated, based on the results of a Generalised Linear Model (GLM) mortality analysis, to reflect the demographic profile of the Scheme (by reference to age, gender, category of membership, category of occupation, pension amount and postcode).

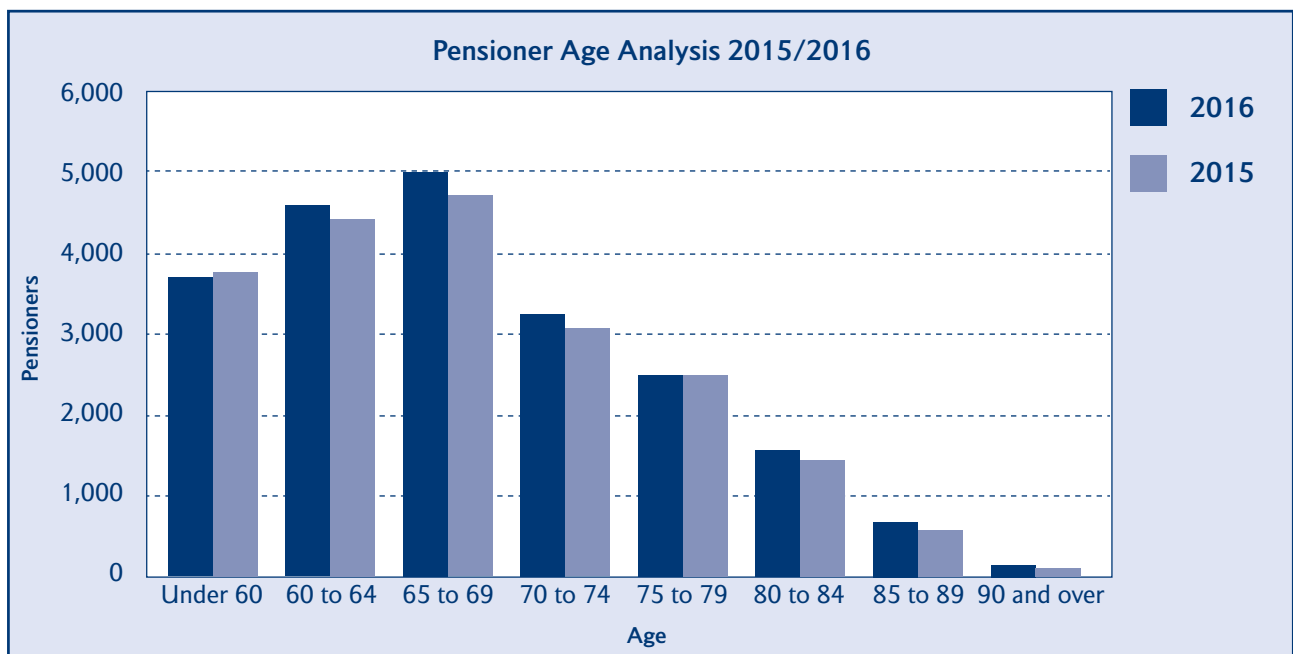
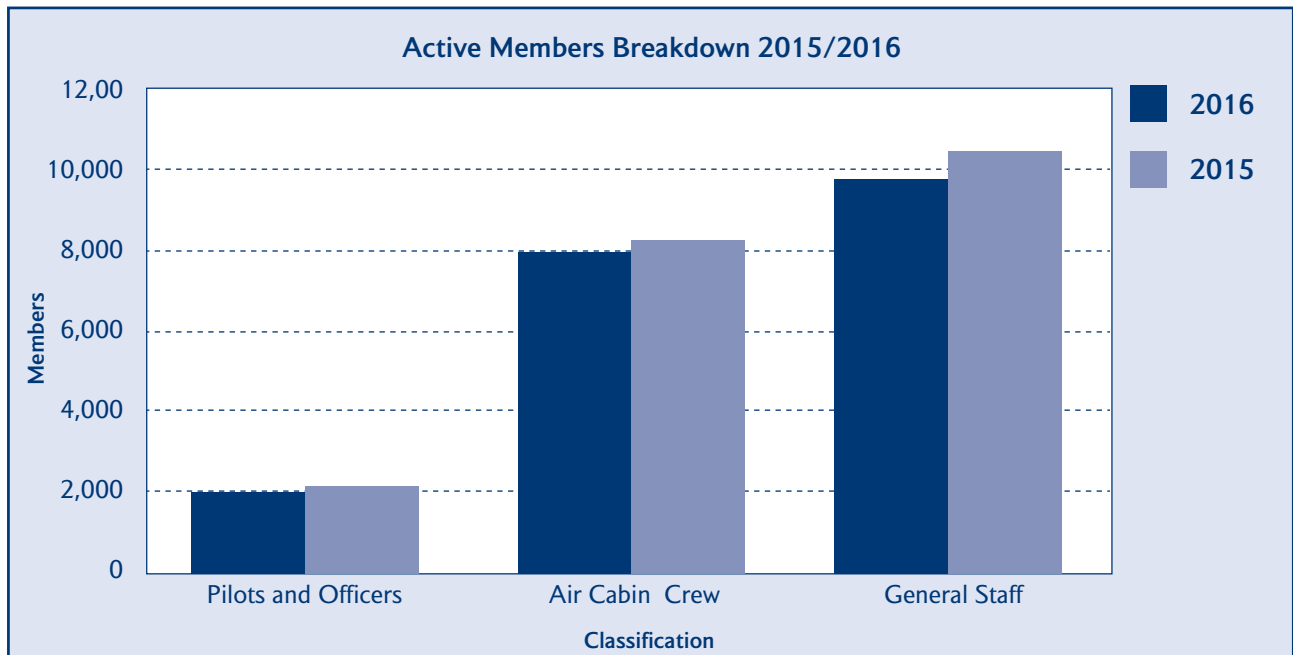
Group	
Male non-pensioners with:	
Low pensions*	91% of S1PML
High pensions*	98% of S1PMA_L
Female non-pensioners	91% of S1PFA
Male dependents of non-pensioners	126% of S1PMA
Female dependents of non-pensioners	92% of S1DFL
Male pensioners with:	
Low pensions*	91% of S1PML
High pensions*	101% of S1PMA_L
Female pensioners	99% of S1PFA
Male dependents of pensioners	123% of S1PMA
Female dependents of pensioners	90% of S1DFL

\* Low pensions are classed as being lower than £23,600 p.a. at 31 March 2012. High pensions are higher than the specified limit.

At 31 March 2012 an allowance for future reductions in mortality rates has been included based on the CMI's 2011 core projection model, with an explicit allowance for long-term trend reductions in mortality rates of 1.5% per annum.

# Membership Information

	2016	2015
Active members	19,604	20,719
Pensioners in payment	21,035	20,278
Dependant pensioners	3,876	3,690
Deferred pensioners	22,046	22,353
	<u>66,561</u>	<u>67,040</u>



# Compliance Statement

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## 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 was contracted-out of the State Second Pension (formerly known as the State Earnings-Related Pension Scheme) until contracting-out ceased with effect from 6 April 2016. NAPS BAMPS was contracted-in to the State Second Pension.

## 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. Members who have opted out may be auto enrolled into the British Airways Retirement Plan, a defined contribution pension scheme offered by BA Plc.

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