

Annual  
Report and  
Financial  
Statements  
2017

New Airways Pension Scheme

Year ended  
31 March 2017

# Annual Report and Financial Statements

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# Chair's Review

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My second annual report as Chair of the New Airways Pension Scheme covers issues around governance, funding, investment and administration. Throughout the year we've kept members well-informed about Scheme developments, with updates in both In Focus and quarterly online newsletters.

## Funding and investment

In my last report in October 2016, I referred to the 31 March 2015 valuation we'd agreed 'in principle' with British Airways (BA). We formally completed this valuation in December 2016. The Trustee report on page 5 shows how the funding has evolved since 31 March 2015 by reference to the annual interim valuation updates. At the time of the 31 March 2016 update the deficit was £3.4bn and the funding level was 79.6%.

The Scheme Actuary is finalising the full interim valuation as at 31 March 2017 and the associated 'annual funding statement' will shortly be issued to members. The funding level has improved by 1.5% to 81.1%. This funding level tells us what percentage of liabilities (pensions to be paid now and in the future) are expected to be covered by NAPS assets. The higher the percentage, the more secure the pensions that our members have built up. However, the deficit has increased from £3.4bn to £3.7bn as the value of the Scheme's liabilities has grown more than the value of the Scheme's assets.

Over the year, BA paid £720.6m (including employee salary sacrifice contributions) into NAPS. We've also seen strong investment returns – particularly from equities and index-linked Government bonds. As a result, the Scheme's assets have grown from £13.1bn to £16.1bn.

However, liabilities also grew over the same period from £16.4bn to £19.8bn. This is due to a reduction in the rate used to discount the Scheme's liabilities back to a present-day value. The rate that is used for discounting the value of the liabilities tends to move in line with gilt yields. Gilt yields fell significantly over the year to March 2017.

Although the deficit increased, the slight improvement in the overall funding level has allowed us to make members' benefits more secure by reducing our exposure to investment risk. Over this summer we reduced our holding of assets with the potential for higher growth by 1.5%. They now make up 63.75% of our portfolio rather than 65.25%. We moved the proceeds into less volatile assets. This de-risking reflects the terms of our Journey Plan which makes sure we manage risk by keeping a close eye on the funding level and market conditions.

At the time of writing, it is understood that BA is concerned about the size of the deficit, the level of investment risk and the costs associated with future accrual. As a result, the Company has begun consulting members about NAPS. Consultations of this kind are mainly a matter for BA and affected members. The Trustee's role will depend on precisely what BA proposes to do. The Trustee will consider BA's final proposals once the consultation has concluded and BA has taken a decision on the outcome of the consultation.

## Spotlight on governance

In my experience, good governance lies at the heart of a well-run pension scheme. It promotes better outcomes for members by improving efficiency and value for money. It makes sure all those involved in the scheme understand their roles and responsibilities. It helps schemes manage risks and avoid problems. It also establishes priorities so trustees can focus their resources and plan for the future. These themes are highlighted in the '21st Century Trusteeship' campaign recently launched by The Pensions Regulator (TPR).

In 2017 we completed a review of our investment governance to make sure the investment committee can focus on strategic decisions that affect funding and risk. The goal is to prioritise those decisions that are likely to have the biggest impact on outcomes.

During a strategy day in July 2017, the Trustee Directors of the Scheme refreshed the Scheme's direction. A Trustee Board effectiveness workshop is also in the diary for later in the year.

# Chair's Review

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## **Changes to the Trustee Board**

TPR's research into 21st Century Trusteeship showed that, to be effective, schemes need the broad range of skills and experience which only a diverse mix of trustees can bring. This year we welcomed Jude Winstanley, Rebecca Napier and Sian Davies (replacing Charlie Maunder, Ian Howick and Philip Osmond). Their blend of skills – particularly their financial expertise – complements the Board's existing qualifications and knowledge.

Dave Southcott, Member Nominated Director (MND) for the Administration and Rest of Management constituency, and Graham Fowler, Pensioner MND, reached the end of their terms of office. They were elected for a further term of office uncontested.

Ian Rycraft reached the end of his term as an MND on 31 March 2017. Because Ian changed jobs and no longer worked in the Engineering, TMGs and Ground Services constituency, he could not re-stand. We had one valid nomination for the position, Christopher Daw, which meant there was no need for a ballot. Christopher was appointed as an MND from the Engineering, TMGs and Ground Services constituency from 1 April 2017.

Earlier this year we won an industry award for our Trustee development programme which educates new and existing Trustee Directors. The programme recognises that trustees need to be increasingly knowledgeable and engaged as the regulatory, economic and commercial environment for UK pension schemes becomes ever more complex.

## **Member engagement**

We also won an industry award for providing the best administration to our members. We'll continue to concentrate on improving the way we communicate with members and the quality of our service – something that will be particularly important during BA's consultation process.

Finally, I'd like to thank all Trustee Directors past and present. I also want to put on record my gratitude to Fraser Smart (CEO, BA Pensions) and his team for their dedication, commitment and support over the year.

**Virginia Holmes**  
**Chair of the Trustee**  
**October 2017**

# Trustee Directors & Advisers

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## Appointed by British Airways Plc (the Company)

**Virginia Holmes**  
(Chair)  
Independent Trustee

**Jude Winstanley**  
Head of Network Alliances  
and Compliance  
IAG Cargo Ltd  
Appointed 28 October 2016

**Rebecca Napier**  
Head of Finance  
Transformation  
BA Plc  
Appointed 31 March 2017

**Andrew Fleming**  
Head of Legal and Company  
Secretary  
BA Plc

**Sian Davies**  
Financial Controller  
Engineering  
BA Plc  
Appointed 2 May 2017

**William Francis**  
Head of Group IT  
IAG Plc  
Appointed 1 September 2016

## Elected by members/pensioners

**Ian Bretherton**  
Captain

**Graham Fowler**  
Pensioner elected

**Dave Southcott**  
Senior Customer  
Service Agent

**Christopher Daw**  
Section Leader  
Appointed 1 April 2017

**Neil Blackburn**  
Cabin Crew Purser

**John Wheale**  
Pensioner elected

## Left office during the year

**Ian Rycraft**  
31 March 2017

**Charlie Maunder**  
2 May 2017

**Ian Howick**  
30 March 2017

**Philip Osmond**  
28 October 2016

**Nick Goddard**  
31 August 2016

## Administration & investment management (BA Pensions)

**British Airways Pension Services Ltd**  
(BAPSL) – administration  
Fraser Smart – Chief Executive Officer &  
Scheme Secretary, BA Pensions

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

## Advisers\*

**Scheme Actuary**  
James Wintle  
Towers Watson Limited

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

**Banker**  
BNY Mellon

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

**Investment Advisers**  
Towers Watson Limited  
BAPIML

**Auditor**  
KPMG LLP

**Covenant Adviser**  
PricewaterhouseCoopers  
LLP

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

The New Airways Pensions Scheme – Pension Scheme Registry Number: 10057029

# Trustee's 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 2017, as set out on pages 19 to 35 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 was finalised in December 2016. 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. Following completion of the 31 March 2015 valuation the actuary provided an interim update at 31 March 2016. The Scheme Actuary is finalising the latest interim valuation as at 31 March 2017 and the associated 'annual funding statement' will shortly be issued to members.

The 31 March 2017 update showed that the funding level increased to 81.1% (79.6% at 31 March 2016) and the deficit had increased to £3,747m (£3,354m at 31 March 2016).

The funding levels are shown below:

|               | 31 March<br>2017<br>(£m) | 31 March<br>2016<br>(£m) | 31 March<br>2015<br>(£m) |
|---------------|--------------------------|--------------------------|--------------------------|
| Liabilities*  | (19,809)                 | (16,449)                 | (16,065)                 |
| Assets        | 16,062                   | 13,095                   | 13,280                   |
| (Deficit)     | (3,747)                  | (3,354)                  | (2,785)                  |
| Funding level | 81.1%                    | 79.6%                    | 82.7%                    |

\* The liabilities are based on the technical provisions agreed between the Trustee and BA at the 31 March 2015 valuation, updated by the Scheme Actuary to reflect the passage of time and changes in investment conditions to the relevant dates.

The Scheme Actuary is in the process of finalising the full interim valuation calculations as at 31 March 2017.

## The recovery plan

The period from 31 March 2016 to 31 December 2016 was covered by the recovery plan which was agreed with BA in connection with the 31 March 2012 valuation. Under the terms of that recovery plan the Trustee and the Company had agreed to repair the deficit such that:

- The Company continued 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 was to eliminate the deficit with the remainder being used to cover part of the cost of continued accrual of benefits in the Scheme. By 2016/17, this recovery plan provided for monthly contributions of around £20 million. Around £13m of this monthly contribution was to eliminate the deficit with the remainder being used to cover part of the cost of future service accrual in the Scheme.
- An allowance was made for investment returns at 0.5% a year in excess of the discount rate.
- Assuming the assumptions in the recovery plan were borne out in practice the expectation was that the deficit would be eliminated by 31 March 2026.

As part of the 31 March 2015 valuation process a revised recovery plan was adopted. The key terms of this recovery plan which took effect from 1 January 2017 are as follows:

- The Company will pay deficit contributions of £25 million per month from 1 January 2017 to 30 September 2027.
- An allowance for investment returns equal to the discount rate.
- If the assumptions in the recovery plan are borne out in practice, the deficit is expected to be eliminated by 30 September 2027.

# Trustee's Report

Under the 2015 recovery plan, the monthly lump sum amounts of £25m per month are to eliminate the deficit and, unlike the 2012 recovery plan, no part of the monthly lump sum payment is used to cover part of the cost of continued accrual for benefits in the Scheme. From 1 January 2017, BA agreed to increase the rate of contributions, as specified in the Schedule of Contributions, to meet the cost of future service accrual to 32.7% of Pay for Contribution Purposes. The corresponding average employer contribution rate across all membership categories from the 2012 valuation was 26.1%.

As part of reaching agreement on the 2015 valuation, the Trustee and BA also agreed an updated package of measures aimed at improving the funding position and members' benefit security over time which are documented in a separate legal agreement. This includes a 'cash sweep' under the terms of which BA will pay up to an additional £150 million a year should BA's cash balance each year exceed a certain level.

PricewaterhouseCoopers LLP (PwC) is engaged by the Trustee to carry out extensive and on-going reviews of the Company's financial position and future cash flows. PwC has advised the Trustee that the contributions that the Company has committed to pay to the Scheme and to the Airways Pension Scheme (APS) are set at the level that the Company can reasonably afford in current circumstances. BA paid £283m to the Scheme in respect of the 31 March 2016 cash sweep payment, received and accounted for in the current year's financial statements, and £150m in respect of the 31 March 2017 cash sweep payment, which is accounted for in the 2017/18 financial statements.

## SCHEME INVESTMENT

The broad strategic asset allocations as at 31 March 2017 are shown below:

| Investment category | Allocation |
|---------------------|------------|
| Return seeking      | 65%        |
| Liability matching  | 35%        |

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 Trustee has 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 Trustee has 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)

An updated SIP was adopted in October 2016.

A copy of the SIP is available on request from the Secretary's office or can be accessed on the 'Scheme documents' page of the member website [www.mybapension.com](http://www.mybapension.com).

### Measuring investment performance

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

# Trustee's Report

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The Trustee monitors 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 Trustee has 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 Trustee will continue to monitor performance over a range of different time periods.

Details of the Fund performance can be found on pages 14 to 17.

## SCHEME GOVERNANCE

### Trustee knowledge and understanding (TKU)

The Trustee has a formal training policy, the foundation of which is TPR's TKU regime. The Trustee conducts a detailed review of its approach to training biennially.

An induction programme is provided for new Trustee Directors 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 Director to be trained before they are expected to have achieved the required level of knowledge and understanding. After the initial training Trustee Directors are encouraged to undertake the Award in Pension Trusteeship, a formal pensions qualification.

Further requirements for training are established by asking Trustee Directors to complete an individual skills gap analysis biennially, analysis of which informs future training provision. The content, frequency and level of training is tailored to the outcomes of the assessment of each Trustee Director's particular learning needs but is also related to the Committee(s) on which the Trustee Director serves.

The Trustee Board and each of its Committees produce an annual Committee calendar 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 Trustee Directors either in routine Main Board or Committee meetings or in specially arranged sessions. Bespoke training is also provided by BAPIML and BAPSL and Trustee Directors are actively encouraged to supplement this formal training plan by accessing other resources including TPR'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 Director.

### Conflicts of interest

The Trustee understands that it is in a position of trust and needs to have policies and arrangements in place to identify, monitor and manage conflicts. The Scheme's primary legal advisers are Eversheds Sutherland 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 Trustee considers it critical that it understands and monitors the financial strength and covenant of the employer on a continuing basis and in order to achieve this PwC act as advisers to the Trustee on employer covenant issues. A reporting framework was agreed with the Company during the 2012 valuation to ensure that the Trustee receives regular updates on the business activities and financial position of the Company.



# Trustee's Report

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## Trustee arrangements

- The Scheme is administered by twelve Trustee Directors.
- Six of the Trustee Directors are appointed by the Company.
- Four of the Trustee Directors are elected by active members of the Scheme. Each will come from a different occupational group. These Trustee Directors must be active members of NAPS.
- Two of the Trustee Directors are elected by pensioner members\* of the Scheme and must be pensioner members\* of NAPS.
- A Trustee Director 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 Trustee Directors must be supported by at least twenty members in the relevant constituency and nominations for pensioner member\* Trustee Directors must be supported by ten pensioner members. If there is more than one nomination for a vacancy a postal ballot of the relevant members is held. The result is decided on a simple majority of the votes cast.
- Members taking flexible retirement cannot apply to be a pensioner member\* Trustee Director and an active member Trustee Director at the same time however flexible retirement members are eligible to vote in both active member and pensioner member\* Trustee Director elections.
- An elected Trustee Director 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 Trustee Directors 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 Trustee). 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 study.

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

# Trustee's Report

| Trustee                          | Governance Committee | Investment Committee | Operations Committee | Main Board | Period of Appointment to Main Board |
|----------------------------------|----------------------|----------------------|----------------------|------------|-------------------------------------|
| Virginia Holmes ( <i>Chair</i> ) | 4/4                  | 7/7                  | -                    | 8/8        | Whole Year                          |
| Neil Blackburn                   | 3/3                  | -                    | -                    | 7/7        | Part Year                           |
| Ian Bretherton                   | -                    | 6/7                  | -                    | 8/8        | Whole Year                          |
| Andrew Fleming                   | 4/4                  | -                    | 7/8                  | 7/8        | Whole Year                          |
| Graham Fowler                    | -                    | -                    | 5/8                  | 8/8        | Whole Year                          |
| William Francis                  | -                    | -                    | 2/2                  | 4/5        | Part Year                           |
| Nick Goddard                     | -                    | 2/2                  | -                    | 2/3        | Part Year                           |
| Ian Howick                       | -                    | -                    | -                    | 8/8        | Whole Year                          |
| Charlie Maunder                  | -                    | 4/5                  | 3/4                  | 6/8        | Whole Year                          |
| Philip Osmond                    | -                    | -                    | 0/1                  | 5/6        | Part Year                           |
| Ian Rycraft                      | -                    | 6/7                  | -                    | 7/8        | Whole Year                          |
| Dave Southcott                   | -                    | -                    | 8/8                  | 7/8        | Whole Year                          |
| John Wheale                      | 4/4                  | -                    | -                    | 7/8        | Whole Year                          |
| Jude Winstanley                  | -                    | -                    | -                    | 2/2        | Part Year                           |

## Performance of Trustee Directors

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

Although the Main Board is scheduled to meet quarterly, the number of matters requiring the Trustee Directors' attention necessitated the convening of additional meetings which were often called at short notice.

On occasions that Trustee Directors 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 Trustee Directors 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 Trustee, 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 TPR. In this regard the Trustee annually reviews and assesses 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 TPR's DC Code of Practice and Regulatory Guidance. The Trustee is 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 Trustee would consider the reason for those differences and whether any changes to current practice are required.

## SCHEME CHANGES

### Factor review

On the advice of the Actuary, the Scheme factors used to convert Scheme Pays debts into pension reductions were changed with effect from 1 March 2017.

# Trustee's Report

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Scheme factors are reviewed from time to time approximately every three years, usually at the end of the formal valuation process. Following completion of the 31 March 2015 valuation the Scheme's factors have been reviewed and updated factors were implemented from 1 July 2017.

## Equity Biased Fund (EBF) AVC fund

The Guarantee component of the EBF was historically set in line with returns on a 7-days' notice local authority deposit account. As this index has been discontinued the basis of the Guarantee component has been changed to the Sterling overnight index average.

## Overseas transfer charge

In March 2017 the Government introduced a new 25% overseas transfer charge which applies to benefits of members resident in the European Economic Area (EEA) that are transferred to a country outside of the EEA. The charge also applies to pensions transferred to a country outside of the EEA if the member is not resident there for tax purposes and may still apply if members change their country of residence within five years of transferring pension benefits.

From April 2017 legislation also changed the criteria of overseas schemes to which benefits can be transferred, to be an arrangement within an EU country or a country in which the member is resident for tax purposes and which has a double taxation agreement with the UK.

## Trust Deed amendments

The following amendments were made during the year:

- Scheme Pays – extends the facility to allow tapered Annual Allowance tax charges to be paid directly from pension benefits/prospective pension benefits or Additional Voluntary Contributions
- Corporate Trustee – enabling a Corporate Trustee to be appointed as the sole Management Trustee of the Scheme and mechanical changes to reflect the move from individual Trustees to Trustee Directors of the Corporate Trustee

- Deed of appointment and resignation – implemented the appointment of the new Corporate Trustee and vacation of office of the outgoing individual Trustees. The Corporate Trustee, New Airways Pension Scheme Trustee Limited, was appointed as the sole Management Trustee of the Scheme on 26 October 2016

Copies of the Deeds implementing these changes can be viewed via the 'Scheme documents' page of 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 2017 Order was 1% and in accordance with the Scheme Rules, qualifying pensions were increased by 1% on 10 April 2017. 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.

# Trustee's Report

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## Internal dispute resolution procedure (IDRP)

The Trustee is 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 Trustee's Operations Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House.

## Tax

For members affected by tax charges arising from the Annual Allowance or the tapered Annual Allowance, any applicable charge can be paid direct from a member's pension or Additional Voluntary Contributions using the Scheme Pays facility.

HMRC has launched a new online service for individuals to apply to protect pension savings from the lifetime allowance charge. The interim paper-based application process that was in force since 6 April 2016 is no longer available.

## Online communications

Further enhancements have continued throughout the year to our online communications to make it easier for members to make changes to their pension and to update personal details securely. Address changes can be made online by pensioners and deferred members. Active members must still alert BA. Bank changes for pension payments, nominations for death lump sums, registration of surviving dependants for consideration for an Adult Survivor's pension if no spouse or civil partner, and changes to Additional Voluntary Contributions investments can now also be made online.

This report was approved by the Trustee Board on 27 September 2017 and was signed on its behalf by:

**Fraser Smart**  
Scheme Secretary

# Statement of Trustee's Responsibilities

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The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee 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 Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it 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 Trustee's Report)

## REVIEW OF THE YEAR

2016 was a year of political surprises and change which impacted global markets. The UK referendum result on European Union (EU) membership was not what the polls had predicted and many economists expected the UK to suffer due to the result of the vote to leave the EU. The Bank of England was quick to respond to weak survey data in the summer of 2016 with a comprehensive package of monetary policy to stimulate the economy, cutting interest rates to a historic low of 0.25% and expanding the quantitative easing (QE) programme. UK data in the autumn was much more resilient and more positive than the market expected. Household spending continued to grow and a sharp decline in investment did not materialise. As sterling depreciated sharply between June and October 2016, inflation expectations began to rise due to pressures in the pipeline from import prices. In November, the Bank of England stated that it had "limited tolerance for above target CPI" and dropped its guidance that the next move in interest rates was likely to be down. In light of concerns on the long-term implications of the Brexit vote there have been discussions that monetary policy has reached its useful limits and fiscal policy should take over to support the UK economy.

A similar theme was emerging overseas as the rise in populism, increased concerns on inequality, migration, terrorism and globalisation helped Donald Trump unexpectedly win the US election. With the new president came the idea that fiscal policy would move to the forefront as monetary policy and unconventional policies such as negative rates and QE were thought to have limited impact going forward. The changing political landscape has led to higher inflation expectations from fiscal spending in the US and other countries. More recently the new Administration in the US has been troubled by personnel changes and difficulties putting their agenda into action.

The European Central Bank (ECB) acknowledged the strengthening eurozone economy, revising up growth prospects for 2017 and observing a recovery in inflation. This led to markets being surprised in December by a reduction

in the size of the QE programme, albeit accompanied by an extension into the longer term. Nevertheless we expect the ECB will be cautious in normalising monetary policy, assessing the pace of recovery and strength of the European financial system before taking action. The Federal Reserve Bank (Fed) in the US was also cautious on raising interest rates due to external concerns and weaker than expected US economic data. After overestimating the pace of interest rate increases, the Fed raised interest rates once, in 2016, followed by two increases so far in 2017, taking the Fed funds range to 1-1.25%. Strong growth from China was expected to subside in 2016 following the devaluation of its currency, however the feared downside risks to global growth did not materialise. On 29 March 2017 the UK Government triggered Article 50, beginning the two year process of leaving the European Union and so politics continue to dominate headlines in 2017 in the form of Brexit negotiations, alongside French, German, UK and possibly Italian elections.

Both bond and equity markets had stellar performance during the year ending 31 March 2017. Equities were the strongest performing markets and overseas equities were boosted by sterling depreciating by 13%. UK equities also benefitted from the move in sterling as a large proportion of earnings are from non-sterling operations. Bond markets were supported as investors started to believe that the use of negative interest rates in the eurozone and Japan meant that the lower boundary for bond yields was no longer zero. UK bond performance was compounded by the surprise Brexit vote as investors discounted lower growth and bought perceived 'safe haven' assets.

Growth had disappointed since the global financial crisis and global deflationary pressures have dominated monetary policy up until now, leading to a "lower for longer" consensus for interest rates, driving bond yields to historic lows in the summer of 2016. Wage pressures have been lacklustre, but inflationary pressures are building as energy prices increase from recent lows and as labour markets tighten. Fiscal policy looked set to provide further upside momentum.

# Investment Report

(Forming part of the Trustee's Report)

The Fund has maintained an overweight bias on equities throughout the fiscal year but reduced this ahead of key political events, namely the EU referendum in June 2016 and the US election in November 2016. The Fund remains underweight bonds but took a neutral position relative to benchmark at the time of the EU referendum.

Exposure to property was reduced during the year after strong performance from the asset class in prior years.

governance. It also carries out 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.

During the year the triennial valuation was completed and the investment committee adopted a new yield trigger based de-risking plan for increasing interest rate hedging

|                    | Asset category        | Actual %<br>31 March 2017 | Benchmark %<br>31 March 2017 | Actual %<br>31 March 2016 | Benchmark %<br>31 March 2016 |
|--------------------|-----------------------|---------------------------|------------------------------|---------------------------|------------------------------|
| Return seeking     | Equities              | 51.2                      | 47.5                         | 53.0                      | 50.0                         |
|                    | UK                    | 14.3                      | 14.3                         | 15.9                      | 15.0                         |
|                    | Overseas              | 36.9                      | 33.2                         | 37.1                      | 35.0                         |
|                    | Private equity        | 4.0                       | 4.2                          | 4.4                       | 4.5                          |
|                    | Alternatives          | 4.2                       | 4.5                          | 4.2                       | 4.5                          |
|                    | Property              | 8.3                       | 9.0                          | 9.8                       | 9.0                          |
| Liability matching | Real assets           | 1.9                       | 3.0                          | 2.0                       | 3.0                          |
|                    | Bonds                 | 29.1                      | 31.8                         | 25.6                      | 29.0                         |
|                    | UK fixed              | 15.9                      | 19.6                         | 14.8                      | 19.0                         |
|                    | Overseas fixed        | -                         | -                            | -                         | -                            |
|                    | UK index-linked       | 12.6                      | 12.2                         | 10.2                      | 10.0                         |
|                    | Overseas index-linked | 0.6                       | -                            | 0.6                       | -                            |
|                    | Cash                  | 1.3                       | -                            | 1.0                       | -                            |
|                    | <b>Total</b>          | <b>100.0</b>              | <b>100.0</b>                 | <b>100.0</b>              | <b>100.0</b>                 |

## Asset allocation and benchmarks

The Trustee Directors and their advisers have set bandwidths around the strategic benchmarks shown above. 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 Trustee Directors' Investment Committee sets a business plan each year which deals with the annual monitoring of performance and activities such as corporate

alongside the existing hedging programmes. In addition, a de-risking plan for switching return seeking assets to matching assets was adopted. Work has continued on developing the journey plan framework which was completed during June 2017.

In terms of actions taken, the Trustee Directors' Investment Committee revised the strategic benchmark, reducing return seeking assets by 2.75%. All return seeking asset benchmarks were reduced, apart from alternatives and property.

The first yield trigger was reached and the level of nominal interest rate hedging was increased. This is reflected in the liability hedging portfolio alongside the other interest rate and inflation hedges.



# Investment Report

(Forming part of the Trustee's 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 2017 | 1 year<br>% p.a. | 3 years<br>% p.a. | 5 years<br>% p.a. | 10 years<br>% p.a. |
|-------------------------------|------------------|-------------------|-------------------|--------------------|
| Fund return                   | 21.17            | 10.65             | 10.14             | 7.18               |

## Tactical asset allocation and stock selection performance

The portfolio 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 2017 | 1 year<br>% p.a. | 3 years<br>% p.a. | 5 years<br>% p.a. | 10 years<br>% p.a. |
|-------------------------------|------------------|-------------------|-------------------|--------------------|
| Fund return                   | 19.58            | 11.37             | 10.58             | 7.19               |
| Benchmark                     | 19.33            | 11.72             | 10.72             | 7.28               |
| Relative performance          | 0.21             | (0.31)            | (0.12)            | (0.08)             |

In the year under review (1 April 2016 to 31 March 2017) the Fund outperformed the benchmark by 0.21%. 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 10.58% compared to a benchmark return of 10.72%).

During the year performance relative to the benchmark was impacted by underperformance in stock selection in all equity portfolios with the exception of the European portfolio. This was offset by positive selection in the bond and liability hedging portfolios. The property and alternative portfolios also outperformed their benchmarks.

Both private equity and the real assets portfolio lagged their respective listed security benchmarks which posted strong short-term gains.

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.

## Fund's 10 largest stock holdings as at 31 March 2017

| Stock name                           | Security type    | £m    | % portfolio |
|--------------------------------------|------------------|-------|-------------|
| UK Treasury 0.125% Index-Linked 2046 | Government Bond  | 394.6 | 2.5         |
| UK Treasury 3.5% 2045                | Government Bond  | 382.4 | 2.4         |
| UK Treasury 3.25% 2044               | Government Bond  | 316.9 | 2.0         |
| UK Treasury 1.25% Index-Linked 2032  | Government Bond  | 268.2 | 1.7         |
| UK Treasury 4.25% 2042               | Government Bond  | 262.4 | 1.6         |
| UK Treasury 1.75% 2017               | Government Bond  | 241.4 | 1.5         |
| UK Treasury 0.125% Index-Linked 2065 | Government Bond  | 217.3 | 1.4         |
| Network Rail 1.75% Index-Linked 2027 | Government Bond* | 201.2 | 1.3         |
| Royal Dutch Shell PLC A SHS          | Common Stock     | 176.3 | 1.1         |
| UK Treasury 2.5% 2065                | Government Bond  | 174.8 | 1.1         |

\*Government guaranteed corporate bond



# Investment Report

(Forming part of the Trustee's Report)

## Additional Voluntary Contributions (AVCs)

The Mixed Portfolio Fund (MPF) returned 19.48% for the year ending 31 March 2017. This was the best year since 2010 and was the result of good returns across all asset classes. In particular, the overseas equity markets posted strong returns which were boosted by the decline in the value of sterling.

The Trustee Directors set a benchmark for each type of asset class held within the Fund and use this to monitor the Fund's performance. The benchmark returned 20.5% over the year and so the Fund underperformed its benchmark by 0.8%. The Fund's target is to beat its benchmark by 0.5% per annum over a five year period and this goal has not been achieved.

The return on the MPF was below those of other large AVC providers in the market place over the latest year, which returned an average of 21.27%, with a range of 18.5% to 25.3%. Over a ten year period returns have been similar.

In the year to March 2017, the Short-dated Gilts Fund (SGF) returned 0.40% and the Equity Biased Fund (EBF)

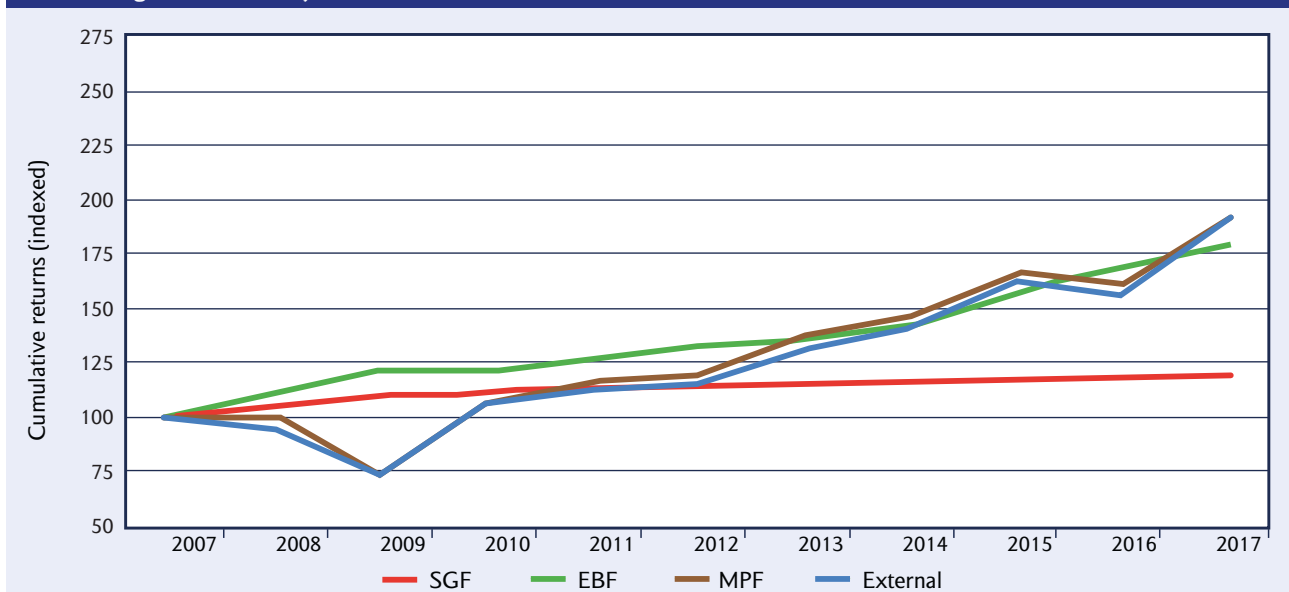
returned 5.32%. Further information on the performance of the AVC funds can be found in the annual AVC funds investment commentary on the 'Scheme documents' page of the member website [www.mybapension.com](http://www.mybapension.com).

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         | 5.91  | 1.75  | 6.56  | 6.53       |
| 5 years          | 6.13  | 0.71  | 9.90  | 10.37      |
| 3 years          | 7.84  | 0.76  | 9.14  | 10.37      |
| 1 year (to 2017) | 5.32  | 0.40  | 19.48 | 21.27      |

The MPF benchmark has a high weighting in equities, standing at 80%. The positive returns overall reflect the high weighting of equities in the Fund's benchmark as all of the equity benchmarks, produced positive returns in 2016/17. In particular, the overseas equity markets posted strong returns which were boosted by the decline in the value of sterling.

Total Fund growth over 10 years



# Investment Report

(Forming part of the Trustee's Report)

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

| Fiscal years to<br>31 March 2017 | 1 year<br>% p.a. | 3 years<br>% p.a. | 5 years<br>% p.a. | 10 years<br>% p.a. |
|----------------------------------|------------------|-------------------|-------------------|--------------------|
| <b>Including hedging</b>         |                  |                   |                   |                    |
| MPF                              | 19.48            | 9.13              | 9.89              | 6.56               |
| <b>Excluding hedging</b>         |                  |                   |                   |                    |
| MPF                              | 19.48            | 9.13              | 9.89              | 7.35               |
| Benchmark                        | 20.46            | 9.77              | 10.24             | 7.14               |
| Relative performance             | (0.81)           | (0.58)            | (0.32)            | 0.19               |

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

The choice of asset class such as equity versus bonds, country and currency exposure has had a positive impact on the performance of the Fund against its benchmark, but stock selection within the equity portfolio underperformed the benchmark, resulting in the overall underperformance.

## Corporate governance

The Portfolio Managers follow the UK Stewardship Code which aims to improve and enhance the quality of engagement between companies and institutional investors. The portfolio 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 portfolio 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 NAPS and APS. The voting records of the portfolio 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 Trustee of the New Airways Pension Scheme

We have audited the financial statements of the New Airways Pension Scheme for the year ended 31 March 2017 set out on pages 19 to 35. 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 Trustee, 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 Trustee 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 Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Trustee and the auditor

As explained more fully in the statement of Trustee's responsibilities set out on page 12, the Scheme's Trustee is 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 2017 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 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  
15 Canada Square, Canary Wharf  
London E14 5GL

31 October 2017

# Fund Account

|   | Note     | 31 March 2017<br>£'m | 31 March 2016<br>£'m |
|---|----------|----------------------|----------------------|
| <b>Contributions and Benefits</b>                             |          |                      |                      |
| Employer contributions  |          | 720.6                | 491.6                |
| Employee contributions  |          | 31.0                 | 29.9                 |
| <b>Total contributions</b>                                    | <b>3</b> | <u>751.6</u>         | <u>521.5</u>         |
| Benefits paid or payable                                      | 4        | (344.4)              | (328.8)              |
| Payments to and on account of leavers                         | 5        | (224.0)              | (246.8)              |
| Administrative expenses                                       | 6        | (8.0)                | (7.4)                |
|   |          | <u>(576.4)</u>       | <u>(583.0)</u>       |
| <b>Net additions/(withdrawals) from dealings with members</b> |          | <u>175.2</u>         | <u>(61.5)</u>        |
| <b>Returns on Investments</b>                                 |          |                      |                      |
| Investment income   | 7        | 310.3                | 287.6                |
| Investment management expenses                                | 8        | (6.6)                | (7.4)                |
| Change in market value of investments                         | 9        | 2,487.6              | (403.3)              |
| <b>Net return on investments</b>                              |          | <u>2,791.3</u>       | <u>(123.1)</u>       |
| <b>Net increase/(decrease) in the fund during the year</b>    |          | 2,966.5              | (184.6)              |
| <b>Net assets of the Scheme at 1 April</b>                    |          | 13,095.1             | 13,279.7             |
| <b>Net assets of the Scheme at 31 March</b>                   |          | <u>16,061.6</u>      | <u>13,095.1</u>      |

The notes on pages 21 to 35 form part of these financial statements.

# Statement of Net Assets

(available for benefits)

|   | Note                 | 31 March 2017<br>£'m   | 31 March 2016<br>£'m   |
|---|----------------------|------------------------|------------------------|
| <b>Investment assets:</b>                   |                      |                        |                        |
| Equities                                    |                      | 7,838.7                | 6,616.7                |
| Fixed interest bonds                        |                      | 2,714.2                | 2,254.4                |
| Index-linked bonds                          |                      | 2,065.4                | 1,398.0                |
| Pooled arrangements                         |                      |                        |                        |
| Property                                    |                      | 1,327.7                | 1,285.9                |
| Alternative investments                     |                      | 975.2                  | 823.9                  |
| Private equity                              |                      | 627.9                  | 582.4                  |
| Derivatives                                 |                      | 562.1                  | 244.0                  |
| AVC mixed portfolio fund                    |                      | 146.1                  | 128.5                  |
| Cash  |                      | 113.7                  | 132.2                  |
| Other investment balances                   |                      | 105.6                  | 93.0                   |
|   |                      | <u>16,476.6</u>        | <u>13,559.0</u>        |
| <b>Investment liabilities:</b>              |                      |                        |                        |
| Derivatives                                 |                      | (376.0)                | (414.4)                |
| Other investment balances                   |                      | (42.1)                 | (43.3)                 |
| <b>Total net investments</b>                | <b>9,10,11,12,13</b> | <u>16,058.5</u>        | <u>13,101.3</u>        |
| External AVC investments                    | <b>14</b>            | <u>0.5</u>             | <u>0.6</u>             |
| <b>Total investments</b>                    |                      | <u>16,059.0</u>        | <u>13,101.9</u>        |
| Current assets                              |                      | 8.3                    | 0.6                    |
| Current liabilities                         |                      | (5.7)                  | (7.4)                  |
| <b>Net assets of the Scheme at 31 March</b> |                      | <u><b>16,061.6</b></u> | <u><b>13,095.1</b></u> |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. 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 41 and 42 and these financial statements should be read in conjunction with this report.

The notes on pages 21 to 35 form part of the financial statements.

These financial statements were approved by the Trustee Board on 27 September 2017 and were signed on their behalf by:

Virginia Holmes Trustee Director

John Wheale Trustee Director

Fraser Smart 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).

## 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 Trustee.
- 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 Trustee 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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## 2. Accounting policies - continued

### 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

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## 3. Contributions

|                                    | 2017         | 2016         |
|------------------------------------|--------------|--------------|
|                                    | £'m          | £'m          |
| <b>Employer contributions</b>      |              |              |
| Normal                             | 183.6        | 153.6        |
| Deficit funding – regular          | 253.5        | 110.5        |
| Deficit funding – cash sweep       | 283.0        | 227.3        |
| Augmentation                       | 0.5          | 0.2          |
| <b>Employee contributions</b>      |              |              |
| Normal                             | 3.0          | 2.9          |
| Additional voluntary contributions | 28.0         | 27.0         |
|                                    | <u>751.6</u> | <u>521.5</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 38 to 39 are due until 30 September 2027 in order to improve the Scheme's funding position.

Further details regarding contributions are included in the summary of contributions on page 37.

## 4. Benefits paid or payable

|   | 2017         | 2016         |
|---|--------------|--------------|
|   | £'m          | £'m          |
| Pensions  | 270.4        | 258.5        |
| Commutations of pensions and lump sum retirement benefits | 67.7         | 64.1         |
| Lump sum death benefits                                   | 3.1          | 3.5          |
| Taxation where lifetime or annual allowance exceeded      | 3.2          | 2.7          |
|   | <u>344.4</u> | <u>328.8</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. Payments to and on account of leavers

|   | 2017         | 2016         |
|---|--------------|--------------|
|   | £'m          | £'m          |
| Individual transfers out to other schemes | <u>224.0</u> | <u>246.8</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% (2016: 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 Trustee including the auditor, actuary, financial advisers, legal advisers and compliance costs. The split of costs at the year end are as follows:

|  | 2017       | 2016       |
|--|------------|------------|
|  | £'m        | £'m        |
| BAPSL in-house administration and processing | 4.5        | 3.9        |
| External professional fees                   | 3.5        | 3.5        |
|  | <u>8.0</u> | <u>7.4</u> |

## 7. Investment income

|                                  | 2017         | 2016         |
|----------------------------------|--------------|--------------|
|                                  | £'m          | £'m          |
| Dividends from equities          | 210.4        | 172.8        |
| Income from fixed interest bonds | 73.4         | 91.6         |
| Income from index-linked bonds   | 9.5          | 10.3         |
| Net rents from properties        | -            | 3.4          |
| Swap income                      | 9.5          | -            |
| Annuity income                   | 4.8          | 4.9          |
| Interest on cash deposits        | 0.8          | 1.3          |
| Other income                     | 1.9          | 3.3          |
|                                  | <u>310.3</u> | <u>287.6</u> |

## 8. Investment management expenses

The Scheme bears the cost of investment management expenses. The New Airways Pension Scheme bears 50% (2016: 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<br>31 March 2016 | Purchases at cost<br>& derivative<br>payments | Sales proceeds<br>& derivative<br>receipts | Change in<br>market value | Value<br>31 March 2017 |
|--------------------------|---------------------------|---|--|---------------------------|------------------------|
|                          | £'m                       | £'m   | £'m  | £'m                       | £'m                    |
| Equities                 | 6,616.7                   | 4,486.8                                       | (4,894.3)                                  | 1,629.5                   | 7,838.7                |
| Fixed interest bonds     | 2,254.4                   | 2,894.0                                       | (2,638.4)                                  | 204.2                     | 2,714.2                |
| Index-linked bonds       | 1,398.0                   | 1,126.4                                       | (784.3)                                    | 325.3                     | 2,065.4                |
| Pooled arrangements      |                           |   |  |                           |                        |
| Property                 | 1,285.9                   | 135.5   | (169.1)                                    | 75.4                      | 1,327.7                |
| Alternative investments  | 823.9                     | 114.8   | (122.8)                                    | 159.3                     | 975.2                  |
| Private equity           | 582.4                     | 79.6  | (175.5)                                    | 141.4                     | 627.9                  |
| Derivatives              |                           |   |  |                           |                        |
| Inflation-linked swaps   | (324.7)                   | -   | -  | 268.4                     | (56.3)                 |
| Interest rate swaps      | 106.5                     | -   | -  | (44.4)                    | 62.1                   |
| Total return swaps       | 4.9                       | -   | -  | 153.8                     | 158.7                  |
| Swaptions                | 11.7                      | -   | (12.7)                                     | 1.0                       | -                      |
| Options                  | 36.5                      | 52.1  | (43.2)                                     | (61.0)                    | (15.6)                 |
| Futures                  | 3.9                       | 24.5  | (62.8)                                     | 35.2                      | 0.8                    |
| Forward foreign exchange | (9.2)                     | 678.4   | (199.5)                                    | (433.3)                   | 36.4                   |
| AVC mixed portfolio fund | 128.5                     | 14.3  | (20.9)                                     | 24.2                      | 146.1                  |
| External AVC investments | 0.6                       | -   | (0.3)                                      | 0.2                       | 0.5                    |
|                          | 12,920.0                  | 9,606.4                                       | (9,123.8)                                  | 2,479.2                   | 15,881.8               |
| Cash                     | 132.2                     | -   | (26.4)                                     | 7.9                       | 113.7                  |
| Other investments        | 49.7                      | 13.3  | -  | 0.5                       | 63.5                   |
|                          | <b>13,101.9</b>           | <b>9,619.7</b>                                | <b>(9,150.2)</b>                           | <b>2,487.6</b>            | <b>16,059.0</b>        |

There were no individual investments which comprised greater than 5% of the net assets of the Scheme (2016: 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<br>£'m | Commission<br>£'m | Taxes<br>£'m | 2017 Total<br>£'m | 2016<br>£'m |
|----------|-------------|-------------------|--------------|-------------------|-------------|
| Equities | 1.5         | 14.3              | 4.6          | 20.4              | 17.5        |
| Other    | -           | 0.4               | -            | 0.4               | 0.3         |
| 2017     | 1.5         | 14.7              | 4.6          | 20.8              | -           |
| 2016     | 1.1         | 12.5              | 4.2          | -                 | 17.8        |

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

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## 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 2017 the value of these funds are as follows:

| <b>Property</b>                | <b>% held</b> | <b>2017</b>           | <b>2016</b>          |
|--------------------------------|---------------|-----------------------|----------------------|
|                                |               | <b>£'m</b>            | <b>£'m</b>           |
| Externally pooled indirect     |               | 373.3                 | 319.4                |
| Direct UK property             |               | <u>954.4</u>          | <u>966.5</u>         |
| <b>Total property unitised</b> | <b>82.20%</b> | <u><b>1,327.7</b></u> | <u><b>1285.9</b></u> |
| <br>                           |               |                       |                      |
| <b>Alternatives</b>            | <b>% held</b> | <b>2017</b>           | <b>2016</b>          |
|                                |               | <b>£'m</b>            | <b>£'m</b>           |
| Alternative unitised fund      | 49.37%        | 2.0                   | 1.8                  |
| Direct investments             |               | <u>973.2</u>          | <u>822.1</u>         |
| <b>Total</b>                   |               | <u><b>975.2</b></u>   | <u><b>823.9</b></u>  |
| <br>                           |               |                       |                      |
| <b>Private equity</b>          | <b>% held</b> | <b>2017</b>           | <b>2016</b>          |
|                                |               | <b>£'m</b>            | <b>£'m</b>           |
| Private equity unitised fund   | 49.37%        | 16.2                  | 18.2                 |
| Direct investments             |               | <u>611.7</u>          | <u>564.2</u>         |
| <b>Total</b>                   |               | <u><b>627.9</b></u>   | <u><b>582.4</b></u>  |

# 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<br>£'m | Asset value<br>£'m | Liability value<br>£'m |
|------------------------|-------------|-----------------------|--------------------|------------------------|
| Inflation-linked swaps | <10 years   | 578.8                 | 24.8               | 0.9                    |
| Inflation-linked swaps | 10-20 years | 792.8                 | 33.5               | 9.8                    |
| Inflation-linked swaps | 20-30 years | 478.6                 | 11.6               | 71.7                   |
| Inflation-linked swaps | 30-40 years | 1,015.3               | 73.7               | 106.3                  |
| Inflation-linked swaps | >40 years   | 16.0                  | -                  | 11.2                   |
| Interest rate swaps    | <10 years   | 595.9                 | 5.2                | 1.5                    |
| Interest rate swaps    | 10-20 years | 291.2                 | 14.9               | 11.5                   |
| Interest rate swaps    | 20-30 years | 977.2                 | 32.9               | 65.8                   |
| Interest rate swaps    | 30-40 years | 310.1                 | 44.7               | 13.3                   |
| Interest rate swaps    | >40 years   | 557.2                 | 95.6               | 39.1                   |
| Total return swaps     | <10 years   | 961.6                 | 158.7              | -                      |
| <b>Total 2017</b>      |             | <b>6,574.7</b>        | <b>495.6</b>       | <b>(331.1)</b>         |
| <b>Total 2016</b>      |             | <b>3,925.4</b>        | <b>186.2</b>       | <b>(387.8)</b>         |

### Options

The investment committee agreed to protect approximately £1bn 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 £1bn.

The fair value of the exchange traded put and call option spreads expiring in March 2017 across UK, US and Europe amounts to a liability of £(13.4m) (2016: asset of £36.8m).

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 £(2.2m) (2016: liability of £0.3m).

Included within cash balances are £50.5m (2016: £6.2m) in respect of initial and variation margins arising on open futures and options contracts as at the year end.

# Notes to the Financial Statements

## 11. Derivatives - continued

### Futures

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

| Nature                  |      | Notional Amount/<br>Contract Size | Duration          | Fair Value<br>£'m |
|-------------------------|------|-----------------------------------|-------------------|-------------------|
| DJ STX 50 stock futures | Buy  | 23,230                            | June 2017         | 1.8               |
| EMINI S&P stock futures | Sell | 41,900                            | June 2017         | (0.7)             |
| Topix stock futures     | Sell | 2,740,000                         | June 2017         | (0.3)             |
| Total overseas futures  |      |                                   |                   |                   |
|                         |      |                                   | <b>Total 2017</b> | <b>0.8</b>        |
|                         |      |                                   | <b>Total 2016</b> | <b>3.9</b>        |

Included within cash balances are £50.5m (2016: £6.2m) 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<br>£'m | Liability value<br>£'m |
|---------------------|---------------|---------------|--------------------|------------------------|
| <b>EUR</b>          |               |               |                    |                        |
| Forward to buy EUR  | Apr17         | €0.7          | -                  | -                      |
| Forward to sell EUR | Apr17-Jun17   | €1,123.5      | 10.5               | (1.4)                  |
| <b>JPY</b>          |               |               |                    |                        |
| Forward to buy JPY  | Apr17         | ¥346.2        | -                  | -                      |
| Forward to sell JPY | Apr17-Jun17   | ¥67,301.4     | 0.3                | (3.3)                  |
| <b>USD</b>          |               |               |                    |                        |
| Forward to sell USD | Apr17-Jun17   | \$3,363.5     | 31.4               | (1.1)                  |
| <b>Total 2017</b>   |               |               | <b>42.2</b>        | <b>(5.8)</b>           |
| <b>Total 2016</b>   |               |               | <b>17.1</b>        | <b>(26.3)</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   | Collateral Type | Pledge<br>£'m | Derivative position       |
|----------------|-----------------|---------------|---------------------------|
| Goldman Sachs  | UK Gilt         | (125.2)       | Swaps & FX Forwards       |
| Morgan Stanley | UK Gilt         | (3.0)         | FX Forwards & Options     |
| UBS            | Cash            | 156.0         | FX Forwards/Options/Swaps |
| JP Morgan      | UK Gilt         | (52.8)        | Swaps & FX Forwards       |
| JP Morgan      | Cash            | 4.1           | Swaps & FX Forwards       |
| RBS            | Cash            | 102.9         | Swaps & FX Forwards       |
| Nomura         | UK Gilt         | 66.2          | Swaps                     |
| Barclays       | UK Gilt         | (25.4)        | Swaps/FX Forwards         |
|                |                 | <u>122.8</u>  |                           |

Collateral pledged with counterparty is reflected as a negative value.

## 13. Additional voluntary contributions

The Trustee holds assets 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 | 2017<br>£'m  | 2016<br>£'m  |
|-----------------------------|--------|--------------|--------------|
| <b>Mixed portfolio fund</b> |        |              |              |
| Equities                    |        | 121.9        | 107.8        |
| Fixed interest              |        | 20.2         | 18.4         |
| Index-linked                |        | 0.4          | 0.7          |
| Cash                        |        | 3.6          | 1.6          |
| Total mixed portfolio fund  | 88.79% | <u>146.1</u> | <u>128.5</u> |
| Short-dated gilts fund      |        | 19.2         | 19.8         |
| Equity biased fund          |        | 149.4        | 137.1        |
|                             |        | <u>314.7</u> | <u>285.4</u> |

# Notes to the Financial Statements

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## 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:

|  | 2017<br>£'m | 2016<br>£'m |
|--|-------------|-------------|
| <b>British Caledonian</b>              |             |             |
| Prudential                             | 0.4         | 0.5         |
| <b>Davies &amp; Newman and Dan Air</b> |             |             |
| Scottish Life                          | -           | -           |
| Equitable Life Assurance               | 0.1         | 0.1         |
| Aviva                                  | -           | -           |
|  | <u>0.5</u>  | <u>0.6</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:

|                              | 2017<br>£'m  | 2016<br>£'m  |
|------------------------------|--------------|--------------|
| Balance of BAMPS at 1 April  | 4.6          | 4.3          |
| Interest                     | 0.3          | 0.4          |
| Retirements                  | <u>(0.2)</u> | <u>(0.1)</u> |
| Balance of BAMPS at 31 March | <u>4.7</u>   | <u>4.6</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:

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

Level (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.

Level (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 levels as follows:

|                           | As at 31 March 2017 |                  |                  | Total<br>£'m    |
|---------------------------|---------------------|------------------|------------------|-----------------|
|                           | Level (1)<br>£'m    | Level (2)<br>£'m | Level (3)<br>£'m |                 |
| Equities                  | 7,838.7             | -                | -                | 7,838.7         |
| Bonds                     | 4,779.6             | -                | -                | 4,779.6         |
| Pooled arrangements       | -                   | -                | 2,930.8          | 2,930.8         |
| Derivatives               | (14.8)              | 200.9            | -                | 186.1           |
| AVC mixed portfolio fund  | 146.1               | -                | -                | 146.1           |
| External AVCs             | 0.5                 | -                | -                | 0.5             |
| Cash                      | 57.8                | 55.9             | -                | 113.7           |
| Other investment balances | 63.5                | -                | -                | 63.5            |
|                           | <u>12,871.4</u>     | <u>256.8</u>     | <u>2,930.8</u>   | <u>16,059.0</u> |

|                           | As at 31 March 2016 |                  |                  | Total<br>£'m    |
|---------------------------|---------------------|------------------|------------------|-----------------|
|                           | Level (1)<br>£'m    | Level (2)<br>£'m | Level (3)<br>£'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> |

Interest, inflation and discount rate assumptions were based on the prevailing market rates at the year end.



# Notes to the Financial Statements

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## 17. Investment risk disclosures

### Investment risks

The disclosure of information in relation to certain investment risks are 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 Trustee has 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 Trustee's Report. The Trustee 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 Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's 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 Trustee sets 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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## 17. Investment risk disclosures - continued

### (i) Investment strategy - continued

The current strategy is to hold:

- Liability matching assets – 35% 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 – 65% in return seeking investments comprising UK and overseas equities, equities futures, investment property, alternatives and private equity.

45% of the above investments are in overseas currencies. To minimise the currency risk the Trustee has 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 Trustee manages 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 Trustee-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 Trustee manages 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 £175.2 million (2016: £372.9 million) of public sector securities and £354.4 million (2016: £117.0 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 105.2% 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.

The Trustee carries out due diligence checks on the appointment of a new fund and on an on-going basis monitors 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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## 17. Investment risk disclosures - continued

### (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 Trustee limits 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:

|           | 2017<br>£'m    | 2016<br>£'m    |
|-----------|----------------|----------------|
| US Dollar | 779.8          | 1,038.4        |
| Euro      | 241.8          | 270.6          |
| Other     | 1,913.8        | 1,543.5        |
|           | <u>2,935.4</u> | <u>2,852.5</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 Trustee has 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 expected 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 the actuarial liabilities are expected to 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 Trustee has 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 65% 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:

|                         | 2017<br>£'m  | 2016<br>£'m  |
|-------------------------|--------------|--------------|
| Property                | 63.4         | 81.2         |
| Alternative investments | 345.8        | 298.0        |
| Private equity          | 448.8        | 385.0        |
|                         | <u>858.0</u> | <u>764.2</u> |

Additionally, at the prior 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 in International Consolidated Airline Group SA, or any shares or other securities as defined by section 40 of the Pensions Act 1995.

## 20. Related party transactions

The Corporate Trustee of NAPS is New Airways Pension Scheme Trustee Limited (NAPSTL). This company is dormant, and its set up cost was paid by the Scheme.

BAPTL, a company limited by guarantee, holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the pooled arrangements. The directors of BAPTL are all Directors of either Airways Pension Scheme Trustee Limited (APSTL) or NAPSTL. The companies described below are all wholly owned by BAPTL.

BAPSL provides administration services and BAPIML provides investment management services to the Scheme. The Scheme is recharged for these services, as shown in the fund account, and in notes 6 and 8.

BAPSL provides secretariat and financial administration to the British Airways Retirement 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.

British Airways Pension Property Holdings Limited and British Airways Property Holdings (Number 2) Limited were dormant at all times during the period and were struck off the Companies House register on 27 June 2017. These companies held the legal title to some of the properties of the Scheme but these titles were all transferred to BAPTL during the period.

Four of the Trustee Directors of APSTL and NAPSTL appointed by BA Plc that served during the year, William Francis, Ian Howick, Charlie Maunder and Jude Winstanley, are members or pensioners of APS or NAPS. Virginia Holmes, Andrew Fleming, Philip Osmond, Rebecca Napier and Sian Davies are not members of the Schemes. If they are members or pensioners then their pension rights are on terms normally granted to members.

Virginia Holmes was remunerated by BA Plc in respect of her services as Chair of the Trustee Companies. Pensioner elected Trustee Directors were also eligible for payment by the Employer.

# Independent Auditor's Statement About Contributions

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## **Independent auditor's statement about contributions to the Trustee of the New Airways Pension Scheme**

We have examined the summary of contributions payable under the Schedule of Contributions to the New Airways Pension Scheme in respect of the Scheme year ended 31 March 2017 which is set out on page 37.

This statement is made solely to the Scheme's Trustee, 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 Trustee 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 Trustee, as a body, for our work, for this statement, or for the opinions we have formed.

## **Respective responsibilities of the Trustee and the auditor**

As explained more fully in the statement of Trustee's responsibilities set out on page 12, the Scheme's Trustee is 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 Trustee is 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 under the Schedules of Contributions 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 Schedules 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 Schedules of Contributions.

## **Basis for modified statement about contributions**

The Schedule of Contributions for the Scheme dated 13 December 2016 stipulates that the participating employers would pay an increased employer normal contribution rate of 32.7% from 1 January 2017 in respect of FSS members.

For the year ended 31 March 2017, the increased rate of employer normal contributions for FSS members was not applied and so the new, higher amounts were not paid over to the Scheme as required, within 19 days of the following month, for January and February 2017. The correcting contributions of £19m were collected by 29 March 2017.

## **Modified statement about contributions payable under the Schedules of Contributions**

In our opinion contributions for the Scheme year ended 31 March 2017 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 23 March 2016 from 1 April 2016 to 31 December 2016 and, except for the matter referred to above, have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 13 December 2016 from 1 January 2017 to 31 March 2017.

**Richard Hinton**

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

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

**31 October 2017**

# Schedule of Contributions

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## Statement of Trustee's responsibilities in respect of contributions

The Scheme's Trustee is 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 Trustee is 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.

## Trustee's summary of contributions payable under the Schedules in respect of the Scheme year ended 31 March 2017

This summary of contributions has been prepared on behalf of, and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 23 March 2016 and 13 December 2016 in respect of the Scheme year ended 31 March 2017. 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   | 183.6        |
| Employer deficit funding – regular  | 253.5        |
| Employer deficit funding – cash sweep   | 283.0        |
| Employee normal contributions   | 3.0          |
| <b>Contributions payable under the Schedules<br/>(as reported on by the Scheme auditor)</b> | <u>723.1</u> |

## Reconciliation of contributions

Reconciliation of contributions payable under the Schedules of Contributions reported in the financial statements in respect of the Scheme year:

|   | £'m          |
|---|--------------|
| Contributions payable under the Schedules (as above)                | 723.1        |
| Contributions payable in addition to those due under the Schedules: |              |
| Employer augmentations  | 0.5          |
| Employee additional voluntary contributions                         | 28.0         |
| <b>Total contributions reported in the financial statements</b>     | <u>751.6</u> |

This report was approved by the Trustee Board on 27 September 2017 and was signed on their behalf by:

Fraser Smart      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 30 September 2027

### Level of contributions payable:

#### By members:

- Salary sacrifice members: Nil
- "Lower accrual members": Nil
- FSS members who are not salary sacrifice members or "lower accrual members":
  - As specified in the table 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 salary sacrifice member or a "2016 Lower Accrual Member", but for the avoidance of doubt including "lower accrual members", 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 from 1 April 2015 to 31 December 2016:

|                     | % 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%   |

- Contributions at the rate of 32.7% of Pay for contribution purposes to cover the full cost of accrual in respect of FSS members from 1 January 2017.

# Schedule of Contributions

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- Contributions to eliminate the funding shortfall:
  - £18,416,667 per month from 1 October 2015 to 31 March 2016
  - £19,833,333 per month from 1 April 2016 to 31 December 2016
  - £25,000,000 per month from 1 January 2017 to 30 September 2027
- 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 Trustee 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. Under these additional arrangements, additional payments may be made from time to time as part of the cash sweep arrangement or as mitigation for special distributions, including payments in June 2015 and June 2016. In some circumstances, as documented in that legal agreement, part or all of these additional payments may be treated as pre-payments of the fixed deficit contributions which are furthest in the future and are still payable under the Recovery Plan and still due for payment.

## **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 1:** 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.

**Note 2:** Part of the monthly lump sum contributions payable before 1 January 2017 were allocated to cover the balance of the cost of accrual under the Schedule of Contributions dated 28 June 2013. In particular, £6,873,550 out of £18,416,667 per month from 1 October 2015 to 31 March 2016 and £6,962,375 out of £19,833,333 per month from 1 April 2016 to 31 December 2016 was allocated to cover the balance of the cost of accrual.

Date of Schedule (for reference purposes): 13 December 2016

Signed on behalf of the Trustees of the Scheme

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

Virginia Holmes  
Chair of the Trustees

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 2015 to be met by the end of the period specified in the recovery plan dated 13 December 2016.
- 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 13 December 2016.

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

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

13 December 2016

# 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 Trustee 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 2015. This showed that on that date:  
The value of the technical provisions was: £16,065 million  
The value of the assets at that date was: £13,280 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

| Assumption  | Value  |
|---|--|
| Discount rate                                       | A term-dependent margin equivalent to a single equivalent margin of approximately 1.0% p.a. over the full nominal gilt yield curve |
| Retail Prices Index (RPI) inflation                 | Term-dependent rates derived from the difference between the full index-linked and nominal gilt yield curves                       |
| Salary increases (in addition to promotional scale) | RPI  |
| Deferred pension revaluation                        | RPI-0.9% p.a.*   |
| Pension increases in payment:                       |  |
| - PIRO capped at 5% each year                       | RPI-0.9% p.a.*   |
| - Dan Air (3% floor per annum)                      | RPI-0.9% p.a.*   |
| - Post 88 GMP (capped at 3% each year)              | RPI-0.9% p.a.*   |
| LEL increases                                       | RPI-0.9% p.a.*   |

\*With relevant annual caps and floors applied to the forward rates.

# Report on Actuarial Liabilities

(Forming part of the Trustees' Report)

**Mortality:** the base table of mortality assumed at 31 March 2015 is summarised below. This is based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. These tables are 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*                     | 104% of S2PMA  |
| - High pensions*                    | 86% of S2PMA_L |
| Female non-pensioners               | 87% of S2PFA_L |
| Male dependents of non-pensioners   | 87% of S2PMA_H |
| Female dependents of non-pensioners | 97% of S2DFA   |
| Male pensioners with:               |                |
| - Low pensions*                     | 103% of S2PMA  |
| - High pensions*                    | 90% of S2PMA_L |
| Female pensioners                   | 94% of S2PFA_L |
| Male dependents of pensioners       | 87% of S2PMA_H |
| Female dependents of pensioners     | 97% of S2DFA   |

\*Low pensions are classed as being lower than £25,100 p.a. at 31 March 2015. High pensions are higher than the specified limit.

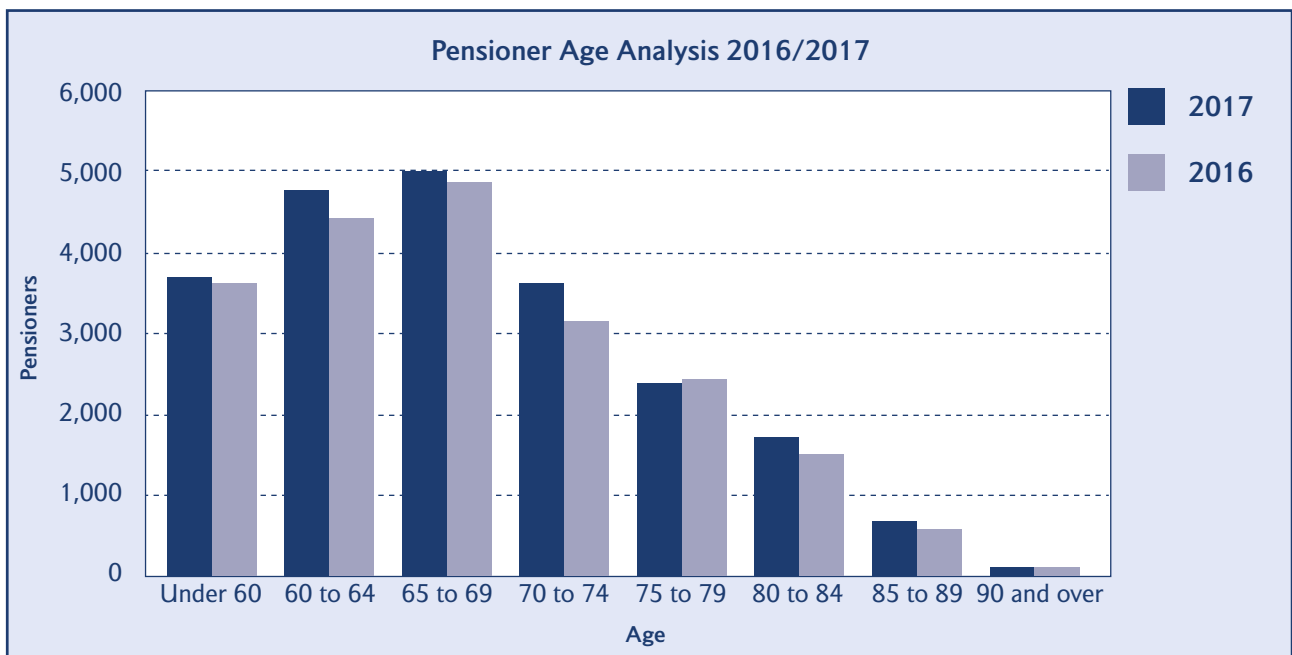
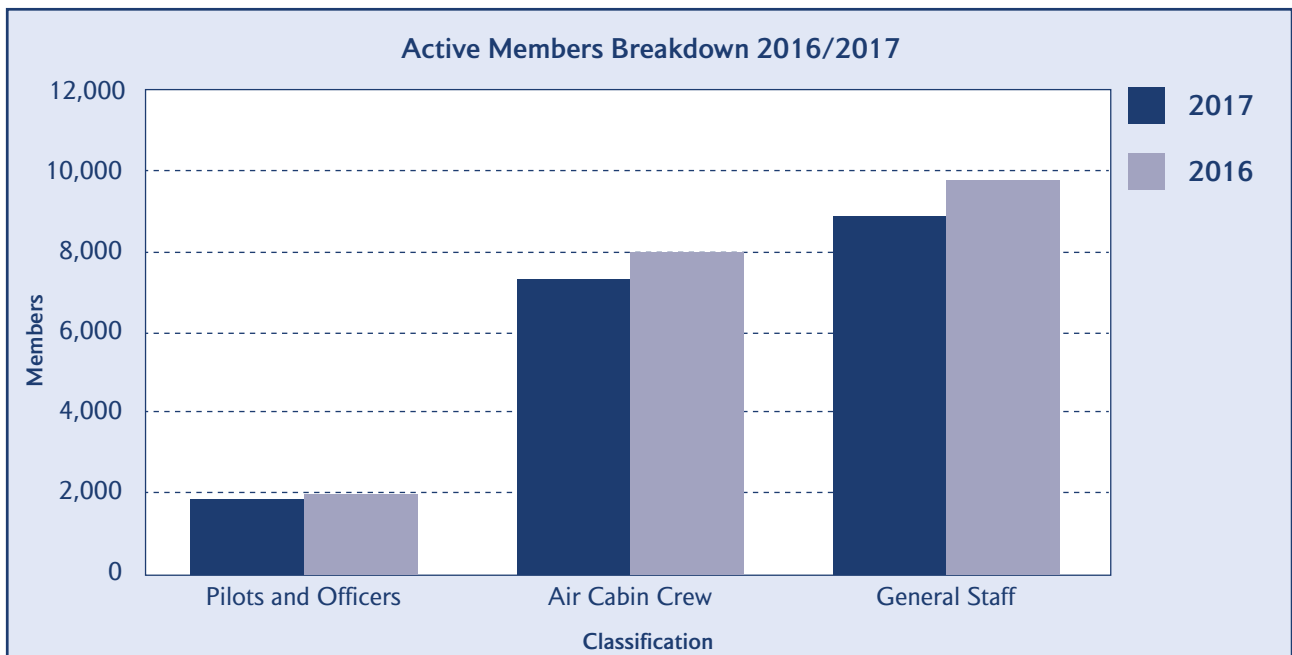
The tables above were adjusted to incorporate improvement factors to 2015 based on the CMI2014 core projection model.

To address future improvements in mortality from 2015 an explicit allowance for long-term trend reductions in mortality rates of 1.5% p.a. has been applied to the CMI's 2015 core projection model.

The proportion of pension exchanged for a lump sum at retirement has been set at 17.5% of pension commuted on terms 12% higher than the rates applicable at the valuation date.

# Membership Information

|                       | 2017          | 2016          |
|-----------------------|---------------|---------------|
| Active members        | 17,870        | 19,604        |
| Pensioners in payment | 22,088        | 21,035        |
| Dependant pensioners  | 4,028         | 3,876         |
| Deferred pensioners   | 22,006        | 22,046        |
|                       | <b>65,992</b> | <b>66,561</b> |



# 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 not contracted-out of the State Second Pension.

## Membership

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

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 NAPS1 specifically in order to join NAPS2 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.

British Airways Pension Services  
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