

# Annual Report & Financial Statements



Year ended  
31 March 2018

# ANNUAL REPORT AND FINANCIAL STATEMENTS

New Airways Pension Scheme

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Welcome to my annual report as Chair of the New Airways Pension Scheme (NAPS). This report covers issues around governance, funding, investment and administration during the Scheme year as well as updating you on some important events since the year end. Throughout the year we have kept members informed about Scheme developments; with articles in both *In Focus* and quarterly online newsletters/bulletins as well as regular updates on the closure of NAPS to future accrual.

### **NAPS closure to future accrual**

In September 2017 British Airways (BA) commenced a consultation with its employees on its proposals for future pension benefit provision.

Following BA's consultation with active members of NAPS and the British Airways Retirement Plan (BARP), pension build up ceased in both arrangements on and from 1 April 2018. BA introduced a new pension arrangement for its employees, the British Airways Pension Plan (BAPP), on 1 April 2018.

The closure of NAPS to future accrual was a significant change for NAPS members and the NAPS Trustee was keenly aware that members faced complex decisions in relation to transitional options offered by BA. The BA Pensions team dealt with a large volume of closure-related enquiries and its key focus was to provide support and information to members during this period.

### **Funding and investment**

The 2015 formal valuation was completed in December 2016. In the years between formal valuations the Actuary carries out interim updates on how the funding position has changed since the last valuation.

The Trustee's 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 2017 update the deficit was £3.7bn and the funding level was 81.1%.

The 2018 formal valuation is in progress and has a statutory deadline for finalisation by 30 June 2019.

In the year ending 31 March 2018, BA paid £701m (including employee salary sacrifice contributions) into

NAPS. We have seen steady investment returns and as a result, the Scheme's assets have grown from £16.1bn to £16.9bn.

However, due to the impact of closure to future accrual, liabilities have decreased over the period. This is due to closure removing the link to future salary increases for existing active members of NAPS at 31 March 2018 (except, for a defined period of time, where selected as one of the transitional options made available by BA). The full impact of closure will be calculated as part of the 2018 formal valuation.

In the period prior to closure, the improvement in the overall funding level allowed us to make members' benefits more secure by reducing our exposure to investment risk. In addition to the annual de-risking programme, in January 2018 we further reduced our holding of return-seeking assets by 5.75%. At 31 March 2018, return-seeking assets made up 56.5% of our benchmark portfolio. We moved the proceeds into less volatile, liability-matching assets. This de-risking reflects the terms of our Journey Plan which makes sure we manage risk and the required return by keeping a close eye on the funding level and market conditions. More de-risking has been carried out in the period since 31 March 2018.

You can read more about our investments on [pages 13 to 17](#).

### **Governance matters**

As a matter of good governance we review each of our professional advisers on a regular basis. We reviewed the Scheme's Auditor and retained the incumbent, KPMG. We also reviewed the Scheme's Actuary and appointed Aaron Punwani of Lane Clark & Peacock on 1 April 2018. I would like to thank the Scheme's former Actuary, James Wintle of Willis Towers Watson, for supporting the Scheme through many complex changes during his tenure.

An important legal change that has taken place since the end of the Scheme year is that the General Data Protection Regulation (GDPR) came into force in May 2018. This legislation gives people new rights to move or delete personal data and requires companies to collect and use data in line with key principles. To ensure the Scheme is compliant with the new regulation the NAPS Trustee agreed a new [Privacy Statement](#).

**New office premises for BA Pensions - Whitelocke House Team**

After 25 years at Whitelocke House the BA Pensions team is moving to BA's headquarters, Waterside. Our new postal address details are available on [www.mybapension.com](http://www.mybapension.com). Whilst the move is a significant task I am confident there will be no impact to the high levels of service Scheme members have come to expect from BA Pensions. The move does not change the BA Pensions' role in support of the APS Trustee and NAPS Trustee and it remains completely independent of BA.

**Long term vision and objectives**

The NAPS Trustee Directors reviewed the Board's strategy and reconfirmed its [long term vision and objectives](#) which are to pay the right benefits to the right people at the right time. To deliver this the NAPS Trustee has developed a number of objectives which drive the operation of the Scheme, the Trustee Board and BA Pensions. The NAPS Trustee's long-term vision and objectives are available on the '[About us](#)' page of the member website, [www.mybapension.com](http://www.mybapension.com).

**Employer Appointed Trustee Directors**

After the end of the Scheme year, BA made some changes to the Employer Appointed Trustee Directors (ENDs) serving the NAPS Trustee Board. Up until 24 July 2018, the ENDs had sat jointly on the Airways Pension Scheme (APS) Trustee and NAPS Trustee Boards. With effect from 25 July 2018, BA appointed five additional ENDs, allocating them between the Boards so that, apart from me, the ENDs no longer sit on both Boards. This resulted in the following changes to the NAPS Trustee Board: Rebecca Napier, Andrew Fleming and Jude Winstanley ceased to serve as NAPS Trustee Directors with effect from 24 July 2018. BA appointed Caroline Mellor, Ben Sehovic and Karen Slinger as NAPS Trustee Directors with effect from 25 July 2018. On behalf of the NAPS Trustee Board I would like to thank Rebecca, Andrew and Jude for their valuable contribution and extend a warm welcome to Caroline, Ben and Karen.

**Acknowledgements**

Finally, I would like to thank all the Trustee Directors for their dedication, diligence and commitment over the year. On behalf of my fellow NAPS Trustee Directors I would like to commend the BA Pensions team for its support and exceptional service throughout a challenging year.

**Virginia Holmes**  
**Chair of the Trustee**  
September 2018

### Appointed by British Airways Plc (the Company)

**Virginia Holmes**  
(Chair)  
Independent Trustee

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

**William Francis**  
Director of Group IT  
IAG

**Caroline Mellor**  
Senior Commercial Lawyer  
BA Plc  
Appointed 25 July 2018

**Ben Sehovic**  
Head of Heathrow Terminal 3  
IAG  
Appointed 25 July 2018

**Karen Slinger**  
Head of Cabin Crew  
BA Plc  
Appointed 25 July 2018

### Elected by pensioners/members

**Neil Blackburn**  
Cabin Crew Purser

**Ian Bretherton**  
Captain

**Christopher Daw**  
Section Leader

**Graham Fowler**  
Pensioner elected

**Dave Southcott**  
Senior Customer Service  
Agent

**John Wheale**  
Pensioner elected

### Left office during the year

**David Maunder**  
Ceased 2 May 2017

**Andrew Fleming**  
Ceased 24 July 2018

**Rebecca Napier**  
Ceased 24 July 2018

**Jude Winstanley**  
Ceased 24 July 2018

### Administration & investment management (BA Pensions)

British Airways Pension Services Ltd (BAPSL) Trustee Support and Member Services  
British Airways Pension Investment Management Ltd (BAPIML) – Investment Management

Fraser Smart – Chief Executive Officer & Scheme Secretary, BA Pensions  
Michelle McGregor Smith – Chief Executive Officer, BAPIML

### Advisers\*

**Scheme Actuary**  
James Wintle  
Towers Watson Limited  
Until 31 March 2018

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

**Bankers**  
BNY Mellon

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

**Scheme Actuary**  
Aaron Punwani  
Lane Clark & Peacock  
From 1 April 2018

**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**

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 2018, as set out on [pages 20 to 36](#) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

**SCHEME FUNDING POSITION**

Formal valuations are carried out every three years and the formal valuation for 31 March 2015 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 interim updates at 31 March 2016 and as at 31 March 2017 and the associated 'annual funding statement' has been issued to members.

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

The funding positions are shown below:

	31 March 2017 (£m)	31 March 2016 (£m)	31 March 2015 (£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 market conditions to the relevant dates.

The formal valuation as at 31 March 2018 is in progress and will reflect the Scheme's position following

closure to future accrual. The statutory deadline for completion of the formal valuation is 30 June 2019.

**The recovery plan**

The Scheme has a recovery plan in place to address the funding deficit. Under the terms of the recovery plan the Trustee and the Company have agreed to repair the deficit such that:

- The Company will pay deficit contributions of £25 million per month until 30 September 2027.
- If the assumptions in the recovery plan are borne out in practice, the deficit as 31 March 2015 was expected to be eliminated by 30 September 2027.
- In addition, the Trustee and the Company have agreed a package of further measures aimed at improving the funding position and members' benefit security over time, which are documented in separate legal agreements. This includes a 'cash sweep' mechanism under which the Company will pay additional contributions to the Scheme of up to £150 million each year based on the level of the BA's cash reserves.

Depending on the Scheme's funding position at that time, some or all of these additional contributions may be treated as a pre-payment of contributions due under the recovery plan. The deficit contributions for July to September 2027 were prepaid by £75m of the March 2017 cash sweep payment and April to June 2027 were prepaid by £75m of the March 2018 cash sweep payment.

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 advised the Trustee, as part of the 2015 valuation, that the contributions that the Company had committed to pay to the Scheme and to the Airways Pension Scheme (APS) were set at a level that the Company could reasonably afford.

BA paid £150m to the Scheme in respect of the 31 March 2017 cash sweep payment, received and accounted for in the current year's financial statements, and £150m in respect of the 31 March 2018 cash sweep payment, which will be accounted for in the 2018/19 financial statements.

### Scheme investment

The broad strategic asset allocations as at 31 March 2018 are shown below:

Investment category	Allocation
Return seeking	56.5%
Liability matching	43.5%

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 also established liability hedging arrangements involving interest rate and inflation hedging triggers. The aim of the liability hedging programme was 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. During the year ending March 2018, this programme was largely completed with the time-based de-risking continuing. The establishment of any new programme will be considered as part of the 2018 formal valuation.

### Statement of Investment Principles (SIP)

An updated SIP was adopted in March 2018.

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.

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 13 to 17](#).

### SCHEME GOVERNANCE

Trustee knowledge and understanding (TKU)

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

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 questionnaires concerning knowledge and understanding the 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 updated and adopted in December 2017.

#### **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. There is a reporting framework, which has been agreed with the Company to ensure that the Trustee receives regular updates on the business activities and financial position of the Company.

#### **Change of actuary**

Following an actuarial service provider review, on 1 April 2018 James Wintle of Willis Towers Watson resigned as Scheme Actuary, and Aaron Punwani of Lane Clark & Peacock was appointed. On leaving office, Mr Wintle confirmed that he was not aware of any circumstances connected with his resignation which, in his opinion, significantly affected the interests of members or prospective members of, or beneficiaries under, the Scheme.

#### **Trustee arrangements**

- The Scheme is administered by twelve Trustee Directors.
- Six of the Trustee Directors, including the independent Chair, are appointed by the Company.
- Four of the Trustee Directors are elected by employed deferred members of the Scheme. As part of the closure of NAPS to accrual on and from 1 April 2018 the Scheme Rules for Trustee arrangements were amended, replacing the active member category with employed deferred members, being deferred members of NAPS who remain employed with BA. The Trustee Directors in office at the time of closure were carried forward. Each will come from a different occupational group. These Trustee Directors must be employed deferred 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 employed deferred Trustee Directors must be supported by at least twenty employed deferred 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

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 employed deferred Trustee Director at the same time however flexible retirement members are eligible to vote in both employed deferred and pensioner member\* Trustee Director elections.
- An elected Trustee Director may be removed from office following a 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 investment experts 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.

### Performance of Trustee Directors

Attendance records for Trustee and Committee meetings have been maintained and are shown below for the Scheme year to 31 March 2018.

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of appointment to Main Board
Virginia Holmes (Chair)	4/4	6/6	-	4/4	Whole Year
Neil Blackburn	1/1	-	4/6	3/4	Whole Year
Ian Bretherton	-	5/6	-	4/4	Whole Year
Sian Davies	-	-	-	4/4	Part Year
Christopher Daw	4/4	-	-	4/4	Whole Year
Andrew Fleming	4/4	-	7/8	3/4	Whole Year
Graham Fowler	2/3	-	2/2	4/4	Whole Year
William Francis	-	-	8/8	3/4	Whole Year
David Maunder	-	1/1	-	-	Part Year
Rebecca Napier	-	1/1	-	4/4	Whole Year
Dave Southcott	-	6/6	-	4/4	Whole Year
John Wheale	-	-	4/8	4/4	Whole Year
Jude Winstanley	-	3/3	-	4/4	Whole Year

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

#### Cessation of future accrual

On 1 April 2018 NAPS was closed to pension accrual and active members became deferred members on this date.

#### Pensions Advice Allowance

The Pensions Advice Allowance (PAA) was introduced in December 2017. Subject to certain conditions, the PAA enables members with AVCs to pay for retirement financial advice.

#### Scheme Pays

The Scheme Pays facility was available to members who incurred an Annual Allowance charge of at least £2,000. The £2,000 minimum threshold has been removed enabling all members affected by an Annual Allowance charge to use the Scheme Pays facility.

## TRUST DEED AMENDMENTS

The following amendments were made during the year:

- Administrative amendments in relation to scheme payment power – clarified formalities to be followed when certain directions are given by the Trustee to British Airways Pension Trustee Limited.
- British Caledonian and Dan-Air – Deferment of transferred-in benefits – enabled British Caledonian, Dan Air and Davies & Newman deferred members to defer drawing their benefits to age 75.
- Pension Advice Allowance – enabled a pension advice allowance payment to be made from a member's AVC account.
- AVC Arrangements – extended the date in relation to AVC account applications in respect of members affected by NAPS closure.
- NAPS Closure – implemented the closure of pension accrual on and with effect from 1 April 2018. This Deed encompassed the following changes to member nominated trustee arrangements:
  - reference to active members was replaced with employed deferreds
  - introduction of the option of e-comms in the Member Nominated Trustee Director election ballot process

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 2018 Order was 3% and in accordance with the Scheme Rules, qualifying pensions were increased by 3% on 9 April 2018. 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, Dan Air, Davies and Newman, Arrowsmith and British Airways Associated Companies Scheme, which are paid by the Scheme, have been increased as variously provided for under the Rules of the relevant scheme.

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

### Internal dispute resolution procedure (IDRP)

The 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 Richard Pilsworth, Head of Legal & Governance, 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 BAPSL.

### Tax

From 6 April 2018 the standard Lifetime Allowance increased to £1,030,000.

The Money Purchase Allowance was reduced from £10,000 to £4,000 a year backdated to 6 April 2017. This change only affects members who have flexibly accessed defined contribution (DC) savings from an external pension arrangement.

### **Online communications**

During the year improvements have been made to our online communications. A Seasonal Bulletin replaced the Trustee Quarterly Newsletter. The new bulletin is designed for online viewing with the option of a printable version. An online survey was launched inviting feedback on pension increase statements the response to which was positive and informative.

This report was approved by the Trustee Board on 26 September 2018 and was signed on its behalf by:

**Fraser Smart**  
**Scheme Secretary**

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

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:

(i) 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

(ii) 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 accounts 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.

They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- 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 is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

(Forming part of the Trustee's Report)

## Review of the year

Global growth in 2017 exceeded most expectations and this has caused the major central banks to discuss exit strategies from the extraordinary monetary policies pursued since the global financial crisis. Central banks are, however, cautious on removing stimulus as there are only tentative signs of wage growth despite low unemployment rates. Further moves in interest rates hinge on the path of inflation.

The UK is one of a few countries where inflation has been above the central bank's target as higher import prices followed from sterling weakness after the referendum vote to leave the European Union (EU). In response, the Monetary Policy Committee (MPC) at the Bank of England began to remove stimulus and increased interest rates in November 2017 for the first time in ten years. Although import price inflation has since shown signs of fading, the MPC has left the door open to further "gradual and limited" interest rate increases depending on the strength of economic data as we move through 2018. The UK labour market has been resilient, but wage growth is required to satisfy some members of the MPC that a further change in monetary policy is warranted. In addition, the economic outlook is still clouded by Brexit related uncertainty.

2017 saw the Eurozone stage a cyclical recovery which became broader and increasingly solid over the course of the year. Synchronised global growth supported the Eurozone region but there was a pause in activity in early 2018. This was attributed to the strength of the currency and temporary factors such as the weather and strikes. The European Central Bank (ECB) has continued with quantitative easing measures for now and the President of the ECB remains confident that inflation will converge with its 2% target over the medium term. This is despite elections in France, Germany and Italy which have increased political risk and supported safe haven flows to some bond and currency markets.

In the US, fiscal policy moved to centre stage as markets eagerly awaited news on Trump's pre-election pledges. The passage of the tax bill reform by the US Senate in December 2017 boosted US corporate cash flows. This was viewed as positive for US growth and underpinned economic momentum even though upward pressure on wages remains limited. The US Federal Reserve (Fed) has continued raising interest rates as the economy is at a later stage in its cycle than other countries. The Fed stands ready for signs of overheating from the positive growth backdrop.

Overall most major asset classes exhibited single digit positive returns. Property was, once again, a relatively strong performer with the benchmark returning 10.1%.

(Forming part of the Trustee's Report)

## Asset allocation and benchmarks

The Trustee Directors and their advisors have set bandwidths around the strategic benchmarks shown below. The strategic benchmark is composed of assets which can broadly be categorised as having a principal focus of either return seeking or liability matching. The bandwidths around the strategic benchmark allow BAPIML to make tactical asset allocation decisions to take advantage of valuation differentials between asset classes which may occur from time to time. The actual allocation shown was within the allowed bandwidths.

## Strategic benchmark and performance

The Trustee Directors' Investment Committee (IC) sets a business plan each year which deals with the annual monitoring of performance and other activities such as transaction cost monitoring and corporate governance. The IC 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 last scheme year the IC also conducted a

review of investment governance, modernising the arrangements and the accompanying documentation, as well as further developing the integrated risk framework. This framework integrates the analysis of the sponsor covenant, funding arrangements and investment activities of the Scheme.

There were a number of actions under the de-risking framework over the course of the year. The quarterly de-risking annual acceleration trigger, whereby return seeking assets are switched to liability matching after hitting a pre-determined funding level, was achieved in September 2017. In January 2018 the upside funding level trigger was hit and a further reduction in return seeking assets, with a commensurate increase in liability matching assets, was completed. There were also changes to the bond benchmarks to reflect updated cash flows following the completion of the 2015 valuation.

The strategic equity hedging policy was cancelled during the year after a review of the status of the overall hedging of the Scheme.

	Asset category	Actual % 31 March 2018	Benchmark % 31 March 2018	Actual % 31 March 2017	Benchmark % 31 March 2017
Return seeking	Equities	41.3	40.6	51.2	47.5
	UK	12.3	12.2	14.3	14.3
	Overseas	29.0	28.4	36.9	33.2
	Private equity	3.7	3.5	4.0	4.2
	Alternatives	3.8	4.0	4.2	4.5
	Property	8.2	8.4	8.3	9.0
Liability matching	Real assets	2.5	3.0	1.9	3.0
	Bonds	39.7	40.5	29.1	31.8
	UK fixed	20.2	20.7	15.9	19.6
	UK index-linked	19.0	19.8	12.6	12.2
	Overseas index-linked	0.5	-	0.6	-
	Cash	0.8	-	1.3	-
	<b>Total</b>	100.0	100.0	100.0	100.0

(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 strategic liability hedging portfolio which includes any derivatives that were held strategically for hedging equities as well as those held to hedge interest rate and inflation risk. Table 2 shows the performance of the tactical Fund compared to the agreed strategic benchmark.

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

Fiscal years to 31 March 2018	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	5.41	8.18	8.43	7.75

### Tactical asset allocation and stock selection performance

The portfolio managers are set an outperformance target of 0.50% per annum relative to the strategic benchmark over a five-year rolling period. The long-term returns are shown below:

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

Fiscal years to 31 March 2018	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	6.42	8.53	9.24	8.45
Benchmark	5.20	7.89	9.22	8.30
Relative performance	1.16	0.59	0.02	0.14

In the year under review, 1 April 2017 to 31 March 2018, the Fund outperformed the benchmark by 1.16%. In relation to the outperformance target of 0.5% per annum relative to the strategic benchmark over a rolling five-year period, the Fund outperformed the benchmark, returning 9.24% compared to a benchmark return of 9.22% whilst underperforming the 0.50% outperformance target.

During the year the contribution to relative outperformance was broad based, with positive contributions from all major asset classes as well as asset allocation. All illiquid asset classes outperformed their respective benchmarks.

The results in table 2 include BAPIML's tactical performance in relation to 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 manages the hedging tactically within agreed limits.

### Fund's 10 largest stock holdings as at 31 March 2018

Stock name	Security type	£m	% Portfolio
UK Treasury 1.5% Index-Linked 2047	Government Bond	547.0	3.2
UK Treasury 0.125% Index-Linked 2046	Government Bond	528.1	3.1
UK Treasury 3.25% 2044	Government Bond	500.8	3.0
UK Treasury 3.5% 2045	Government Bond	466.0	2.8
UK Treasury 1.75% 2057	Government Bond	370.5	2.2
UK Treasury 0.75% Index-Linked 2034	Government Bond	346.5	2.0
ISHARES CORE S+P 500 ETF	Equity	331.1	2.0
UK Treasury 0.125% Index-Linked 2036	Government Bond	283.7	1.7
UK Treasury 0.125% Index-Linked 2056	Government Bond	266.3	1.6
SPDR S+P 500 ETF TRUST	Equity	262.4	1.5

(Forming part of the Trustee’s Report)

**Additional Voluntary Contributions (AVCs)**

The Mixed Portfolio Fund (MPF) returned 5.64% for the year ending 31 March 2018.

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 4.79% over the year and so the Fund outperformed its benchmark by 0.81%. 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, largely due to stock selection in earlier years.

The return on the MPF was above the 1.4% average achieved by other large AVC providers in the market place over the latest year. Over longer time periods the MPF has similar performance to these other funds.

In the year to March 2018, the Short-dated Gilts Fund (SGF) returned 0.48% and the Equity Biased Fund (EBF) returned 7.88%. 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	5.60	1.29	7.29	7.23
5 years	7.32	0.72	8.09	7.91
3 years	7.15	0.56	6.44	6.15
1 year (to 2018)	7.88	0.48	5.64	1.42



(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 all hedging' returns in the following table. From 1 January 2012 the currency hedging was incorporated into the strategic benchmark and is tactically managed by BAPIML within agreed tolerances, a similar policy to NAPS.

Fiscal years to 31 March 2018	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
<b>Including all hedging</b>				
MPF	5.64	6.44	8.09	7.29
<b>Including hedging from January 2012</b>				
MPF	5.64	6.44	8.09	7.87
Benchmark	4.79	6.95	8.37	7.82
Relative performance	0.81	(0.48)	(0.26)	0.05

Over the last 12 months, overseas equity markets posted positive returns, whilst domestic equity and bond markets were more subdued. Both tactical asset allocation and stock selection made a positive contribution to the outperformance of the Fund. Positive stock selection in Asia Pacific, North America and European equity accounted for the majority of the outperformance.

## 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, BAPIML 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 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.

Source: All performance information has been sourced by BAPSL independently of BAPIML and is correct as at 31 March 2018.

## Independent auditor's report to the Trustee of the New Airways Pension Scheme

### Opinion

We have audited the financial statements of the New Airways Pension Scheme for the year ended 31 March 2018 which comprise the *Fund Account and the Statement of Net Assets (available for benefits)* and related notes, including the accounting policies in note 2.

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 2018 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 accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the

report on actuarial liabilities and the summary of contributions) and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

### Trustee's responsibilities

As explained more fully in their statement set out on [page 12](#), the Scheme's Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## **The purpose of our audit work and to whom we owe our responsibilities**

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's 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.

**Fang Fang Zhou**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square, Canary Wharf  
London E14 5GL  
Date: 28 September 2018

	Note	31 March 2018 £'m	31 March 2017 £'m
<b>Contributions and Benefits</b>			
Employer contributions	<b>3</b>	701.0	720.6
Employee contributions	<b>3</b>	35.2	31.0
<b>Total contributions</b>		736.2	751.6
Benefits paid or payable	<b>4</b>	(374.8)	(344.4)
Payments to and on account of leavers	<b>5</b>	(352.3)	(224.0)
Administrative expenses	<b>6</b>	(7.0)	(8.0)
		(734.1)	(576.4)
<b>Net additions from dealings with members</b>		2.1	175.2
Returns on Investments			
Investment income	<b>7</b>	357.4	310.3
Investment management expenses	<b>8</b>	(10.9)	(6.6)
Change in market value of investments	<b>9</b>	520.4	2,487.6
<b>Net return on investments</b>		866.9	2,791.3
<b>Net increase in the fund during the year</b>		869.0	2,966.5
<b>Net assets of the Scheme at 1 April</b>		16,061.6	13,095.1
<b>Net assets of the Scheme at 31 March</b>		<b>16,930.6</b>	<b>16,061.6</b>

The notes on [pages 22 to 36](#) form part of these financial statements.

# STATEMENT OF NET ASSETS

New Airways Pension Scheme

(available for benefits)

	Note	31 March 2018 £'m	31 March 2017 £'m
<b>Investment assets:</b>			
Equities		6,882.4	7,838.7
Fixed interest bonds		3,365.6	2,714.2
Index-linked bonds		3,275.7	2,065.4
Pooled arrangements			
Property	10	1,397.0	1,327.7
Alternative investments	10	1,070.0	975.2
Private equity	10	626.7	627.9
Derivatives	11	418.0	562.1
AVC mixed portfolio fund	13	147.1	146.1
Cash		85.4	113.7
Other investment balances		138.7	105.6
		<u>17,406.6</u>	<u>16,476.6</u>
<b>Investment liabilities:</b>			
Derivatives	11	(388.2)	(376.0)
Other investment balances		(77.3)	(42.1)
<b>Total net investments</b>	<b>9,12</b>	<u>16,941.1</u>	<u>16,058.5</u>
External AVC investments	14	0.4	0.5
<b>Total investments</b>		<u>16,941.5</u>	<u>16,059.0</u>
Current assets	20	85.6	8.3
Current liabilities	20	(96.5)	(5.7)
<b>Net assets of the Scheme at 31 March</b>		<u><b>16,930.6</b></u>	<u><b>16,061.6</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 43 and 44](#) and these financial statements should be read in conjunction with this report.

The notes on [pages 22 to 36](#) form part of the financial statements.

**These financial statements were approved by the Trustee Board on 26 September 2018 and were signed on their behalf by:**

**Virginia Holmes Trustee Director**

**John Wheale Trustee Director**

**Fraser Smart Secretary**

**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 and in accordance with the Schedule of Contributions in force during the year.
- 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.

**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 using pricing models and relevant market data as at the Scheme year end date.
- 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 manager of the pooled funds.

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.

**3. Contributions**

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
<b>Employer contributions</b>		
Normal	250.5	183.6
Deficit funding – regular	300.0	253.5
Deficit funding – cash sweep	150.0	283.0
Augmentation	0.5	0.5
<b>Employee contributions</b>		
Normal	2.7	3.0
Additional voluntary contributions	32.5	28.0
	<b><u>736.2</u></b>	<b><u>751.6</u></b>

**3. Contributions continued**

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

Deficit funding contributions as set out in the Schedule of Contributions on [pages 39 to 41](#) 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 38](#).

**4. Benefits paid or payable**

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
Pensions	284.1	270.4
Commutations of pensions and lump sum retirement benefits	76.9	67.7
Lump sum death benefits	2.4	3.1
Taxation where lifetime or annual allowance exceeded	11.4	3.2
	<b><u>374.8</u></b>	<b><u>344.4</u></b>

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**

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
Individual transfers out to other schemes	<b><u>352.3</u></b>	<b><u>224.0</u></b>

**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 68% (2017: 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 member services, finance operations and trustee 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 Scheme year end are as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
BAPSL in-house administration and processing	4.8	4.5
External professional fees	2.2	3.5
	<b><u>7.0</u></b>	<b><u>8.0</u></b>

**7. Investment income**

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
Dividends from equities	204.5	210.4
Income from fixed interest bonds	82.8	73.4
Income from index-linked bonds	8.4	9.5
Swap income	52.7	9.5
Annuity income	4.7	4.8
Interest on cash deposits	1.0	0.8
Other income	3.3	1.9
	<b>357.4</b>	<b>310.3</b>

**8 Investment management expenses**

The Scheme bears the cost of investment management expenses. The New Airways Pension Scheme bears 61% (2017: 50%) of the costs of BAPIML except where a cost relates specifically to the Scheme.

**9. Reconciliation of investments**

	<b>Value at 31 March 2017</b>	<b>Purchases at cost &amp; derivative payments</b>	<b>Sales proceeds &amp; derivative receipts</b>	<b>Change in market value</b>	<b>Value at 31 March 2018</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Equities	7,838.7	4,494.8	(5,612.2)	161.1	6,882.4
Fixed interest bonds	2,714.2	2,954.6	(2,301.6)	(1.6)	3,365.6
Index-linked bonds	2,065.4	2,324.8	(1,145.1)	30.6	3,275.7
Pooled arrangements					
- Property	1,327.7	123.9	(207.5)	152.9	1,397.0
- Alternative investments	975.2	234.7	(140.5)	0.6	1,070.0
- Private equity	627.9	116.4	(152.6)	35.0	626.7
Derivatives					
- Inflation-linked swaps	(56.3)	-	-	(94.6)	(150.9)
- Interest rate swaps	62.1	-	-	(48.2)	13.9
- Total return swaps	158.7	-	-	(13.1)	145.6
- Options	(15.6)	32.3	(8.3)	(8.8)	(0.4)
- Futures	0.8	23.3	(44.5)	20.8	0.4
- Forward foreign exchange	36.4	139.9	(433.2)	278.1	21.2
AVC mixed portfolio fund	146.1	18.0	(25.2)	8.2	147.1
External AVC investments	0.5	-	(0.1)	-	0.4
	<b>15,881.8</b>	<b>10,462.7</b>	<b>(10,070.8)</b>	<b>521.0</b>	<b>16,794.7</b>
Cash	113.7	-	(28.4)	0.1	85.4
Other investments	63.5	-	(1.4)	(0.7)	61.4
	<b>16,059.0</b>	<b>10,462.7</b>	<b>(10,100.6)</b>	<b>520.4</b>	<b>16,941.5</b>

**9. Reconciliation of investments - continued**

There were no individual investments which comprised greater than 5% of the net assets of the Scheme (2017: 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:

	<b>Fees</b>	<b>Commission</b>	<b>Taxes</b>	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>Total £'m</b>	<b>£'m</b>
Equities	1.0	7.9	3.2	12.1	20.4
Other	-	0.2	-	0.2	0.4
2018	1.0	8.1	3.2	12.3	20.8
2017	1.5	14.7	4.6	20.8	-

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.

**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 2018 the value of these funds are as follows:

**Property**

	<b>% held</b>	<b>2018</b>	<b>2017</b>
		<b>£'m</b>	<b>£'m</b>
Externally pooled indirect funds		435.1	373.3
Direct UK property fund		961.9	954.4
<b>Total property unitised</b>	82.20%	<b>1,397.0</b>	<b>1,327.7</b>

**Alternatives**

	<b>% held</b>	<b>2018</b>	<b>2017</b>
		<b>£'m</b>	<b>£'m</b>
Alternative unitised fund	49.37%	1.5	2.0
Direct investment funds		1,068.5	973.2
<b>Total</b>		<b>1,070.0</b>	<b>975.2</b>

**Private equity**

	<b>% held</b>	<b>2018</b>	<b>2017</b>
		<b>£'m</b>	<b>£'m</b>
Private equity unitised fund	49.37%	13.5	16.2
Direct investment funds		613.2	611.7
<b>Total</b>		<b>626.7</b>	<b>627.9</b>

**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 Scheme year end aggregated by key characteristics were as follows:

**Over the counter swaps**

Nature	Duration	Nominal amount £'m	Asset value £'m	Liability value £'m
Inflation-linked swaps	<10 years	865.6	26.7	(2.4)
Inflation-linked swaps	10-20 years	529.2	10.8	(16.7)
Inflation-linked swaps	20-30 years	478.6	9.7	(86.3)
Inflation-linked swaps	30-40 years	992.1	53.7	(133.2)
Inflation-linked swaps	>40 years	61.0	1.4	(14.6)
Interest rate swaps	<10 years	51.9	-	(2.5)
Interest rate swaps	10-20 years	291.1	11.7	(14.2)
Interest rate swaps	20-30 years	696.2	0.6	(65.9)
Interest rate swaps	30-40 years	310.1	39.7	(15.0)
Interest rate swaps	>40 years	472.9	86.3	(26.8)
Total return swaps	<10 years	932.2	145.6	-
<b>Total 2018</b>		<b>5,680.9</b>	<b>386.2</b>	<b>(377.6)</b>
<b>Total 2017</b>		<b>6,574.7</b>	<b>495.6</b>	<b>(331.1)</b>

**Options**

The investment committee agreed to protect 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 fair value of the exchange traded put and call option spreads expiring in March 2018 across UK, US and Europe amounts to a liability of £0.4m (2017: a liability of £(13.4)m).

The fair value of the over-the-counter put and call option spreads expiring in March 2018 across UK, US and Europe amounts to a balance of £nil (2017: a liability of £(2.2)m).

Included within index-linked bond balances are £17.7m (2017: cash balances of £50.5m) in respect of initial and variation margins arising on open futures and options contracts as at the Scheme year end.

**11. Derivatives - continued****Futures**

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

<b>Nature</b>		<b>Notional amount/ contract size</b>	<b>Duration £'m</b>	<b>Fair value</b>
FTSE 100 stock futures	Buy	20,870	June 2018	0.8
Total UK futures				<b>0.8</b>
DJ STX 50 stock futures	Sell	7,150	June 2018	0.2
EMINI S&P stock futures	Sell	38,350	June 2018	(0.6)
Total overseas futures				<b>(0.4)</b>
			<b>Total 2018</b>	<b>0.4</b>
			<b>Total 2017</b>	<b>0.8</b>

Included within index-linked bond balances are £17.7m (2017: cash balances of £50.5m) in respect of initial and variation margins arising on open futures and options contracts at the Scheme 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 Scheme year end were as follows:

<b>Contract</b>	<b>Maturity Date</b>	<b>Nominal value m</b>	<b>Asset value £'m</b>	<b>Liability value £'m</b>
<b>EUR</b>				
Forward to buy EUR	Apr 18-Jun 18	€110.50	-	(0.3)
Forward to sell EUR	Apr 18-Jun 18	€1,172.3	9.4	-
<b>JPY</b>				
Forward to sell JPY	Apr 18-Jun 18	¥66,048.53	0.6	(5.3)
<b>USD</b>				
Forward to sell USD	Apr 18-Jun 18	\$3,364.47	20.8	(4.0)
<b>Total 2018</b>			<b>30.8</b>	<b>(9.6)</b>
<b>Total 2017</b>			<b>42.2</b>	<b>(5.8)</b>

**12. Collateral**

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

Counterparty	Collateral Type	Pledge £'m	Derivative position
Goldman Sachs	UK Gilt	(121.3)	Swaps & FX Forwards
Morgan Stanley	UK Gilt	6.1	Swaps & FX forwards
UBS	Cash	133.2	Swaps & FX Forwards
JP Morgan	UK Gilt	(67.1)	Swaps
JP Morgan	Cash	7.1	Swaps & FX Forwards
RBS	Cash	47.9	Swaps & FX Forwards
Nomura	UK Gilt	34.5	Swaps & FX Forwards
Barclays	UK Gilt	(29.8)	Swaps
		<b>10.6</b>	

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	2018 £'m	2017 £'m
Mixed portfolio fund			
Equities		121.0	121.9
Fixed interest		24.2	20.2
Index-linked		-	0.4
Cash		1.9	3.6
Total mixed portfolio fund	89.43%	147.1	146.1
Short-dated gilts fund		28.1	19.2
Equity biased fund		199.2	149.4
		<b>374.4</b>	<b>314.7</b>

**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:

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
<b>British Caledonian</b>		
Prudential	0.3	0.4
<b>Davies &amp; Newman and Dan Air</b>		
Scottish Life	-	-
Equitable Life Assurance	0.1	0.1
Aviva	-	-
	<u>0.4</u>	<u>0.5</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:

	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
Balance of BAMPS at 1 April	4.7	4.6
Interest	0.3	0.3
Retirements	(0.1)	(0.2)
Balance of BAMPS at 31 March	<u>4.9</u>	<u>4.7</u>

**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.

**16. Fair value determination continued**

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

	As at 31 March 2018			Total £'m
	Level (1) £'m	Level (2) £'m	Level (3) £'m	
Equities	6,882.4	-	-	6,882.4
Bonds	6,641.3	-	-	6,641.3
Pooled arrangements	-	-	3,093.7	3,093.7
Derivatives	0.4	29.4	-	29.8
AVC mixed portfolio fund	147.1	-	-	147.1
External AVCs	0.4	-	-	0.4
Cash	28.4	57.0	-	85.4
Other investment balances	61.4	-	-	61.4
	<b>13,761.4</b>	<b>86.4</b>	<b>3,093.7</b>	<b>16,941.5</b>

	As at 31 March 2017			Total £'m
	Level (1) £'m	Level (2) £'m	Level (3) £'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
	<b>12,871.4</b>	<b>256.8</b>	<b>2,930.8</b>	<b>16,059.0</b>

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

## 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 manages 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).

The current strategy is to hold:

- **Liability matching assets** – 43.5% 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** – 56.5% in return seeking investments comprising UK and overseas equities, equities futures, investment property, alternatives and private equity.

**17. Investment risk disclosures - continued**

37% 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 Scheme 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 Scheme 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 £247.6 million (2017: £175.2 million) of public sector securities and £431.4 million (2017: £354.4 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 105.3% 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.

**(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.

**17. Investment risk disclosures - continued**

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

	<b>2018</b> <b>£'m</b>	<b>2017</b> <b>£'m</b>
US Dollar	629.3	779.8
Euro	244.6	241.8
Other	1,816.4	1,913.8
	<u><b>2,690.3</b></u>	<u><b>2,935.4</b></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 56.5% of investments in return seeking assets. This was the position at the Scheme year end.

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

**18. Contingent liabilities and contractual commitments**

The following contractual commitments existed at the Scheme year end:

	2018 £'m	2017 £'m
Property	87.4	63.4
Alternative investments	468.5	345.8
Private equity	441.5	448.8
	<b>997.4</b>	<b>858.0</b>

**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. Current assets and current liabilities**

	2018 £'m	2017 £'m
<b>Current assets</b>		
Cash balances	85.2	-
Sundry debtors and prepayments	0.4	8.3
	<b>85.6</b>	<b>8.3</b>
	<b>2018</b>	<b>2017</b>
	<b>£'m</b>	<b>£'m</b>
<b>Current liabilities</b>		
Contributions paid in advance *	85.0	-
Unpaid benefits	9.3	4.4
Accrued expenses	2.2	1.3
	<b>96.5</b>	<b>5.7</b>

\* Relates to AVC receipts which are due to be invested in the AVC funds on the 1<sup>st</sup> April 2018

**21. 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.

**21. Related party transactions - continued**

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.

The Trustee Directors of the Scheme are considered to be key management personnel. Virginia Holmes was remunerated by BA Plc in respect of her services as Chair of the Trustee Companies. Pensioner elected Trustee Directors were also paid by the Employer.

In addition to the member nominated Trustee Directors, three of the Trustee Directors of APSTL and NAPSTL appointed by BA Plc that served during the year were members or pensioners of APS or NAPS. They were William Francis, Jude Winstanley, Karen Slinger and Charlie Maunder. Sian Davies, Andrew Fleming, Virginia Holmes, Caroline Mellor, Rebecca Napier and Benjamin Sehovic were not members of the Schemes. If they were members or pensioners then their pension rights were on terms normally granted to members.

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

### **Statement about contributions**

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 2018 which is set out on [page 38](#).

In our opinion contributions for the Scheme year ended 31 March 2018 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 13 December 2016 and 28 March 2018.

### **Scope of work on statement about contributions**

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

### **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 Schedule of Contributions to the Scheme and to report our opinion to you.

## **The purpose of our work and to whom we owe our responsibilities**

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.

**Fang Fang Zhou**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square, Canary Wharf  
London E14 5GL  
Date: 28 September 2018

## 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 2018

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 schedule of contributions certified by the actuary on 13 December 2016 in respect of the Scheme year ended 31 March 2018. 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	250.5
Employer deficit funding – regular	300.0
Employer deficit funding – cash sweep	150.0
Employee normal contributions	2.7
<b>Contributions payable under the schedules (as reported on by the Scheme auditor)</b>	<b>703.2</b>

## Reconciliation of contributions

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

	£'m
Contributions payable under the schedules (as above)	703.2
Contributions payable in addition to those due under the schedules:	
Employer augmentations	0.5
Employee additional voluntary contributions	32.5
<b>Total contributions reported in the financial statements</b>	<b>736.2</b>

This report was approved by the Trustee Board on 26 September 2018 and was signed on their behalf by:

**Fraser Smart**      **Secretary**

**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**

The New Airways Pension Scheme was closed to future accrual on and from 1 April 2018. This schedule of contributions was amended to reflect the fact that no contributions will be due in respect of future accrual from members or employers after 31 March 2018.

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” to and including 31 March 2018:
- 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	Scheme 60	Scheme 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.

- FSS Members who are not salary sacrifice members or “lower accrual members” on and from 1 April 2018: Nil
- 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 to and including 31 March 2018 for all Members save for those employed by Dunwoody Airline Services Limited (“Dunwoody”)
  - with effect from 1 July 2016 to and including 31 March 2018 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	
	Scheme 60	Scheme 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 to and including 31 March 2018.
- 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.
- In addition, from April 2018 lump sums of £600,000 each calendar month as an allowance in respect of recurring administrative and other non-investment expenses. Invoices for expenses in excess of this allowance shall be submitted for reimbursement by BA Pensions no less frequently than quarterly and, subject to being properly incurred by the Trustee, will be settled by BA plc within one calendar month.
- 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 Scheme 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 19<sup>th</sup> 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): 28 March 2018

**Signed on behalf of the Trustee of the Scheme**

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

**Name: Virginia Holmes**  
**Position: Chair**

**Name: Stephen Gunning**  
**Position: Chief Financial Officer**

**Actuarial Certificate****Schedule of Contributions****Name of Scheme: 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**  
**A Willis Towers Watson company**  
**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**28 March 2018**

(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 was: £13,280 million

The method and significant actuarial assumptions used to determine the technical provisions as at 31 March 2015 are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles dated 13 December 2016):

### Method

The actuarial method to be used in the calculation of the technical provisions as at 31 March 2015 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.

(Forming part of the Trustees' Report)

**Mortality:** the base tables assumed at 31 March 2015 are 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	87% of S2PMA_H

\*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 mortality improvement to 2015 based on the CMI2014 core projection model.

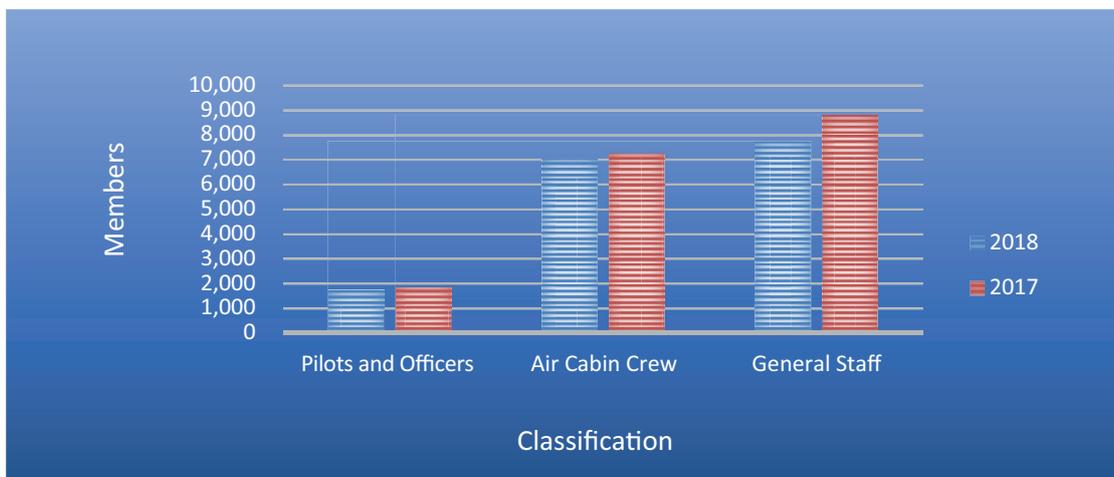
To address future improvements in mortality from 2015, the CMI 2015 core projection model with long term improvements of 1.5% p.a. were applied.

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.

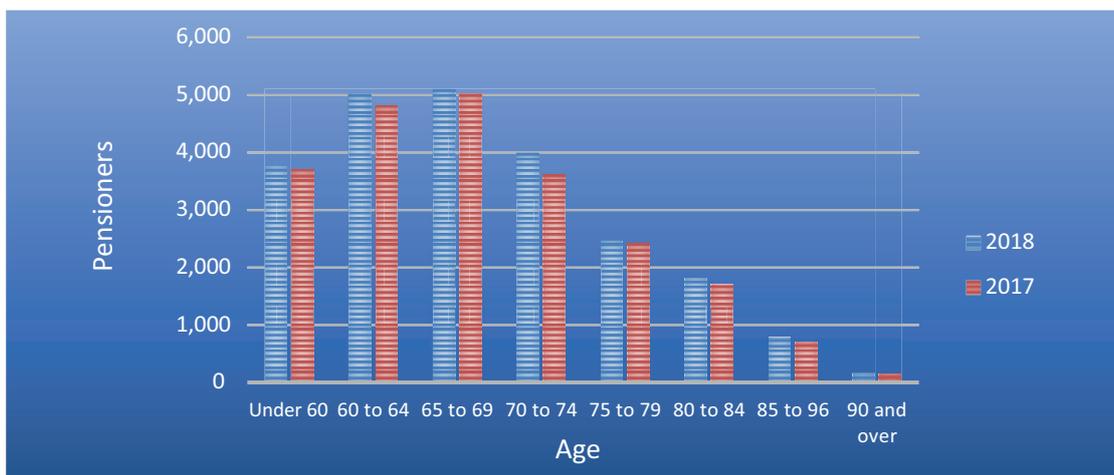
An update on the funding position of the Scheme is set out on [page 5](#).

	2018	2017
Active members	16,497	17,870
Pensioners in payment	23,102	22,088
Dependant pensioners	4,143	4,028
Deferred pensioners	21,327	22,006
	<b>65,069</b>	<b>65,992</b>

## ACTIVE MEMBERS BREAKDOWN 2017/18



## PENSIONER AGE ANALYSIS 2017/18



## **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 was closed 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 1/60<sup>th</sup> to 1/75<sup>th</sup> 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**

On 1 April 2018 pension accrual in the Scheme ceased and active members became employed deferred members from this date. Employed deferred members may be auto enrolled into the British Airways Pension Plan, a defined contribution pension scheme offered by BA Plc.

## **Notifiable events**

All required notifiable events have been reported to The Pensions Regulator in respect of the Scheme year ended 31 March 2018.



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