New Airways Pension Scheme

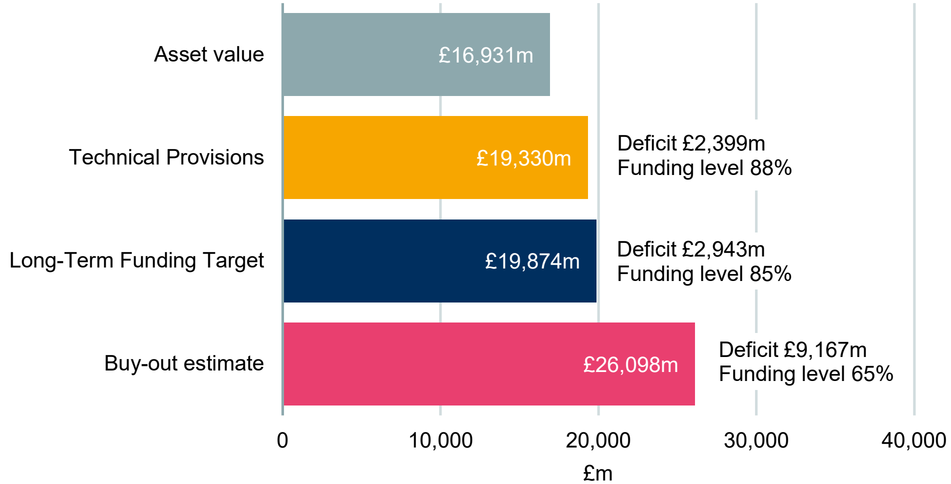
Report on the actuarial valuation as at 31 March 2018

Aaron Punwani FIA

25 October 2019

Actuarial valuation as at 31 March 2018

- As instructed, I have carried out an actuarial valuation of the New Airways Pension Scheme ("the Scheme") as at 31 March 2018. I now present my report which is addressed to New Airways Pension Scheme Trustee Limited ("the Trustee").
- The main purpose of the report, required by the Pensions Act 2004, is to set out the results of and outcomes from the valuation. Scheme members will receive a Summary Funding Statement relating to the valuation in due course.
- As required by legislation, the Trustee has reached a valuation agreement with the Principal Employer, British Airways Plc ("the Employer", for and on behalf of all the Participating Employers of the Scheme). This agreement covers the choice of assumptions for the valuation and the level of future contributions. The main results are summarised below, with further detail in the following sections, appendices and enclosed documents.



Contributions from the Employer in respect of:	
Funding	£450m pa payable to 31 March 2023 plus an additional £250m expected in 2019, subject to an overfunding mechanism and other provisions documented in a separate legal agreement.
Other	Expenses accrued to 30 September 2019. Levies payable to the Pension Protection Fund plus augmentation costs as recommended by the Actuary are met directly, or reimbursed to the Scheme, by the Employer.

Figures above include the value of British Airways Money Purchase Section ("BAMPS") and AVC funds

- Under the Pensions Act 2004, I am required to certify that:
  - the Technical Provisions have been calculated in accordance with the legislation (for which my certificate is enclosed); and
  - the Schedule of Contributions is consistent with the Statement of Funding Principles and that payment of contributions at the agreed rates could be expected to lead to the Scheme to have sufficient assets to cover its Technical Provisions by the end of the period specified in the Recovery Plan (for which my certificate forms part of the Schedule of Contributions and is based on financial conditions at the valuation date).

Aaron Punwani FIA
Partner and Appointed Scheme Actuary

25 October 2019
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Use of our work and professional requirements

The Use of Our Work

This work has been produced by Lane Clark & Peacock LLP and Aaron Punwani as the Scheme's Actuary ("we" or "us"), under the terms of our written agreement with the Trustee of the New Airways Pension Scheme ("Our Client").

This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (eg regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing although we acknowledge that you are required to pass it to the Employer sponsoring the Scheme and that you may make it available to Scheme members. We accept no liability to anyone, including but not limited to the Employer sponsoring the Scheme and Scheme members, who is not Our Client.

If the purpose of this work is to assist you in supplying information to someone else and you acknowledge our assistance in your communication to that person, please also make it clear that we accept no liability towards them.

Professional Standards

This report is part of the work in connection with the valuation of the Scheme. The report has been produced for the information of interested readers and not with the intention that it should support any decision that they may make. Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, together with Technical Actuarial Technical Actuarial Standard 300: Pensions.

This report is from Aaron Punwani in his role as the Scheme's Actuary. Under the terms of our professional conduct code and guidance, it has been reviewed by Richard Harrison, a qualified actuary and another LCP partner. We are satisfied that this complies with our professional requirements and that the degree of independence of the reviewing actuary is appropriate.

Contents

Funding objective and actuarial assumptions

An overview

Funding objective

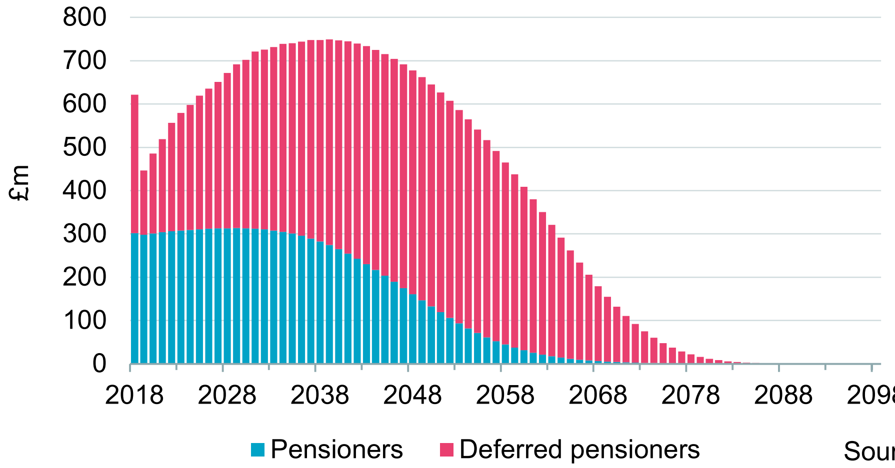
- The Scheme's Statutory Funding Objective is to hold sufficient and appropriate assets to cover its Technical Provisions.

Benefits valued

- The Scheme closed to future accrual of benefits from 31 March 2018, and members in active Pensionable Service at that date were provided with a number of benefit enhancements ("transitional options") which have been reflected in the benefits valued.
- Both the assets and liabilities in respect of pensions insured for some former members of the Dan Air and Davies and Newman ("DADN") schemes, which are assumed to be equal, are excluded from all the figures quoted in this report (where relevant).

Projected benefit payments from the valuation date

The benefit payments, which are primarily linked to price inflation, projected from the valuation date are shown below (excluding payments in respect of BAMPS and AVCs).



Source: Skyval

Sources of information

Item	Source	Summarised
Benefit and contribution structure	Consolidated Trust Deed and Rules dated 11 June 2019	Appendices (Benefit summaries)
Membership data	Scheme administrators, British Airways Pension Services Limited	Appendices (Membership data)
Audited accounts for 3 years to the valuation date	Trustee	Appendices (Asset summary and Consolidated Revenue Account)

Actuarial assumptions

- The Trustee took advice from me and has determined the method and assumptions to use for this valuation with the agreement of the Employer.
- The assumptions are set out in the Trustee's Statement of Funding Principles, a copy of which is enclosed.
- In determining the assumptions, the Trustee took account of its assessment of the strength of the Employer's covenant, and in particular, its likely ability to pay additional contributions in the future if future experience proves to be less favourable than the assumptions.

Funding objective and actuarial assumptions

Continued

Actuarial assumptions (continued)

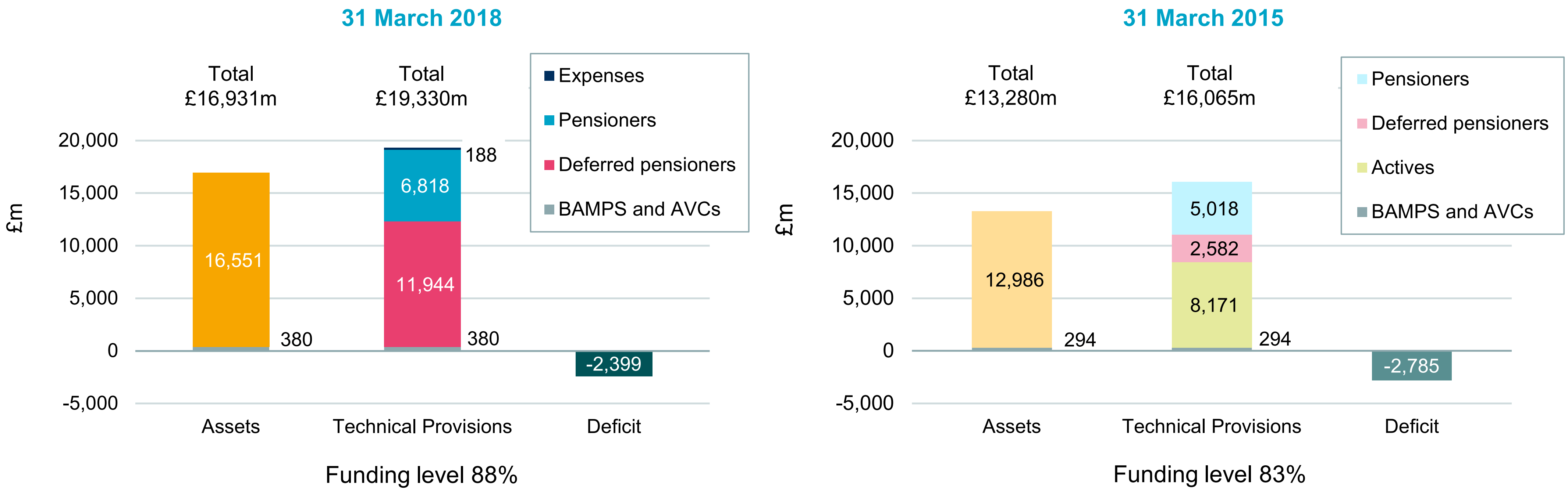
- The valuation includes an assumption about future investment strategy. The investment model has been updated since the last actuarial valuation to better reflect changes to the investment strategy over the inter-valuation period and the allowance for future de-risking.
- The Scheme is projected to de-risk further over time with the allocation to return-seeking assets (predominantly equities) assumed to reduce by broadly 3% of total assets each year over the period to 31 March 2030 as the membership matures.
- As a result of this update to the investment model (and associated prudent assumptions for the returns on the various asset classes), the discount rate is 1% pa above gilt yields in 2018, reducing linearly to 0.5% pa above gilt yields from 2030 onwards. This equates to 0.65% pa above gilt yields on average, which is lower than the discount rate at the 2015 valuation.
- Further details are set out in the enclosed Statement of Funding Principles.
- The valuation adopts the "projected unit method", under which the Technical Provisions are calculated as the amount of assets required as at the valuation date to meet the projected benefit payments, based on benefits accrued to the valuation date and the various assumptions made.
- There is a risk that the assumptions are not borne out in practice and that the funding position deteriorates. Further details on the risks the Scheme faces are set out in the appendices.
- The Technical Provisions are not intended to be sufficient to enable the Scheme to be wound up and its benefits secured in full with an insurance company.

Changes to assumptions

- As well as updating the investment model and associated assumptions, the Trustee has updated a number of other assumptions used to calculate the Technical Provisions, from those used at the previous valuation.
- The key updates are as follows:
  - **Mortality assumptions:** Updated base table and future improvement assumptions, as described in the Statement of Funding Principles, result in lower assumed life expectancy. The updates reflect more recent research and statistics on mortality, as well as detailed analysis of the Scheme's membership profile and mortality experience up to the valuation date.
  - **Commutation assumptions:** The assumptions have been updated to reflect the increased commutation factors effective from 1 October 2019, detailed take-up rate analysis based on experience up to the valuation date, and an allowance for members using AVCs as their first source of retirement lump sum.
  - **Transitional options:** Following the closure of the Scheme to future benefit accrual, new assumptions in respect of promotional and incremental salary increases are required for this valuation to reflect the additional pension increases up to 31 March 2021 for members who elected this transitional option.
  - **Expense reserve:** A reserve equal to 1% of the Technical Provisions has been included following the closure of the Scheme, to enable the Scheme to meet its own costs. Prior to closure, expenses were dealt with as an addition to the future service contributions paid by the Employer.
  - **GMP inequalities:** Following the implications of the Lloyd's Bank High Court ruling, the Technical Provisions include an approximate allowance of £40m for the financial impact of removing sex inequalities arising from Guaranteed Minimum Pensions ("GMPs"). No allowance was made at the previous valuation.
- The financial impact of these changes is set out on page 8. The appendices also show the impact changing some of the key assumptions has on the valuation.

Technical provisions and LTFT

Assets and Technical Provisions as at 31 March 2018 (and 31 March 2015 for comparison)

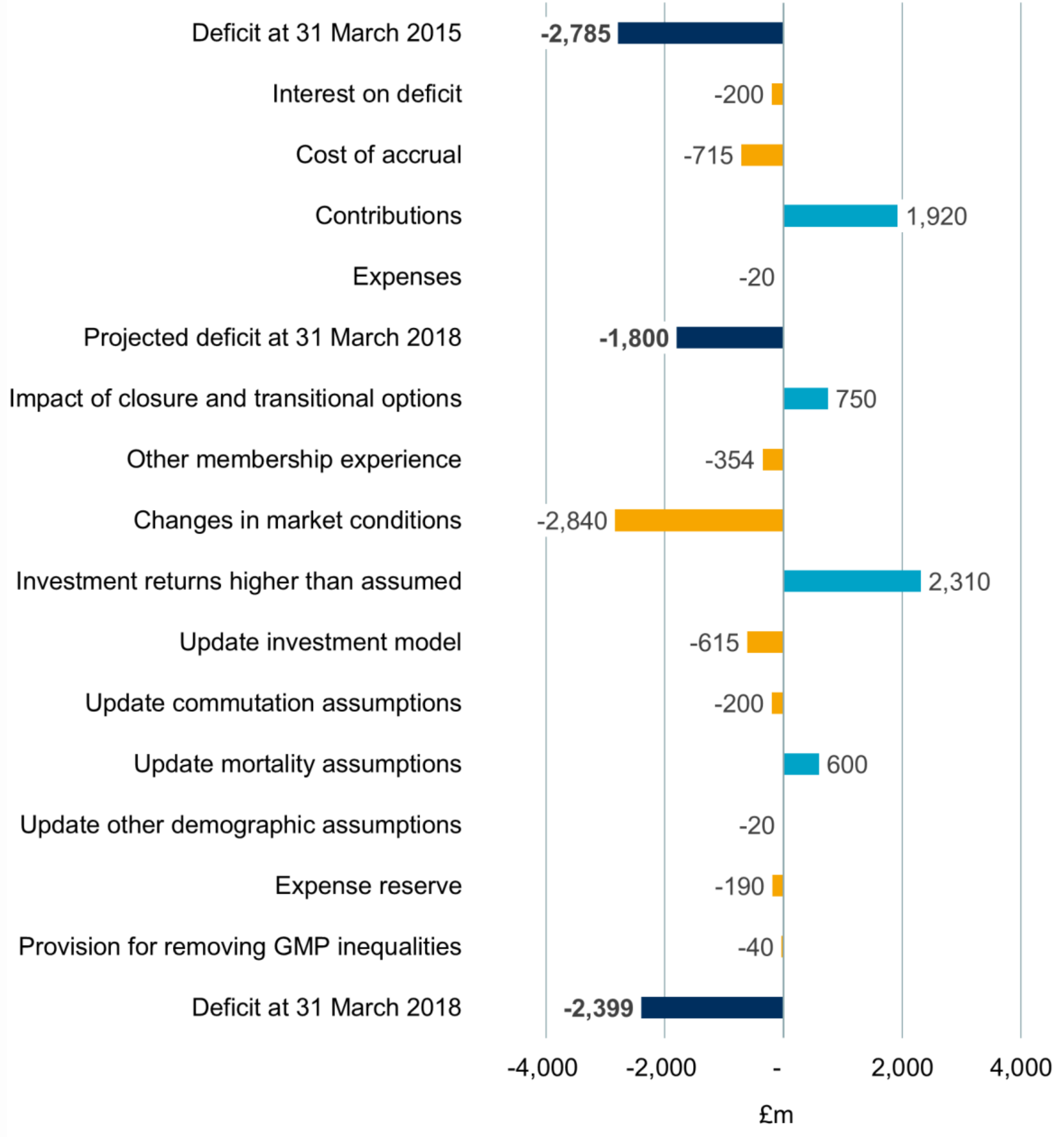


The Technical Provisions as at 31 March 2018 are calculated using Skyval, the Trustee's third-party valuation tool, the output of which we have reviewed for reasonableness. The Skyval calculations are based on the membership data, benefits and assets as set out in the appendices.

Long-Term Funding Target

- In addition to the Statutory Funding Objective, the Trustee has decided to adopt an additional funding objective which is to provide benefits in accordance with the Scheme Rules with a higher level of security and less reliance on further support from the Employer in the future.
- As described in the Statement of Funding Principles, this Long-Term Funding Target ("LTFT") is calculated in line with the Technical Provisions but allowing for investment returns of 0.5% pa above gilts.
- The deficit on the LTFT basis as at 31 March 2018 was £2,943m.
- The LTFT replaces the Trustee's Subsidiary Funding Objective, the additional gilts-based funding objective used for the previous valuation.

Reconciliation of experience to 31 March 2018



- As at the valuation date the calculated Technical Provisions were £19,330m and the resulting deficit was £2,399m. Had experience since the previous valuation been in line with the assumptions adopted for that valuation, the Scheme would have shown a deficit of around £1,800m. The actual position is therefore nearly £600m worse than expected; reasons for this are illustrated in the chart opposite (each rounded to £5m with the balance in "Other membership experience").
- The "Change in market conditions" item refers to the effect of falls in the yields on index-linked and fixed interest gilts since the previous valuation. The lower yields are reflected in lower assumed future investment returns at this valuation, which increase the Technical Provisions.
- The "Other membership experience" item includes the impact of actual pension increases and salary increases being higher than assumed, and fewer members leaving service prior to the Scheme closure, partly offset by members transferring out and more pension commuted for cash than anticipated.

Discontinuance at the valuation date

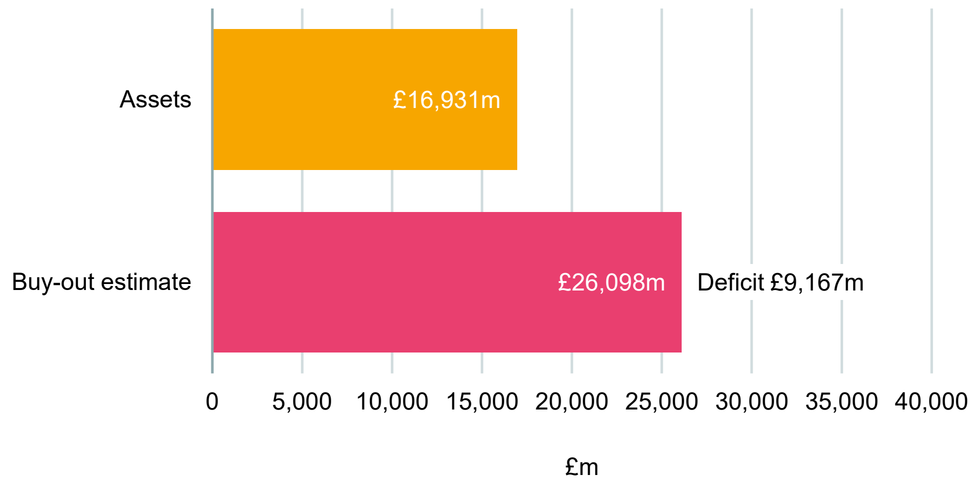
The position were the Employer to have ceased sponsoring the Scheme

Derivation of the solvency position

- As required by legislation, I have considered the solvency position of the Scheme by estimating the cost of securing all benefits by the purchase of annuities with an insurance company. I have included an allowance for the expenses that would be incurred in winding up the Scheme. This measure of solvency is often referred to as the "buy-out cost". In this situation, the benefits for members who elected the transitional option to retain a link to promotional / incremental salary increases until 31 March 2021 would no longer be linked to these future increases.

- I have not obtained quotations, but have produced my estimate using the assumptions described in the appendices. In practice, the actual position can be determined only by completing a buy-out and wind-up, and will depend on factors such as market conditions, competition in the insurance market and expenses, so could be very different from the estimate shown. This is particularly so in view of the size of the Scheme; the assumptions are driven from pricing of transactions in the market which are all much smaller than the Scheme's total liabilities.

- The estimated deficit on this basis was £9.2bn. This corresponds to an estimated solvency level of 65% and this compares with a deficit of £13.2bn and solvency level of 50% as at the previous valuation. The reasons for the change are similar to those explaining the change in the Technical Provisions, together with changes in the insurance market.

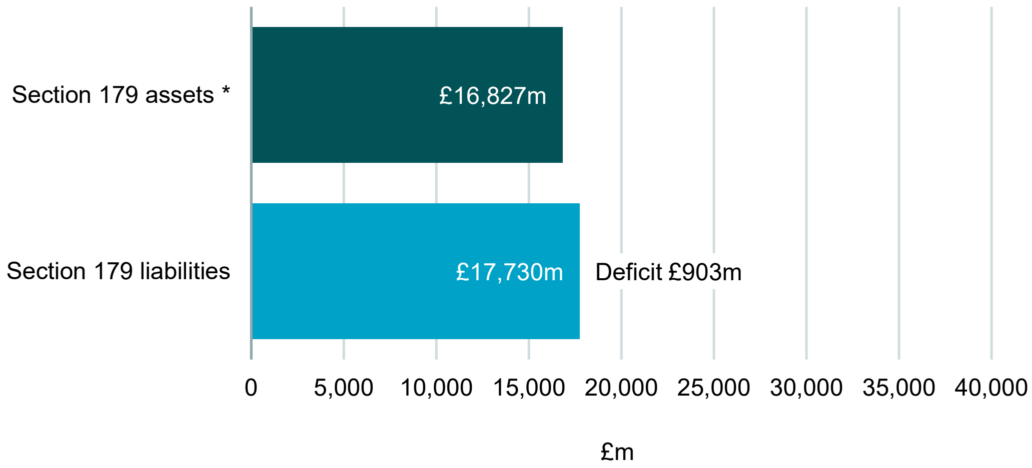


The buy-out estimate is taken from Skyval output which we have reviewed for reasonableness. The calculations are based on the membership data, benefits and assets as set out in the appendices.

Discontinuance at the valuation date
Continued

Interaction with the PPF

- Where a pension scheme is discontinued because of the insolvency of the employers, the Pension Protection Fund ("PPF") is required to assess whether a scheme is eligible to enter the PPF.
- In broad terms, if the PPF is satisfied that a scheme's assets are insufficient to buy out benefits equal to PPF compensation with an insurance company, then the assets would be transferred to the PPF which would then pay members PPF compensation in place of scheme benefits. If the assets are sufficient, a scheme can be wound up outside the PPF with the assets first used to secure benefits equal in value to PPF compensation, with the balance being applied to secure benefits above that level in accordance with that scheme's rules.
- We calculate that on a "Section 179" (PPF Levy) basis, there was a deficit in the Scheme of £903m as at 31 March 2018. Further details relating to the Section 179 valuation are set out in the appendices, with the full results set out in the Section 179 valuation certificate, a copy of which is enclosed.
- This indicates that if the Employer were to become insolvent and the Scheme discontinued at the valuation date with no additional funds for the Employer, the Scheme would have entered the PPF as the Scheme's assets would not have been sufficient to secure benefits equal in value to PPF compensation.



The Section 179 results are taken from Skyval output which we have reviewed for reasonableness and adjusted as required for Section 179 valuation purposes. The calculations are based on the membership data, benefits and assets as set out in the appendices.

** The asset value used for Section 179 valuation purposes is different from the asset value used for funding and solvency purposes as it is required to include an estimate of the value of DADN insurance contracts using the PPF's prescribed assumptions (£43m) and exclude the value of AVCs held within the Mixed Portfolio Fund (£147m).*

Experience since the valuation date

Bringing you up-to-date

Development of position from 31 March 2018

Commentary

- The chart above shows an illustrative projection of the Scheme's estimated funding position against the Technical Provisions since the valuation date.
- Our projection of the Technical Provisions allows for interest, anticipated benefit payments, the impact of actual inflation on members' benefits, and changes in market-implied gilt yields. All other experience is assumed to be in line with the Statement of Funding Principles.
- Daily assets information has been taken from Skyval, which is based on data provided by the Trustee's investment manager, BAPIML.
- Markets continue to be affected by the current political and financial uncertainty which contribute to volatility in the funding position (as is also seen in the chart above).

Projected funding levels at the next valuation

- The projected funding levels three years after the valuation date are shown below.
- These projections are made on the basis that:
  - future experience from the valuation date onwards is in line with the assumptions set out in the Statement of Funding Principles; and
  - there is no change in the insurance market.
- Experience from the valuation date is likely to be different from the assumptions made – in particular the best estimate investment return is higher than the assumption in the Statement of Funding Principles but there is significant volatility around this. Therefore, the position at the next valuation is likely to be different from that illustrated.

Approximate projected funding levels

Measure	31 March 2018	31 March 2021
Technical Provisions	88%	95%
Solvency	65%	69%

Appendices

Key risks faced by the Scheme

Further analysis could be undertaken on specific risks

Risk	What might happen?
Employer covenant	The Employer is not able to support the Scheme, and in particular is not able to pay increased contributions if experience is unfavourable.
Investment strategy	Changes in asset values are not matched by changes in the Technical Provisions. The Technical Provisions are linked to gilt yields, but the Scheme assets include a substantial holding in return-seeking assets, so the two may move out of line as investment conditions change. For example, if equity values fall with no changes in gilt yields, the funding position would deteriorate.
Investment returns	Future investment returns are lower than anticipated. The greater the allowance made in the Technical Provisions for returns on assets other than gilts, the greater the risk that those returns are not achieved.
Gilt yields	Asset values and the Technical Provisions do not move in line as a result of changes in the yields available on fixed interest and index-linked gilts. This may arise because of a mismatch between the Scheme's holding in gilts and its Technical Provisions in terms of their nature (ie fixed or inflation-linked) and/or their duration.
Inflation	Actual inflation is higher, and so benefit payments are higher, than anticipated.
Longevity	Scheme members live longer, and so benefits are paid longer, than anticipated. In particular, no allowance is made for specific risks, such as climate change, so members may live for a different length of time than assumed.
Member options	The incidence of Scheme members exercising benefit options which are potentially not "neutral" to the Scheme's funding position (such as early retirement or commutation) is different from that anticipated.
Regulatory	In future the Scheme may have backdated claims or liabilities arising from equalisation or discrimination issues or from future legislation or court judgments. In particular, the actual impact of any adjustment to benefits that may be required to remove any inequalities arising from Guaranteed Minimum Pensions may be different from any allowance made.
Climate	Climate-related risks and opportunities are likely to have widespread social and economic effects during the Scheme's lifetime. They include physical risks from the climate itself and transition risks from actions which reduce greenhouse gas emissions. They could potentially affect the Scheme's investment returns, the financial strength of the Employer and mortality rates.

Membership data

Summary as at 31 March 2018

Membership summary

- The following table shows the membership details as at 31 March 2018, as obtained from Skyval.
- Figures as at 31 March 2015 are shown in brackets and were obtained from the previous Actuary's report on the 2015 actuarial valuation dated 13 December 2016.

	Number		Average age		Total pay / pension (£m pa)	
Active members	0	(20,511)	n/a	(50.5)	n/a	(849)
Deferred pensioners*	37,494	(22,449)	51.6	(50.5)	358	(105)
Pensioners	23,262	(20,278)	66.8	(68.4)	256	(223)
Dependants	4,138	(3,690)	64.2	(70.6)	33	(28)
Total	**64,894**	**(66,928)**				

* including crystallised pensioners

- The pension figures for deferred pensioners, current pensioners and dependants have been obtained by totalling members' pensions as at the valuation date but reflecting the April 2019 pension increase (where applicable), and the transitional options elected by the members.
- Average ages are weighted by accrued pension at the respective valuation date.
- Pensions in payment were increased over the inter-valuation period, as required under the Rules. There have been no discretionary pension increases granted since the previous valuation.

Further information on the data used and the benefits valued

- We have been provided with full updated membership data extracts by British Airways Pension Services Limited, the Scheme's administrators.
- We have conducted high level checks on the membership data received. We have also reviewed the detailed data validation checks carried out by British Airways Pension Services Limited and have no reason to doubt the overall accuracy of the data for the purposes of the valuation.

Benefit summary

Simplified benefit summary for the NAPS section

Benefit or defined term	Description
Normal Retirement Age (NRA)	NRAs reflect the options elected by members, eg Plan 60: 60 / Plan 65: 65 / Option 55: 55 / Option 60: 60 / Option 65: 65 **Pilots, Officers and Cabin Crew** - Pre-2007 leaver: 55 - Post-2007 leaver: 65 **Ground Staff** - Pre-1989 male leaver: 63 - Pre-1989 female leaver: 60 - Pre-2007 leaver: 60 - Post-2007 leaver: 65
Early retirement pension	Pension as for normal retirement, reduced for early payment and generally subject to the employer's consent prior to NRA
Incapacity retirement pension	Immediate unreduced pension
Benefits on death after retirement	
Spouse's pension	Member specific reflecting the options chosen by members for purchasing contingent spouse's pension. Based on the member's pension at death, ignoring any pension commuted for a lump sum at retirement
Lump sum	On death within 5 years of retirement, balance of pension payments which would otherwise have been received had the member survived until the fifth anniversary of retirement
Benefits on death in deferment	
Children's pensions	Children's pensions may be payable until age 23
Lump sum	3 times the member's Pay at death plus return of contributions with interest
Pension increases	
In payment	Excess increases each year in line with the Pension Increase Review Orders (PIRO) GMP receives statutory increases Proportionate first increase
In deferment	Excess: Pension Increase Review Orders (PIRO) GMP: in line with S148 orders

Note: It is possible that the Technical Provisions may prove to be too low on account of any back dated claims which may arise from equalisation or discrimination issues or from future legislation or court judgments. In particular, the approximate allowance included in the Technical Provisions for removing GMP inequalities may prove to be insufficient.

Benefit summary

Simplified benefit summary for the British Caledonian section

Benefit or defined term	Description
Normal Retirement Age (NRA)	55 / 60 / 65
Early retirement pension	Pension as for normal retirement, reduced for early payment and generally subject to the employer's consent prior to NRA
Incapacity retirement pension	Immediate unreduced pension
Benefits on death after retirement	
Spouse's pension	Member specific reflecting the options chosen by members for purchasing contingent spouse's pension. Based on the member's pension at death, ignoring any pension commuted for a lump sum at retirement
Lump sum	On death within 5 years of retirement, balance of pension payments which would otherwise have been received had the member survived until the fifth anniversary of retirement
Benefits on death in deferment	
Children's pensions	Children's pensions may be payable until age 23
Lump sum	3 times the member's Pay at death plus return of contributions with interest
Pension increases	
In payment	Excess pension at Date of Leaving and GMP from GMP payment age receive 5% pa fixed; the revaluation of excess pension does not increase in payment Proportionate first increase
In deferment	Excess: 5% pa fixed GMP receives fixed rate increases

Benefit summary

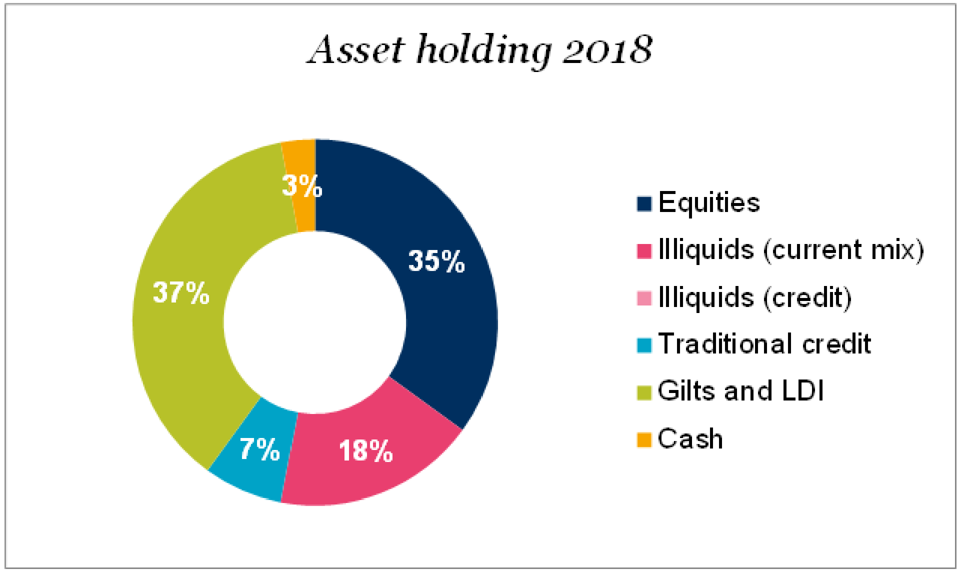
Simplified benefit summary for the Dan-Air and Davies & Newman (DADN) section

Benefit or defined term	Description
Normal Retirement Age (NRA)	55 / 60 / 65
Early retirement pension	Pension as for normal retirement, reduced for early payment and generally subject to the employer's consent prior to NRA
Incapacity retirement pension	Immediate unreduced pension
Benefits on death after retirement	
Spouse's pension	Member specific reflecting the options chosen by members for purchasing contingent spouse's pension. Based on the member's pension at death, ignoring any pension commuted for a lump sum at retirement
Lump sum	On death within 5 years of retirement, balance of pension payments which would otherwise have been received had the member survived until the fifth anniversary of retirement
Benefits on death in deferment	
Children's pensions	Children's pensions may be payable until age 23
Lump sum	3 times the member's Pay at death plus return of contributions with interest
Pension increases	
In payment	Dan-Air: RPI subject to a maximum of 5% (some of which is also subject to a minimum of 3% pa) Davies & Newman: 5% pa fixed GMP receives statutory increases Proportionate first increase
In deferment	Dan-Air: RPI subject to a maximum of 5% Davies & Newman: 5% pa fixed GMP receives fixed rate increases
Historic annuities	Approximate approach on a member-by-member basis by reducing the pension in payment.

Investment strategy and composition of assets

Summary as at 31 March 2018

Asset type	Market value at 31 March 2018 (£m)	(%)
Equities	6,882	40.6
Corporate bonds	1,089	6.4
Gilts & real assets	2,276	13.4
Index-linked bonds	3,276	19.3
Illiquids	3,185	18.8
AVC funds	148	0.9
Cash and net current assets	75	0.4
Total assets (including BAMPS and AVCs)	16,931	



- The summary of the assets as at 31 March 2018 shown in the table opposite is taken from the audited 2018 Annual Report and Financial Statements.
- In addition to the AVC funds of £148m shown in the table, a further £232m of assets in respect of the British Airways Money Purchase Section ("BAMPS") and other AVC funds are not held separately and are therefore included within the main Scheme assets.
- For the purpose of the asset allocations used to determine the Technical Provisions discount rate, we have treated "real assets" as "illiquids (current mix)".
- For funding purposes, we have excluded the assets and corresponding liabilities in respect of annuity contracts held to meet benefit payments to some former members of the DADN schemes. These are assumed to be equal and therefore do not affect the funding position.
- The Trustee de-risked the Scheme's assets in July 2018 and this is reflected in the "Asset holding 2018" chart opposite. The Technical Provisions discount rate as at 31 March 2018 and the future de-risking anticipated by the underlying investment model reference this target asset allocation.

Consolidated revenue account

Summary over the three years to 31 March 2018

	£m	£m
Opening fund as at 31 March 2015		**13,280**
Income		
Employer's contributions	588	
Members' contributions (including AVCs)	96	
Employer deficit contributions	664	
Cash sweep payments	660	
Augmentation contributions	1	
Total income		***2,009***
Expenditure		
Pensions	(813)	
Death lumpsums	(9)	
Commutation lumpsums	(209)	
Transfer values paid	(823)	
Tax payments	(17)	
Administration expenses	(22)	
Investment management expenses	(25)	
Total expenditure		***(1,918)***
Change in value of investments		***3,560***
Closing fund as at 31 March 2018		**16,931**

Appendix – assets

Source: Copies of the audited Trustee's Annual Report and Financial Statements for the three years to 31 March 2018

Sensitivity to assumptions

We have looked at the effect of varying assumptions

INSIGHT CLARITY ADVICE

Commentary

- The valuation results are sensitive to the assumptions chosen and we illustrate here effects of changes to some of the key assumptions.
- The results are particularly sensitive to the advance credit for future investment returns. By way of illustration, the effect of changing the advance credit for the returns above gilts is shown in the tables opposite.
- As the majority of Scheme pensions increase by reference to the annual increase in the Consumer Price Index ("CPI") the valuation results are sensitive to the assumed level of this inflation measure. By way of illustration, the effect of reducing the level of CPI inflation relative to market expectations for Retail Price Index ("RPI") inflation is shown in the table opposite.
- The results are also sensitive to the pensioner mortality assumption in terms of both life expectancy at the valuation date and how life expectancy may change in the future.
- To the extent that the mortality assumption under-estimates life expectancies, the Technical Provisions will be too low, all other things being equal.
- As an illustration, if it were assumed that life expectancies were one year longer than implied by the mortality assumption adopted, the Technical Provisions would be around 3% higher.

Advance credit for returns on 2018 target asset allocation	Return over gilts (% pa)	Deficit (£bn)
Assumed rate	1.0%	2.40
Higher rate	1.25%	2.13
Lower rate	0.75%	2.67

Advance credit for returns on assumed 2030 asset allocation	Return over gilts (% pa)	Deficit (£bn)
Assumed rate	0.5%	2.40
Higher rate	0.75%	1.76
No credit	0.0%	3.82

Advance credit for returns – overall average	Return over gilts (% pa)	Deficit (£bn)
Assumed rate	0.65%	2.40
No credit (ie a gilts basis)	0.0%	5.02

CPI inflation	Rate below RPI inflation (% pa)	Deficit (£bn)
Assumed rate	0.9%	2.40
Higher rate	0.7%	3.03

Assumptions used for assessing solvency

We have used the assumptions summarised below

Summary of approach

- We have based our estimate of the solvency position on our understanding of the principles used by insurance companies in setting their prices, having regard to actual quotations received for other schemes.
- We have not obtained an actual quotation for the Scheme, and there is considerable volatility in prices. The basis used has no relevance beyond this estimate of the buy-out cost and my statutory estimate of solvency.
- The demographic assumptions we have used are generally the same as those used for the Technical Provisions (where relevant) except as shown opposite.
- We have calculated our estimate of the solvency position assuming that the insurer's terms for members options are adopted.
- In practice, the actual buy-out cost can be determined only by running a selection process and completing a buy out with an insurer. The ultimate deficit on buy-out could be very different from our estimate for various reasons, including:
  - additional funding may be available from the Employer;
  - market conditions will be different from those applying at the valuation date;
  - there may have been changes in the level of competition in the insurance market; and
  - the actual expenses of winding-up are likely to be different from the allowance made.

Main financial assumptions

Assumption	% pa
Illustrative single equivalent assumptions	
Non-pensioner discount rate	1.35% pa
Pensioner discount rate	1.90% pa
Rate of RPI inflation	3.35% pa
Rate of CPI inflation	2.60% pa
Pension increases in payment	Set consistent with market-based pricing for the relevant minimums and maximums

Main demographic assumptions

Assumption	
Promotional salary increases	No allowance
Commutation	No allowance
Proportion married	Non-pensioners: 85% of members are assumed to be married at retirement or earlier death. Assumptions reduce in accordance with spouse mortality assumption post-retirement Pensioners: As for Technical Provisions
Spouse's age difference	As for Technical Provisions
Mortality assumption - Base table - Allowance for future improvements	 As for Technical Provisions Projection from 2007 in line with the CMI 2016 projections with a long term annual rate of improvement of 1.5%
Provision for removing GMP inequalities	Approximate provision of £40m
Expense reserve	Approximate provision of £197m for the costs that would be incurred by the Trustee in winding up. In practice, the actual winding-up expenses could be very different

Assumptions used for PPF Section 179 valuation (1 of 2)

We used the assumptions summarised below

Scope of valuation

- A "Section 179 valuation" is carried out in accordance with Section 179 of the Pensions Act 2004. The sole purpose of a Section 179 valuation is to enable the Trustee to fulfil its statutory duty to provide the required information to the Pensions Regulator.
- I carried out a Section 179 valuation as at 31 March 2018. The results were submitted to the Pensions Regulator on 29 March 2019 and I understand that the Board of the PPF will use those results to calculate the Scheme's future Pension Protection Levy until a new Section 179 valuation is provided. This appendix summarises the approach and assumptions.

Valuation of Section 179 liabilities

- The benefits to be valued are the Scheme's benefits adjusted to reflect, broadly, the compensation that members would currently receive if the Scheme were to enter the PPF.
- I placed a value on the projected adjusted benefits, using the PPF's prescribed assumptions as at the effective date (version A8).
- I took into account the PPF's valuation guidance (version G7) and responses to Frequently Asked Questions (FAQs) relating to Section 179 valuations published on the PPF website.
- The previous Section 179 valuation, carried out with an effective date of 31 March 2015, showed a deficit of £2,915m. The current valuation shows a decrease in the deficit to £903m. This is due to similar factors to those described elsewhere in this report, together with changes in the prescribed assumptions.

Approximations made

- In certain respects the membership data provided for the valuation was not sufficiently complete to enable us to value PPF compensation precisely. As permitted by the PPF, I made approximations where appropriate.
- The legislation and PPF guidance does not specify how a value for insurance policies is to be determined. Therefore I adopted an approach for valuing the insurance contracts that we believe to be reasonable and that we believe is unlikely to understate the underfunding of the Scheme.
- In providing a Section 179 valuation certificate, I am required to confirm that in my opinion the calculated value of the protected liabilities is unlikely to have been understated. I am satisfied that taken as a whole, the approximations made for the purposes of this valuation were prudent in that they will tend to overstate the value placed on the liabilities.
- I have set out details of the prescribed assumptions on the following page.
- The PPF is considering how to incorporate the verdicts of three court cases within Section 179 valuations – we therefore considered the following cases where relevant to the Scheme:
    - the Lloyds Bank case regarding GMP inequalities;
    - the Hampshire case regarding the value of PPF compensation being a minimum of 50% of the member's scheme pension; and
    - the Beaton case regarding how transfers in are tested against the compensation cap.

Assumptions used for PPF Section 179 valuation (2 of 2)

We used the assumptions summarised below

Assumptions

- The PPF Board prescribes the actuarial assumptions to be adopted for a Section 179 valuation – I used version A8 of the assumptions guidance. The financial assumptions are specified by reference to yields on certain gilt indices at the valuation date and are summarised in the table opposite.
- I took into account the PPF's valuation guidance (version G7).

Court cases

- On 26 October 2018 the High Court ruled that the trustee of the Lloyds Banking Group pension schemes has a duty to remove inequalities in scheme benefits that arise from GMPs accrued after 17 May 1990 being unequal between men and women. I made no explicit allowance for liabilities arising from the adjustment of benefits to allow for any inequalities in GMPs. This is permitted by the PPF as a transitional measure because the Scheme's Section 179 valuation was already well advanced when the PPF requested schemes to account for GMP inequalities following the Lloyds Bank court case.
- In September 2018 the Court of Justice of the European Union ruled in the "Hampshire" case that pension scheme members should receive at least 50% of the value of their accrued old age benefits if their employer became insolvent. The PPF and DWP are working towards legislative changes that are required as a result; but for now no additional allowance for higher benefits as a result of the case should be included in Section 179 valuations. As directed by the PPF, no allowance was made for the "Hampshire" judgment.
- As a result of the Beaton court case (and subsequent effect of the Hampshire case), fixed transferred-in pensions are tested against a separate compensation cap from other scheme pensions. The PPF permits Section 179 valuations that were already underway in early December 2018 not to make any adjustment as a result of the Beaton case, so the Section 179 valuation treated those fixed pensions as a normal part of the scheme pension when comparing to the compensation cap.

Main financial assumptions as at 31 March 2018

Assumption	% pa Non-pensioners	Pensioners
Net discount rates during deferment		
- for revaluing benefits earned before 6 April 2009	-1.65	n/a
- for revaluing benefits earned after 5 April 2009	-0.83	n/a
for non-revaluing benefits	1.03	n/a
Net discount rates after retirement		
- non-increasing pensions	1.35	1.73
- increasing pensions	-0.85	-0.17

Main demographic assumptions

Assumption	
Percentage married (at NPA or earlier death)	Males: 85% Females: 75%
Mortality assumption	
- Base mortality table	100% of the S2PA tables
- Allowance for future improvements	Projection from 2007 in line with the CMI 2014 projections with a long term annual rate of improvement of 1.5% (males) and 1.25% (females)

There is also a prescribed allowance for wind-up and benefit installation expenses according to the amount of the calculated Section 179 liabilities and the membership profile of the Scheme.

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Actuary's certification of the calculation of Technical Provisions

This certificate is provided for the purpose of Section 225(1) of the Pensions Act 2004 and Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme New Airways Pension Scheme ("the Scheme")

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 31 March 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 25 October 2019.

Signature: ....

Date: 25 October 2019

Name: Aaron Punwani

Qualification: FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London, W1U 1DQ

New Airways Pension Scheme
Statement of Funding Principles

The Trustee of the New Airways Pension Scheme ("the Scheme") has produced this Statement of Funding Principles and it is designed to comply with Section 223 of the Pensions Act 2004.

It sets out:

- our policy for assessing the "Technical Provisions" – that is the amount of money the Scheme should aim to hold from time to time in order to make provision for the Scheme's liabilities; and
- how we intend to achieve the objective of holding this amount of money in the Scheme (this is known as meeting the "Statutory Funding Objective").

This statement has been prepared as part of the Scheme's actuarial valuation as at 31 March 2018. The Trustee has taken advice from the Scheme Actuary, Aaron Punwani, when drawing up this statement, and the Trustee has agreed its provisions with the Principal Employer, British Airways Plc ("BA") for and on behalf of all the Participating Employers of the Scheme.

1. Technical Provisions

As required by law, the Trustee and BA have agreed the method and assumptions for calculating the Technical Provisions.

In arriving at them, the Trustee took advice from the Scheme Actuary, and took account of various relevant factors (in particular the ability of BA to support the Scheme).

The Trustee and BA have further agreed the following:

- The discount rate used to calculate the Technical Provisions will be a prudent estimate of future investment returns on the assets of the Scheme, allowing for expected changes in the investment policy over time, specifically allowing for an assumed rate of de-risking and an assumed long-term asset allocation.
- An upside de-risking mechanism, documented in a separate agreement, whereby a proportion of investment outperformance over certain thresholds will be used to accelerate the de-risking plan. Where such triggers are hit and assets de-risked ahead of the plan underlying the calculation of the Technical Provisions, the discount rate will be automatically reduced to reflect the revised assumed asset portfolios over time, using the same return above gilts on each asset class as documented in this Statement of Funding Principles.
- The estimate of future investment returns, together with the remaining financial assumptions, will take into account information available in respect of the relevant investment markets at the effective date of the actuarial valuation. In particular, the assumed level of Retail Prices Index ("RPI") inflation will have regard to break-even inflation derived from the difference between the full index-linked and nominal gilt

curves at the valuation date and the assumed level of Consumer Prices Index ("CPI") inflation will be based on a prudent view of the long-term difference between RPI and CPI based on conditions at the valuation date, taking into account the formula effect and pricing of CPI-linked securities.

- Demographic assumptions will have regard to an analysis of the experience of the Scheme membership as well as relevant statistics applicable to similar pension schemes, and the Trustee's and BA's views about how these may change in future.

Taken together, the assumptions adopted at a particular date will be prudent and consistent with the Trustee's desired level of confidence that assets equal to the Technical Provisions will prove adequate to meet accrued benefits as they fall due without the need for further contributions.

In determining the overall level of prudence required in the Technical Provisions, the Trustee will have regard to the strength of support to the Scheme provided by BA, including any relevant package of security or other measures (such as dividend protections) provided to the Trustee and documented in separate legal agreements. Any change in the assessed strength of the covenant would lead to a compensating change in the level of prudence being sought.

Full details of the method and assumptions are set out in the Appendix to this statement.

2. Recovery Plan

If the value of the Scheme's assets is less than the Technical Provisions, the Trustee and BA are required to set a Recovery Plan that is designed to eliminate the difference by the payment of additional "deficit" contributions.

The Trustee and BA have agreed to aim for any difference to be eliminated as quickly as the Participating Employers can reasonably afford. In determining the recovery period the Trustee will take into account relevant factors such as:

- the provisions of the Trust Deed & Rules;
- the size of the funding shortfall and the degree of prudence in the Technical Provisions;
- any estimated change in the financial position of the Scheme for part or all of the period between the valuation date and when the Recovery Plan is agreed;
- the risk that the Scheme's financial position may deteriorate against the Statutory Funding Objective and Long-Term Funding Target;
- the projected financial position of BA, including its free assets and projected cashflow, and the risk of significant deterioration in this position; and
- any contingent assets or letters of credit provided by BA (to the extent that these are not already being used to support the level of Technical Provisions).

The assumptions underlying the Recovery Plan are the same as those underlying the Technical Provisions.

3. Additional funding objective

In addition to the Statutory Funding Objective, the Trustee has decided to adopt an additional funding objective which is to provide benefits in accordance with the Scheme Rules with a higher level of security and less reliance on further support from BA in the future. For the purpose of this Long-Term Funding Target, the Trustee will calculate the value of the liabilities in line with the Technical Provisions assumptions but allowing for investment returns of 0.5% pa above gilts (the "LTFT Basis"). The Trustee will have regard to the Scheme's anticipated progress towards meeting this Long-Term Funding Target when deciding on funding matters. The method of calculating the Technical Provisions is designed such that the Technical Provisions converge with this Long-Term Funding Target by 2030.

4. Discretionary benefits

There are a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustee and/or BA, the principal details of which are set out below:

- At BA's request, and upon payment to the Scheme of any contributions advised by the Scheme Actuary to be necessary, the Trustee shall increase or alter any benefit or provide additional benefits under the Scheme. The Trustee and BA have agreed that such discretionary benefits will not be taken into account in the calculation of Technical Provisions, but that the capital value of any such benefits granted would be paid in full by BA at the time the discretion is exercised.
- Aside from these general provisions, there is no requirement for either the Trustee or BA to consider granting discretionary increases to pensions in deferment or in the course of payment, which receive guaranteed levels of increases as specified in the Rules of the Scheme. Consequently for the purposes of calculating the Technical Provisions, no allowance for discretionary pension increases is made.
- There are a number of options that enable Members to convert the benefits from one form into another subject to the Trustee's consent, such as on early retirement, late retirement, ill-health retirement, or the commutation of pension into cash at retirement. Following completion of formal actuarial valuations it is anticipated that the terms for most of these options will be reviewed. The Trustee and BA have agreed that allowance for the exercise of these options in the determination of Technical Provisions is generally done so on a cost neutral basis. However, it is anticipated that the terms applying for cash commutation will continue to differ from those on the Technical Provisions basis, and so the Trustee and BA have agreed to reflect this in the allowance for commutation of pension into cash in the calculation of Technical Provisions.

5. Payments to the Participating Employers

The Rules do not include provision for the Trustee to make payments to any of the Participating Employers out of the funds held for the purposes of the Scheme unless there exists a surplus following the winding up of the Scheme

6. Arrangements for other parties to make payments to the Scheme

Subject to the escrow accounts described below, there are no arrangements in place for any contributions to be paid to the Scheme other than from the Participating Employers and members.

Contributions may be payable from escrow accounts as described in a separate legal agreement.

7. Cash equivalent transfer values

Under current legislation, the Trustee may reduce transfer values to take account of the funding level of the Scheme.

If all members had requested transfer values at the last valuation date, it has been estimated that the assets of the Scheme would have been broadly sufficient to pay everyone.

Accordingly we offer full, unreduced transfer values, as required by legislation. There is also a Recovery Plan in place with the aim of enabling the Scheme to cover its Technical Provisions, which would be more than sufficient to pay full transfer values to everyone at the date of the valuation.

8. Reviewing the valuation position and this statement

The Trustee will normally commission a full actuarial valuation every three years. The Scheme Actuary will provide an estimate of the financial position of the Scheme at each anniversary of the most recent full actuarial valuation.

The Trustee may request full valuations more frequently than every three years. For example, if the Trustee is of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation for funding purposes. In reaching such a view, the Trustee will consider the advice of the Scheme Actuary and consult with BA.

This statement will be reviewed and if necessary revised by the Trustee (subject to agreement from BA) either:

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has directed as to the manner in which the Technical Provisions are to be calculated or the period over which failure to meet the Statutory Funding Objective is to be remedied, or imposed a Schedule of Contributions.

This statement replaces the previous statement, which was dated 13 December 2016.

We will review and, if necessary, revise this statement as part of each valuation. We may review it at other times.

This statement of funding principles was prepared on 25 October 2019.

Signed on behalf of the Trustee

Signature: ....

Name: VIRGINIA HOLMES

Position: Chair

Date: 25/10/19

Signed on behalf of the Participating Employers of the Scheme

Signature: ....

Name: Rebecca Nkpe'i

Position: CFO

Date: 25/10/19

New Airways Pension Scheme
Statement of Funding Principles
Actuarial method and assumptions

The method and assumptions for calculating the Technical Provisions and the Recovery Plan are set out below.

Actuarial method

Projected unit method.

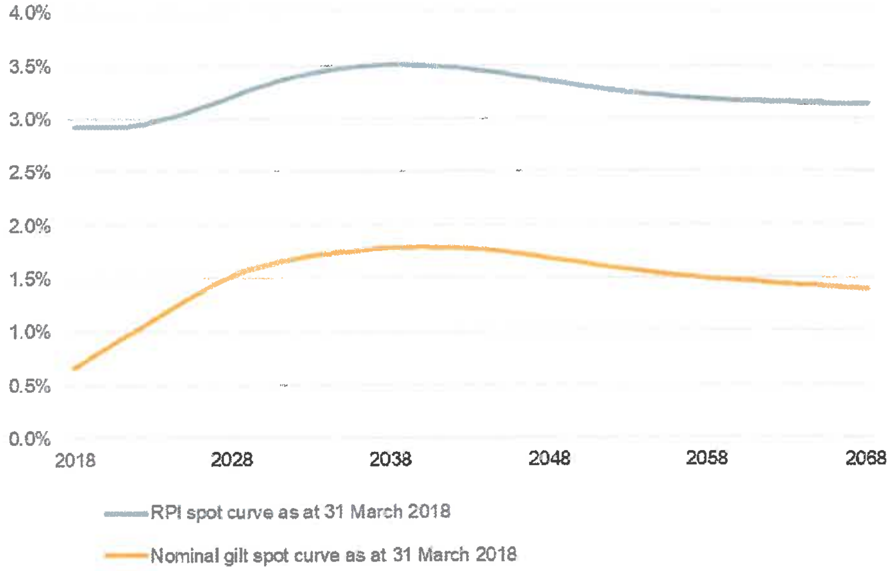
Gilt return and price inflation assumptions

The assumptions for the future return on gilts and price inflation are derived consistently as described below:

- The return from gilts over each future year is taken from the latest available yield curve as at the valuation date for fixed interest gilts as constructed by Skyval. The curve is derived to minimise the weighted sum of squares of the price differences of all available conventional gilts. The weighting function is designed to prefer accurate pricing of long-dated gilts.
- Price inflation as measured by the Retail Prices Index ("RPI") over each future year is as implied by the latest available yield curves as at the valuation date for fixed interest and index-linked gilts as constructed by Skyval. The RPI curve within Skyval is derived from price data provided by Tradeweb. The curve is derived to minimise the weighted sum of squares of the price differences of all available index-linked gilts with a 3-month lag. The weighting function is designed to prefer accurate pricing of long-dated gilts.
- Price inflation as measured by the Consumer Prices Index ("CPI") over each future year is calculated as the corresponding assumption for RPI less a deduction based on a prudent view of the long-term difference between RPI and CPI based on conditions at the valuation date, taking into account the formula effect and pricing of CPI-linked securities.

For illustration, as at 31 March 2018, the assumptions for the return on gilts and RPI inflation were as shown in the chart below:

Gilt returns and implied RPI inflation as at 31 March 2018



For illustration, as at 31 March 2018 the single equivalent average rates (weighted by reference to the projected future benefit cashflows) were:

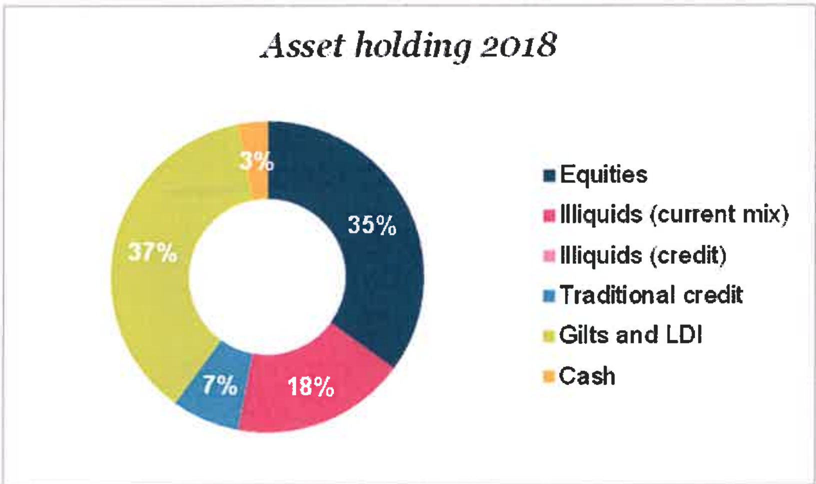
	Rate
Gilt returns	*1.60% pa*
RPI inflation	*3.35% pa*

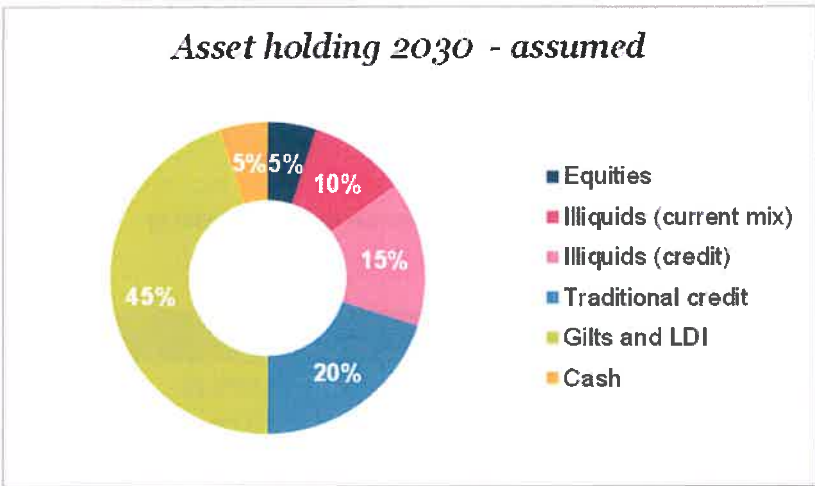
As at 31 March 2018, the assumed difference between RPI and CPI inflation was 0.9% pa.

Investment returns

Projected future benefit payments are discounted on rates or return derived as described below. For simplicity, these rates of return are assumed to apply in aggregate to the combination of the Scheme's assets and funds in any escrow account.

- The discount rate for each future year is based on the current investment strategy and assumes broadly a 3% pa switch from return-seeking assets (predominantly equities and illiquids (current mix)) to liability matching assets (including credit and secure income assets) over the next 12 years. The 2018 asset holding and the assumed 2030 portfolio are shown below. Note that the assumed asset holdings are illustrative – in reality, the Trustee would retain flexibility to review its investment strategy but would expect to do so without negatively impacting Scheme funding.





Advance credit is taken for an additional return on each asset class over the return from gilts (net of investment management expenses) in each future year as set out in the table below.

Asset class	Discount rate return above gilts (% pa)
Equities	1.95%
Illiquids (current mix)	1.5%
Illiquids (credit)	0.8%
Traditional credit	0.7%
Gilts and LDI	0.0%
Cash	0.0%

- This results in the discount rates set out in the table below, alongside the nominal gilt forward rates as at 31 March 2018 and the accompanying margin applied for each year from 2018 to 2030 (from which point the margin above gilts is assumed to stay at 0.5% pa):

Year commencing 31 March	Nominal gilt forward rate at 31 March 2018	Margin above gilts	Technical provisions forward discount rate as at 31 March 2018
2018	0.66%	1.00%	1.66%
2019	0.85%	0.96%	1.81%
2020	1.03%	0.92%	1.95%
2021	1.21%	0.88%	2.09%
2022	1.38%	0.83%	2.21%
2023	1.55%	0.79%	2.34%
2024	1.73%	0.75%	2.48%
2025	1.92%	0.71%	2.63%
2026	2.07%	0.67%	2.74%
2027	2.16%	0.63%	2.79%
2028	2.19%	0.58%	2.77%
2029	2.18%	0.54%	2.72%
2030	2.15%	0.50%	2.65%

(Note – rates shown above are rounded to the nearest 0.01% pa)

- As at 31 March 2018 the resulting single equivalent average discount rate is 2.25% pa or gilts + 0.65% pa.
- The Trustee and BA have also agreed an upside de-risking mechanism, documented in a separate agreement, whereby a proportion of investment outperformance over certain thresholds will be used to accelerate the de-risking plan. Where such triggers are hit and assets de-risked ahead of the above plan, the discount rate will be automatically reduced to reflect the revised assumed asset portfolios over time, using the same return above gilts on each asset class as set out above.

Other assumptions

Future benefit payments are projected using the assumptions set out below.

- Pension increases to pensions in payment as follows:

Increase	Assumption
Fixed	At the rate specified in the Rules.
Inflation-linked	Over each future year at a rate reflecting the provision of the Rules, the assumption for RPI / CPI inflation in that year and the volatility of RPI / CPI inflation of 1.8% pa / 1.5% pa respectively.

For illustration, as at 31 March 2018 the resulting single equivalent average assumed rates of pension increase were:

Pension increase	*Assumption*
CPI subject to a minimum of 0% pa and a maximum of 5% pa	*2.45% pa*
CPI subject to a minimum of 0% pa and a maximum of 3% pa	*2.10% pa*
CPI subject to a minimum of 3% pa and a maximum of 5% pa	*3.35% pa*

- No allowance for discretionary pension increases.
- Assumptions for members who elected the transitional option to retain a link to promotional / incremental salary increases until 31 March 2021:
  - For the three years to 31 March 2021, promotional / incremental salary increases are assumed to be 2% pa and 1.2% pa (for co-pilots and other members respectively).
  - Co-pilots who elected this transitional option are assumed to reach captain before 31 March 2023 or earlier retirement.
- Revaluation of deferred pensions as follows:

Revaluation rate	Assumption
Guaranteed minimum pensions (GMPs)	▪ Escalation of S148 rates assumed to be in line with RPI + 1.5% pa. ▪ Fixed rate revaluation as specified.
Pension Increase Review Orders (PIRO) – CPI capped at 5% pa	Based on CPI forward curve over each future year.

- All retirements of deferred pensioners assumed to take place at the earliest Normal Pension Age across their benefit tranches, with other tranches reduced for early payment using cost-neutral terms.
- Commutation at retirement
  - Members who left the Scheme on the closure date (31 March 2018) are classified in accordance with the size of their Additional Voluntary Contribution (AVC) / BAPP fund value. Members assessed to have high, medium and low AVC / BAPP fund values are assumed to commute 10%, 13% and 18% of pension on retirement respectively.
  - Other deferred members are assumed to commute 20% of pension on retirement.
  - Commutation is assumed to take place on the following terms:
    - for known retirements and exits up to 31 March 2019 and non-pensioners assumed to retire between 1 April and 30 September 2019, on the terms in force at 31 March 2018; and
    - for other non-pensioners, on factors which are 22.5% above those in force for NAPS members as at 31 March 2018, broadly representing agreed updated terms effective from October 2019.
- No allowance for transfer values.
- Mortality post-retirement and pre-retirement
  - Base table

Member	Base table assumption
Non-pensioners	
▪ Males with pensions < £25,100 paas at the valuation date	93% of S2NMA
▪ Males with pensions > £25,100 pa as at the valuation date	71% of S2NMA
▪ Females	85% of S2NFA
▪ Male dependants	114% of S2NMA
▪ Female dependants	102% of S2NFA
Pensioners	
▪ Male with pensions < £25,100 pa as at the valuation date	108% of S2NMA
▪ Male with pensions > £25,100 pa as at the valuation date	83% of S2NMA
▪ Females	88% of S2NFA
▪ Male dependants	114% of S2NMA
▪ Female dependants	102% of S2NFA

- Future improvements in longevity
  - Base tables are projected from 2007 to 2018, in line with the CMI 2018 projection model with core smoothing parameter ("S"), initial additional improvements ("A") of 0.5% pa and a long-term annual rate of improvement of 1.5%.
  - Base tables are projected from 2018, in line with the latest CMI model available in a consistent format and with same modelling parameter structure as the CMI 2018 model and the core smoothing parameter ("S") for that latest CMI model, initial additional improvements ("A") of 0.5% pa and a long-term annual rate of improvement of 1.5%.
  - *As at 31 March 2018, the CMI 2018 model was used from 2018 with core smoothing parameter ("S") of 7.*

- Proportion married
  - For pensioners, based on actual marital data at the valuation date where available with 10% of unmarried members assumed to have a dependant's pension payable.
  - For non-pensioners, around 90% of males and 80% of females are assumed to have a spouse or civil partner on retirement at age 55 or earlier death. Assumptions reduce in accordance with spouse mortality assumption post-retirement.

- Non-pensioner members are assumed to be 3 years older and 1.5 years younger than their spouse for male and female members respectively. Actual data used for current pensioners where available, otherwise non-pensioner assumptions are adopted.

- Investment management expenses are assumed to be met out of future investment income. The valuation discount rate is therefore net of such costs.

- An expense reserve of 1% of the Technical Provisions has been included to meet administrative and other non-investment expenses. It is assumed that BA will continue to pay any Pension Protection Fund levies in respect of the Scheme.

- An approximate allowance for the cost of adjusting benefits to remove any inequalities arising from Guaranteed Minimum Pensions has been made by increasing the Technical Provisions. As at 31 March 2018, the allowance was £40m.

New Airways Pension Scheme Recovery Plan

New Airways Pension Scheme Trustee Limited, the Trustee of the New Airways Pension Scheme ("the Scheme"), has prepared this Recovery Plan after obtaining the advice of Aaron Punwani, the Scheme Actuary, in accordance with Section 226 of the Pensions Act 2004.

1. Steps to be taken to ensure that the Statutory Funding Objective is met

The actuarial valuation of the Scheme as at 31 March 2018 revealed a funding shortfall (Technical Provisions minus value of assets) of £2,399m.

In order to eliminate the shortfall as at 31 March 2018, the Trustee and British Airways plc ("BA"), the Principal Employer for and on behalf of the Participating Employers of the Scheme, have agreed to eliminate the funding shortfall by the payment of deficit reduction contributions to the Scheme as set out in the table below.

Deficit reduction contributions payable by BA

Timing	Amount	Frequency	
1 April 2018 to 31 March 2019	£450m	Payable in equal monthly instalments of £25m in arrears, plus a lump sum payment of £150m payable in June 2018.	(Paid)
1 April 2019 to 30 September 2019	£300m	Payable in equal monthly instalments of £25m in arrears, plus a lump sum payment of £150m payable in June 2019.	(Paid)
31 December 2019	£250m*	Lump sum payment of £250m (defined as the Special Contribution in and subject to the terms of the separate legal agreement referred to below)	
1 October 2019 to 31 March 2020	£150m	Payable in equal monthly instalments of £25m in arrears.	
1 April 2020 to 31 March 2023	£450m pa	Payable in equal monthly instalments of £37.5m in arrears.	

In relation to the above deficit reduction contributions, the Trustee and BA have agreed a mechanism whereby:

- If the Technical Provisions funding level equals or exceeds 97%, some of the above contributions may be paid into an escrow account rather than the Scheme.
- The funds in escrow would subsequently be paid to the Scheme or returned to BA depending on whether the Scheme is fully funded against its Technical Provisions at future assessment points.

- Payments may cease if the Scheme is funded above 100% of Technical Provisions over the recovery plan period and would restart if a funding deficit remerges.

This mechanism is documented in a separate legal agreement.

* The lump sum payment of £250m is expected by 31 December 2019. In some circumstances the timing of the £250m lump sum payment may vary and it may be payable in instalments. To the extent that the £250m lump sum payment is received by the Scheme after 31 December 2019, additional interest will be added to the payment, to compensate the Scheme for late payment. This is documented in a separate legal agreement.

In addition, the Trustee and BA have agreed a package of additional security and other measures aimed at further improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. Under these arrangements, additional payments may be made to the Scheme from time to time, on dates determined pursuant to that agreement, including as mitigation of special distributions. As documented in the legal agreement, these additional payments shall be treated as pre-payments of the fixed deficit contributions which are furthest in the future and are still due for payment and payable under the Recovery Plan.

2. Period in which the Statutory Funding Objective should be met

The deficit is expected to be eliminated by 31 March 2023. This is based on the following assumptions:

- the Technical Provisions are calculated according to the method and assumptions set out in the Scheme's Statement of Funding Principles dated 25 October 2019;
- the return on existing assets and new contributions during the period are as adopted for the calculation of the Technical Provisions; and
- no further account is taken of any payments that may arise under the package of additional security and other measures agreed by BA and the Trustee.

3305271

3. Agreement by the Trustee and BA

This Recovery Plan was prepared on 25 October 2019.

Signed on behalf of the Trustee

Signature:...

Name: ....

Position: ....

Date: ....

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

Signature:...

Name:

Date:

New Airways Pension Scheme
Schedule of Contributions

Name of Employer: British Airways plc ("BA") as the Principal Employer for and on behalf of the Participating Employers of the Scheme

This Schedule of Contributions has been prepared in accordance with Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations (SI 2005/3377). It sets out the contributions payable to the New Airways Pension Scheme ("the Scheme") over the period of 5 years from the date that the Actuary certifies the Schedule.

It also shows the contributions that are payable to the Scheme between the effective date of the valuation (31 March 2018) and the date that the Actuary certifies the Schedule.

New Airways Pension Scheme Trustee Limited, the Trustee of the Scheme, and BA have agreed this Schedule, as indicated below by authorised signatories (all other Participating Employers of the Scheme have nominated the Principal Employer to agree the Schedule of Contributions on their behalf).

Deficit reduction contributions payable by BA

Timing	Amount	Frequency	
1 April 2018 to 31 March 2019	£450m	Payable in equal monthly instalments of £25m in arrears, plus a lump sum payment of £150m payable in June 2018.	(Paid)
1 April 2019 to 30 September 2019	£300m	Payable in equal monthly instalments of £25m in arrears, plus a lump sum payment of £150m payable in June 2019.	(Paid)
31 December 2019	£250m	Lump sum payment of £250m (defined as the Special Contribution in and subject to the terms of the separate legal agreement referred to below) .	
1 October 2019 to 31 March 2020	£150m	Payable in equal monthly instalments of £25m in arrears.	
1 April 2020 to 31 March 2023	£450m pa	Payable in equal monthly instalments of £37.5m in arrears.	

In relation to the above deficit reduction contributions, the Trustee and BA have agreed a mechanism whereby:

- If the Technical Provisions funding level equals or exceeds 97%, some of the above contributions may be paid into an escrow account rather than the Scheme.
- The funds in escrow would subsequently be paid to the Scheme or returned to BA depending on whether the Scheme is fully funded against its Technical Provisions at future assessment points.

- Payments may cease if the Scheme is funded above 100% of Technical Provisions over the recovery plan period and would restart if a funding deficit re-emerges.

This mechanism is documented in a separate legal agreement.

Other payments

In addition to the deficit recovery payments, BA will pay:

- any additional contributions as decided by the Trustee, on the advice of the Actuary, and in accordance with the Scheme Rules, to meet benefit augmentations;
- between 1 April 2018 and 30 September 2019, £600,000 each calendar month as an allowance for recurring administrative and non-investment expenses. Invoices for expenses incurred over this period 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 within one calendar month; and
- all Pension Protection Fund levies, either directly or by reimbursing the Scheme.

The Trustee and BA have agreed a package of additional security and other measures aimed at further improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. Under these arrangements, additional payments may be made to the Scheme from time to time, on dates determined pursuant to that agreement, including as mitigation of special distributions. In some circumstances, as documented in the legal agreement, these additional payments shall be treated as pre-payments of the fixed deficit contributions which are furthest in the future and are still due for payment and payable under the Recovery Plan.

This Schedule incorporates all sums payable to the Scheme from time to time under that legal agreement, and BA and the Trustee will amend this Schedule of Contributions document to reflect any such presentational difference as soon as reasonably practicable after it has been identified.

Due date for payment of contributions deficit recovery contributions payable by BA

Deficit recovery payments labelled as being payable in equal month instalments are payable monthly and are due by the 19th day of the month following that to which the contributions relate. This includes any contributions payable to the escrow account rather than the Scheme.

The lump sum payment of £250m is expected by 31 December 2019. In some circumstances the timing of the £250m lump sum payment may vary and it may be payable in instalments. To the extent that the £250m lump sum payment is received by the Scheme after 31 December 2019, additional interest will be added to the payment, to compensate the Scheme for late payment. This is documented in a separate legal agreement.

Any other contributions to the Scheme will be paid within 19 days of the due date notified by the Trustee.

This Schedule of Contributions replaces the Schedule of Contributions dated 28 March 2018 with effect from the date of certification.

This Schedule of Contributions is agreed:

on behalf of the Trustee of the Scheme

Signature: .... authorised signatory

Name: ....

Position: .... Date: 25/10/19

for and on behalf of the Participating Employers of the Scheme

Signature: authorised signatory

Name:

Position: Date:

3314071

Actuary's certification of Schedule of Contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme New Airways Pension Scheme ("the Scheme")

Adequacy of rates of contributions

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 2018 to be met by the end of the period specified in the Recovery Plan dated 25 October 2019.

I also certify that the rates of contributions shown in this Schedule are not lower than I would have provided for had I had responsibility for preparing or revising the Schedule of Contributions, the Statement of Funding Principles and any Recovery Plan.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 25 October 2019.

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.

Signature: ... . **Date:** 25 October 2019

Name: Aaron Punwani **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

3314071

Notes not forming part of the certification

In giving the above opinion I have interpreted the phrase "could have been expected to be met" as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by Trustee's funding assumptions as set out in the Statement of Funding Principles dated 25 October 2019, and the Recovery Plan dated 25 October 2019 and without any further allowance for adverse contingencies that may arise in the future. My opinion does not necessarily hold in any other scenarios.

Furthermore, I have taken no account of either adverse or beneficial outcomes that have become known to me since the effective date of the valuation. However, I have taken account of contributions that are payable to the Scheme between the effective date of the valuation and the date that I have certified this Schedule as documented in the Schedule of Contributions.

3535392

Section 179 Valuation Certificate

Scheme /Section details:

Full name of scheme:	New Airways Pension Scheme
Name of section, if applicable:	Not applicable
Pension Scheme Registration Number:	10057029

Address of scheme (or section, where appropriate):

British Airways Pensions
Waterside
HAA1
Harmondsworth
UB7 0GB

s179 valuation	
Effective date of this valuation (dd/mm/yyyy)	31/03/2018
Guidance and assumptions	
s179 guidance used for this valuation	G7
s179 assumptions used for this valuation	A8

Assets	
Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below)	£16,827,000,000
Date of relevant accounts (dd/mm/yyyy)	31/03/2018
Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts	0.26%

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Liabilities	
Please show liabilities for:	
Active members (excluding expenses)	£0
Deferred members (excluding expenses)	£11,891,000,000
Pensioner members (excluding expenses)	£5,604,000,000
Estimated expenses of winding up	£177,000,000
Estimated expenses of benefit installation/payment	£58,000,000
External liabilities	Nil
Total protected liabilities	£17,730,000,000
Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:	
Active members	0%
Deferred members	0%
Pensioner members	0.77%

Proportion of liabilities			
Please show the percentage of liabilities which relate to each period of service for:			
	Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Active members	n/a	n/a	n/a
Deferred members	20%	57%	23%
	Before 6 April 1997	After 5 April 1997	
Pensioner members	56%	44%	

Number of members and average ages		
For each member type, please show the number of members and the average age (weighted by protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.		
	Number	Average age
Active members	0	n/a
Deferred members	37,502	52
Pensioner members	27,406	67

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I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate Section 179 guidance and assumptions issued by the Board of the Pension Protection Fund. I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

Signature: Date: 29 March 2019

Name: Aaron Punwani

Qualification: FIA Employer: Lane Clark & Peacock LLP

As required, under Part 6 of the Guidance on undertaking an Section 179 valuation, the Section 179 certificate should form part of the Scheme Actuary's Section 179 valuation report. The details contained in this certificate should be separately submitted to the PPF as part of the annual scheme return via the Pension Regulator's system "Exchange".

This certificate should not be sent directly to the Pension Protection Fund.