

Airways Pension Scheme

Climate change governance and reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)

Scheme year to 31 March 2025

1 Summary

Executive Summary

This report has been prepared in line with the recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD), as required by regulation. The TCFD developed a framework to help public companies and other organisations disclose climate-related risks and opportunities.

This report covers the Scheme year dating from 1 April 2024 to 31 March 2025 and describes the activities and approach taken by the Trustee to understand the climate-related opportunities and reduce the risks to the Scheme related to climate change across the investments, the liabilities and, where relevant, the sponsor's (British Airways') covenant.

While the Trustee believes that climate-related risks are systemic and potentially highly material to the financial returns of some assets – the de-risked nature of the Scheme means that, in the Trustees' assessment, the financial risk to the Scheme is likely to be modest. Equally, as the Scheme's assets are predominantly either sovereign bonds or insurance contracts, the Trustee's ability to invest to influence real-world decarbonisation is extremely limited.

In December 2024, the Scheme invested in a longevity swap with Metropolitan Tower Life Insurance Company, a subsidiary of MetLife which is a globally recognised financial services company. The insurance policy forms part of the Scheme's investment portfolio and will provide additional income to the Scheme if pensions need to be paid for longer than expected. This strengthens the long-term financial stability of the Scheme and supports its ongoing risk management strategy.

The Scheme's climate-related metrics as at 31 December 2024 are reported in this document. The net value of a longevity swap at inception is zero and as the inception date is close to 31 December 2024, the net value is considered negligible and has therefore been excluded from this report.

Given the de-risked position of the Scheme and the limited expected reliance on BA for future pension contributions, the Trustee has concluded that no detailed consideration should be given to covenant-related risks and opportunities within this report. The Trustee also notes there is no legal requirement to take formal covenant advice as part of the

preparation of a TCFD report, or compliance with climate change governance requirements more generally.

The following points are a summary of the detailed report that follows:

- Our governance structure includes specific roles, responsibilities and oversight regarding climate risks. In addition, the Scheme's overall risk management processes include consideration of climate change risk.
- The most recent climate scenario analysis was undertaken as at 31 December 2022. The Trustee believes it is still relevant, so it has been reproduced for this year's report. The Trustee reviews the climate scenario analysis annually and refreshes it at least triennially or if there has been a material change to the strategic asset allocation, funding strategy or the scenario modelling approach. Whilst a new allocation to structured credit was added to the strategic asset allocation over 2024, the Trustee has deemed it reasonable to not review the analysis this year due to difficulties in modelling climate risk associated with such assets and an expectation the risk would be relatively low given the high quality and diversification of the underlying credit.
- As the Pensions Regulator has noted, modelling the potential financial consequences of different climate scenarios is challenging. The Trustee recognises that outcomes could be materially different from those estimated and is committed to evolving its approach to scenario analysis as new tools are developed.
- We have chosen four climate-related metrics to monitor through time, namely carbon footprint, carbon intensity, data quality and portfolio alignment. The data for carbon footprint, carbon intensity and data quality is provided where available for the Scheme's insurance arrangements, whereas the data for the portfolio alignment metric excludes the insurance arrangements. Page 5 summarises the results.

Finally, this is a developing area of financial and risk analysis, and the Trustee will continuously review its approach and take appropriate advice from its professional external advisors.

Key Definitions

Definition of Scope 1, 2 and 3 emissions

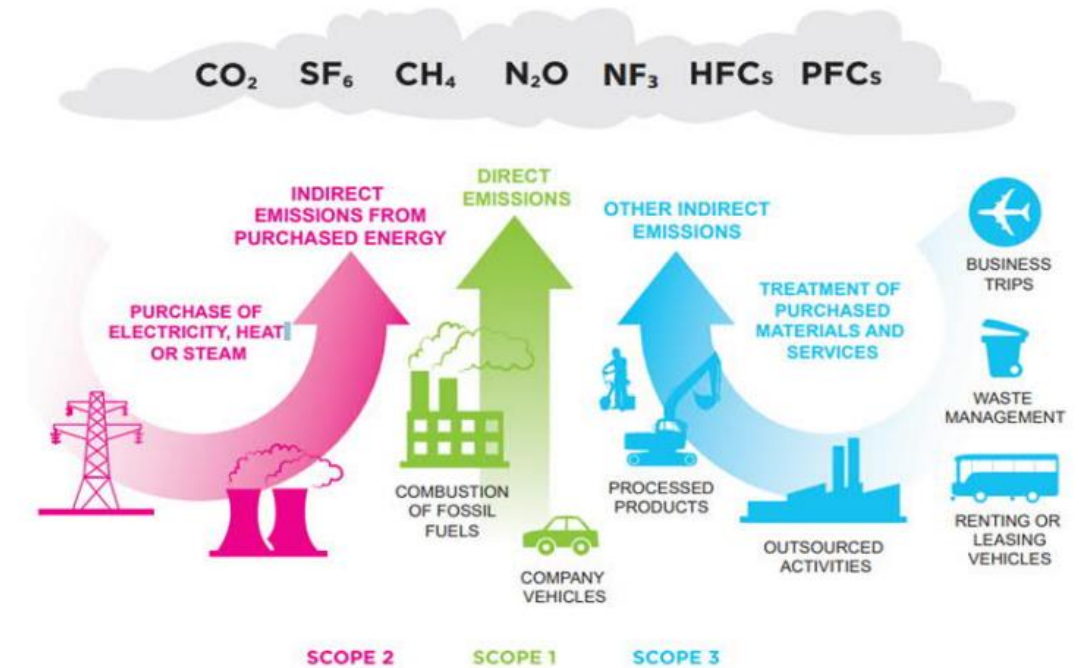
Scope 1, 2 and 3 emissions are as defined by the GHG protocol. The GHG Protocol Corporate Standard classifies a company's GHG emissions into three 'scopes'.

- Scope 1 emissions are direct emissions from owned or controlled sources.
- Scope 2 emissions are indirect emissions from the generation of purchased energy.
- Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Definition of Greenhouse Gases (GHGs)

The Kyoto Protocol sets out the seven main GHGs as follows:

- Carbon dioxide, CO₂
- Sulphur hexafluoride, SF₆
- Methane, CH₄
- Nitrous oxide, N₂O
- Nitrogen trifluoride, NF₃
- Hydrofluorocarbons, HFCs
- Perfluorocarbons, PFCs



Executive Summary

Absolute Carbon Emissions¹ (tons CO₂ and equivalents)

BlackRock managed assets	
	31/12/2024
Gilts/Index-linked Gilts (scope 1 and 2)	139,583
Rest of BlackRock portfolio (scope 1 and 2)	45,601
Rest of BlackRock portfolio (scope 3)	341,401

Insurance Arrangements ²	
	31/12/2024
Reference Gilts backing the synthetic buy-in/longevity swap held with Rothesay Life (scope 1 and 2)	258,500
Bulk Annuity held with Legal and General (scope 1 and 2)	143,820

Portfolio Alignment

Proportion of investments with verified Paris-aligned or declared net-zero targets - based on being SBTi ³ verified		
Binary Targets	31/12/2023	31/12/2024
Corporate Bond portfolio	51.2%	51.7%

Carbon Footprint (Emissions Intensity)¹ (tCO₂e/£m)

BlackRock managed assets	
	31/12/2024
Gilts/Index-linked Gilts (scope 1 and 2)	203.0
Rest of BlackRock portfolio (scope 1 and 2)	73.5
Rest of BlackRock portfolio (scope 3)	550.5

Insurance Arrangements ²	
	31/12/2024
Reference Gilts backing the synthetic buy-in/longevity swap held with Rothesay Life (scope 1 and 2)	118.7
Bulk Annuity held with Legal and General (scope 1 and 2)	51.0

Focus on data

For Absolute Carbon Emissions and Carbon Footprint there is reported data for **c.76%*** of the Scheme’s BlackRock managed assets.

Including estimated data this reaches **c.79%***.

*As at 31 December 2024 for Scope 1 and 2 emissions only, excluding insurance arrangements.

Climate-Related Targets and progress

Target	To increase the percentage of the issuers in the Buy & Maintain Credit portfolio (weighted by market value) that have an SBTi-approved target to 70% by 2027	
Baseline date 31/12/2022	Verified Target: % of the market value invested in issuers with verified SBTi ³ targets	51.7%


¹For BlackRock managed assets total portfolio emissions are split out between the Gilts and index-linked gilts within the Liability Matching Portfolio (i.e. sovereign bonds) and the remainder of the portfolio due to a difference in calculation methodology. Emissions are also split out for the different insurance arrangements due to differences in calculation methodology. The definitions of scope 1, 2 and 3 emissions are provided on page 4.


²Excludes the Scheme’s longevity swap with Metropolitan Tower Life Insurance Company which transacted in December 2024


³Refers to Science Based Targets Initiative

Executive Summary

Potential impact on 31/12/2022 portfolio from different warming pathway scenarios, based on available data¹

	Temperature rise scenario		Risk Model	Funding change ²
	Orderly Transition ¹	~1.5°C	Transition Risk model	-0.9% / (-£10m)
			Physical Risk model	-0.1% (-£2m)

	Temperature rise scenario		Risk Model	Funding change ²
	Disorderly Transition ¹	~1.8°C	Transition Risk model	-0.9% / (-£11m)
			Physical Risk model	-0.1% (-£2m)

	Temperature rise scenario		Risk Model	Funding change ²
	Failed Transition ¹	~3.3°C	Transition Risk model	n/a ³
			Physical Risk model	-0.1% (-£2m)

What does this tell us?



The most recent climate scenario analysis was undertaken as at 31 December 2022. The Trustee believes it is still relevant, so it has been reproduced for this year's report. The Trustee reviews the climate scenario analysis annually and refreshes it at least triennially or if there has been a material change to the strategic asset allocation, funding strategy or the scenario modelling approach. Whilst a new allocation to structured credit was added to the strategic asset allocation over 2024, the Trustee has deemed it reasonable to not review the analysis this year due to difficulties in modelling climate risk associated with such assets and an expectation the risk would be relatively low given the high quality and diversification of the underlying credit.

The scenario analysis and portfolio alignment metric reported on in this report exclude the Scheme's insurance arrangements and reflect the assets under BlackRock management; c.£1.6bn as at 31 December 2022, a small proportion of the total assets, c.20% at that time.

The Trustee has adopted a low-risk strategy and has very little reliance on the sponsor. The assets under BlackRock management are predominantly invested in low-risk fixed income assets and the Trustee has adopted high interest rate and inflation hedge ratios. Due to this, the funding impact from the different scenarios is not significant, and therefore the Trustee believes that the current funding and investment strategies are resilient to climate-related risks.

The Trustee acknowledges that there are limitations to the financial modelling of potential climate-related risks. BlackRock and the Scheme's advisers are working to evolve the analysis for future years.

¹ These scenarios are based on the Network for Greening the Financial System (NGFS) representative scenarios. They only capture some of the likely effects on the Scheme in each case. Temperature rise is relative to pre-industrial levels.

² The estimated impact on the Scheme's funding ratio based on assets under management with BlackRock and the BlackRock liability proxy. This liability proxy is based on the AVB + PP funding basis. The position shown is as a result of adjusting the present value of the current assets and liabilities. Note: the percentage change is based on the change in funding level calculated excluding the Scheme's assets and liabilities in respect of the buy-in with Legal & General and synthetic buy-in with Rothesay Life (described in this report as "excluding insurance transactions"). It also makes no allowance for the potential impact of climate change on demographic factors, in particular life expectancy as the Scheme has extensive hedging of longevity risk in place.

³ The Failed Transition scenario is based on "Current Policies" which are assumed to be priced in to current markets from a transition risk perspective.

Source: BlackRock, December 2022. Readers are directed to the Disclaimers related to the scenario analysis in the Appendix.

Modelling includes the interest rate and inflation hedge ratios in place as at 31 December 2022 and is based on the BlackRock liability proxy adopted at the time of the analysis.

2 Introduction

Introduction

Dear Members

The Trustee of APS believes that climate change represents a long-term systemic risk. It recognises that climate risks can be financially material and need to be monitored and managed as the Scheme has a long-term payment horizon.

Identifying, assessing and managing climate-related risks and opportunities for the Scheme are strategic priorities carried out by the Trustee, with support from the British Airways Pensions team, the Trustee's investment manager and the Trustee's external advisors:

- Investment manager – BlackRock
- Actuarial advisor – WTW
- Investment advisor – Redington
- Insurance Transaction advisor – WTW
- Legal advisor – Sackers

The Trustee implements its investment strategy using an Outsourced Chief Investment Officer (OCIO) model, in which the investment manager, BlackRock, is also the stewardship provider. The Trustee believes it is important for climate-related risks and opportunities to be taken into account in stewardship activities carried out by the investment manager and in investment decisions proposed by the investment adviser.

BlackRock believes that the transition to a low carbon economy will impact macroeconomic trends, companies and portfolios, and hence dedicates significant resources to analysing and understanding climate-related risk and opportunities. This in turn informs the way it votes and engages with investee companies and issuers.

We have set out this report according to the framework suggested by the TCFD, covering the following key areas:

- **Governance**

This section outlines the Scheme's governance structure regarding climate-related risks and opportunities, including a breakdown of roles and responsibilities, implementation and oversight.

- **Risk management**

This section summarises the processes used by the Trustee to identify, assess, and manage climate-related risks.

- **Strategy**

This section covers the potential impacts of climate-related risks and opportunities on the Scheme's investment and funding strategy.

Introduction

- **Metrics**

This section summarises the climate-related metrics which the Trustee has chosen to report for the Scheme and provides data for the investments held as at 31 December 2024. The data provided for carbon footprint, carbon intensity and data quality allows for the Scheme's insurance arrangements, whereas the data for the portfolio alignment metric excludes the insurance arrangements.

- **Targets**

The climate-related target chosen by the Trustee is provided in this section of the report.

- **Technical Section and Additional Information**

There is a great deal of technical information required for climate analysis and reporting, and in order to keep the report accessible and relevant, we have included the more granular detail in the technical section of the report.

The APS Trustee believes the approach outlined in this report is consistent with its fiduciary duty to the beneficiaries of the Scheme. Further, this report fulfils the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (as amended), which are themselves designed to align with the recommendations of the Taskforce on Climate-Related Financial Disclosures.

Further information about the Scheme, including the Statement of Investment Principles (SIP) and Responsible Investment Policy, can be found on the Scheme's publicly accessible website: www.mybapension.com/aps

A list of acronyms used in this report can also be found on the same website:
<https://www.mybapension.com/aps/documents/responsible-investment>

Wayne Phelan

Chair of the Trustee

Airways Pension Scheme

3 Governance

Governance

Trustee Board

The Trustee Board has ultimate responsibility for all aspects of the management and strategy of the Scheme including climate change governance and reporting. There are no sub-committees so all monitoring and work in this area is conducted at Board level.

The Trustee maintains a Statement of Investment Principles (SIP), which details the key objectives, risks and approach to considering ESG factors, such as climate change, as part of its investment decision making. The document is reviewed at least annually.

The Trustee Board annually reviews the Scheme's Responsible Investment (RI) Policy including the approach to managing climate-related risks, with advice from the Scheme's investment advisor. The Trustee also periodically reviews its RI beliefs, with the most recent review conducted during this Scheme year.

Ongoing Governance Activity

Climate change continues to be present on agendas at Trustee Board meetings. It is also be discussed within other agenda items as part of wider discussions on funding or investment strategy.

Investment Advisor

The Trustee's investment advisor, Redington, advises on managing and monitoring investment-related risks, including climate change. The investment advisor works closely with the Scheme's appointed investment manager, BlackRock, to understand the impact of any strategic asset allocation changes on the Scheme's exposure to climate-related risks and opportunities.

Objectives have been set for Redington which explicitly reference Responsible Investment.

Governance

Investment Manager

The investment manager, BlackRock, is responsible for the day-to-day implementation of the Scheme's investment strategy and RI Policy.

The investment manager provides annual reporting detailing the stewardship, engagement and voting activity conducted on behalf of the Trustee.

The Trustee has mandated that the investment manager should seek to integrate ESG factors, including climate-related risks and opportunities, in investment decisions.

BlackRock provides the Trustee with climate scenario analysis for the investments and liabilities of the Scheme when required by the Scheme or its advisors. BlackRock also provides climate-related metric data at least annually.

Scheme Actuary

The Scheme Actuary considers the risk of climate change where relevant to the Scheme's funding strategy, including in respect of any potential effects on the mortality assumptions within the Scheme's liability measures.

Covenant Advisor

Given the de-risked position of the Scheme and the limited expected reliance on BA for pension contributions, the Trustee has not appointed a covenant adviser. Given the limited relevance, the Trustee has concluded that no detailed consideration should be given to covenant-related risks and opportunities within this report.

Insurance Transaction Advisor

The advisor, WTW, analyses the risks of climate change for different possible counterparties as part of any work on new insurance transactions.

BA Pensions Executive

On behalf of the Trustee, the internal BA Pensions Executive team performs the day-to-day oversight function, challenging advisors and BlackRock and raising issues to Trustee Board, where appropriate.

Investment Advisor Objectives

The Trustee sets objectives for its investment and actuarial advisors, including ESG-related objectives where appropriate, and reviews these annually.

Governance

Implementation

Day-to-day management of the Scheme's investments including climate risk management, and the wider APS RI Policy is delegated by the Trustee to the investment manager, BlackRock. BlackRock is responsible for:

- Portfolio management, including individual decisions on the purchase, retention and/or sale of investments;
- The integration of climate change and other ESG risks when making investment decisions as required by the RI Policy, including conducting specific climate-related analysis where appropriate;
- Stewardship, including engagement with held or prospective companies intended to protect and/or enhance the value of the Scheme's assets. Where appropriate this will include ensuring that investee companies have appropriate climate-related policies and strategies in place;
- Climate-related scenario analysis where it has the potential to inform strategic decisions taken by the Trustee; and
- Production of annual ESG and climate specific reporting for the Trustee including portfolio metrics and analytics (such as emissions data) for monitoring and regulatory purposes.

Oversight

Oversight of the implementation of the Scheme's RI Policy is carried out, on behalf of the Trustee, by the BA Pensions Executive team and investment advisor. Tasks include:

- Regular liaison with the BlackRock Strategic Client Delivery Team. Subject matter experts, such as representatives from the various BlackRock Active Investment Stewardship and Responsible Investment teams, are made available for deep-dive reviews where relevant;
- Reviewing data/analysis/reporting outside of the regular meeting cycle;
- Ensuring sufficient reports and analysis are available to meet the Trustee's climate-related obligations and objectives, as discussed in their quarterly meeting cycle; and
- Reviewing any developments in industry practice, and changes in legislation and regulation.

Governance

Training

The Trustee received training from BlackRock on the Scheme's progress towards its climate-related metrics. Redington also facilitated a session at the Scheme's annual Strategy Day on the Trustee's stewardship priorities and how their position compared with peers.

The BA Pensions team attending the meetings received the same training, in addition to joining industry events and with relevant staff keeping up to date with Continuing Professional Development (CPD) requirements.

ESG beliefs

The Trustee considers its ESG beliefs and Stewardship Priorities in light of the latest Stewardship guidance. It also considers these against the latest BlackRock's Active Investment Stewardship (BAIS) priority framework. The last time this was conducted it found a good mapping. The Trustee will keep under review how well its priorities are aligned with BlackRock's.

More information on the Scheme's stewardship activities is included in the Implementation Statement which can be found on the Scheme's publicly accessible website:
<https://www.mybapension.com/aps/documents/index>

Responsible Investment Policy

The Trustee's Responsible Investment priorities identify climate change as a priority theme.

The Trustee's Responsible Investment Policy can be found on the Scheme's publicly accessible website:
<https://www.mybapension.com/aps/documents/responsible-investment>

“Environmental (including climate change), social and governance (“ESG”) issues are multifaceted and represent long-term systemic risks.

We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon. We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.

Where consistent with our fiduciary duties, and applicable to our investment strategy, we will require our investment managers to actively engage and utilise their voting rights/engagement to drive up ESG standards in the organisations in which we invest.

”

Trustee RI policy

4 Risk Management

Risk Management

Processes for identifying, assessing and managing climate-related risks and integration within the Trustee's overall risk management of the Scheme

A key part of the Trustee's role is to understand and manage risks that could have a financially material impact on both the Scheme's investments and the wider funding position and strategy. Climate change is one of the factors that the Trustee considers alongside other financially material risks that may impact the pension outcomes for members. This section summarises the primary climate-related risk management processes and activities of the Trustee Board. These help the Trustee understand the materiality of climate-related risks, both in absolute terms and relative to other risks that the Scheme is exposed to.

The Trustee Board prioritises the management of risks primarily based on the potential impact to the security of members' benefits.

In its role as investment manager, BlackRock plays an important part in analysing the climate-related risks and opportunities potentially relevant to the Scheme's assets and liabilities. It uses risk tools to help the Trustee identify existing and emerging climate-related risks. The Trustee has mandated that the investment manager should seek to integrate ESG factors, including climate-related risks and opportunities, in investment decisions.

Governance

The Trustee has documented its approach to ESG, including climate risk, into Scheme documents such as the Statement of Investment Principles (SIP) and the Responsible Investment (RI) Policy, which set out how investment climate-related risks are managed and monitored.

The Trustee maintains a risk register to monitor and mitigate financially material risks to the Scheme. A specific RI risk is included: *"Identification, assessment and management of environmental (including climate-related), social and governance factors on the Scheme's assets, liabilities and investment strategy and regulatory compliance."* The Trustee Board monitors the risk register quarterly.

In addition to the risk register, the Scheme also has an Integrated Risk Management (IRM) framework, which looks at funding, investment and covenant risks holistically, including climate risk.

The risk register and IRM framework ensure climate-related risks are integrated into the Trustee's overall risk management approach and considered in the context of all risks faced by the Scheme, prioritised accordingly.

Strategy

The Trustee's advisors are required to take climate-related risks and opportunities into account as part of the wider strategic advice provided to the Trustee. This includes highlighting the potential impact of climate risk on expected returns and on the Scheme's mortality assumptions.

Climate scenario analysis for the Scheme will be reviewed annually and refreshed at least triennially or if there has been a material change to the strategic asset allocation, funding strategy or the scenario modelling approach. A summary of the Trustee's latest climate scenario analysis is included in the next section of this report. The Trustee recognises that current methodologies for climate modelling and scenario analysis may not fully account for the short- and medium-term climate risks the Scheme could face; the analysis may therefore have limited reliability and usefulness as a decision-making tool. As such, the Trustee does not rely solely on this analysis to inform its strategic decision-making. Nonetheless, the scenario analysis does help to highlight that climate change risks do exist, and the Trustee therefore believes that appropriate risk management steps should be taken to address and limit their potential impacts. The Trustee will remain informed on developments and will continue to look for opportunities to alter its approach to scenario analysis and climate modelling as methodologies change.

Risk Management

Reporting

In order to better understand climate exposures, BlackRock provides climate-related reporting which is considered by the BA Pensions team and reviewed at least annually by the Trustee. This includes monitoring of the Trustee's choice of metrics and targets.

The Trustee, via the BA Pensions team and investment advisor, monitor BlackRock's stewardship (voting and engagement) programme for the Scheme's assets. On an annual basis, the stewardship reporting is also presented to the Trustee, considered and challenged where necessary.

BlackRock provides the BA Pensions team with its Stewardship Annual Report.

Under the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019*, the Trustee is required to produce an Annual Implementation Statement, setting out how the voting and engagement policies described in the Scheme's Statement of Investment Principles have been followed. These statements include example case studies of BlackRock's significant engagement activity.

Current and previous implementation statements are included on the Scheme's public website: www.mybapension.com/aps/home/index

Asset Manager Review

BlackRock's conviction is that sustainability risk – and climate risk in particular – is investment risk. The BlackRock Active Investment Stewardship team engages with issuer companies to assess how material sustainability-related factors impact a company's ability to generate long-term shareholder returns. Where BlackRock does not see enough progress, in particular where there is a lack of alignment combined with a lack of engagement, BlackRock may use its vote against management and will flag holdings for targeted review and engagement where they believe they may represent a risk to performance. Conversely, BlackRock believes companies that distinguish themselves in terms of their emissions trajectory, transition preparedness and governance will often represent opportunities.

Looking at just corporate bonds held at the end of 2024, 48.3% of the portfolio was invested in companies with no verified SBTi targets. Around half of that 48.3% was invested in public companies where engagements are tracked by BlackRock's Active Investment Stewardship team. Of the half that was invested in listed companies, BlackRock engaged on environmental matters with just under 70% (based on assets under management). Those included companies operating in high-emitting sectors like cement manufacturing, utilities and industrials.

Risk Management: Transition Risks and Physical Risks

Climate Risks and Opportunities

The effects of climate change will be felt over many decades. The Trustee has considered two types of climate-related risks and opportunities in its climate scenario analysis:



Transition risks and opportunities

This covers the potential financial and economic risks and opportunities from the transition to a low-carbon economy (i.e. one that has a low or no reliance on fossil fuels), in areas such as:

- Policy and legislation
- Market
- Technology
- Reputation

Risks include the possibility of future restrictions, or increased costs, associated with high carbon activities and products. There are also opportunities, which may come from the development of low-carbon technologies. In order to make a meaningful impact on reducing the extent of global warming, most transition activities need to take place over the next decade and certainly in the first half of this century.



Physical risks and opportunities

The higher the future level of global warming, the greater physical risks will be in frequency and magnitude. Physical risks cover:

- Physical damage (storms; wildfires; droughts; floods)
- Resource scarcity (water; food; materials; biodiversity loss)

Physical risks are expected to be felt more as the century progresses, though the extent of the risks is highly dependent on whether global net zero greenhouse gas emissions are achieved by 2050.

There are investment opportunities, for example in newly constructed infrastructure and real estate, that are designed to be resilient to the physical impacts of climate change, as well as being constructed and operated in a way that have low or no net carbon emissions. There are also opportunities for investment in those companies or industries that focus on energy conservation and resource efficiency.

5 Strategy

Strategy: Time Horizons

Strategy

ESG issues, including climate change, are multifaceted and represent long-term systemic risks. The Trustee recognises that ESG risks are financially material and need to be managed as the Scheme has a long-term payment horizon. The Trustee therefore seeks to integrate ESG considerations into its decision-making and reporting processes across all asset classes. ESG considerations are integral to the development of the Scheme's investment strategy. As a core part of this, the Trustee has reviewed scenarios for future development in climate change and their potential impact on the Scheme's assets and liabilities.

Time Horizons set by the Trustee

Short-term: 2027

In line with the Contingent Payment* assessment date

Medium-term: 2035

Long-term: 2050

Short Term (Now to 2027)

- **Transition risks are greater than physical risks** with **moderate asset re-pricing risk** driven by:
 - Increases in private sector net zero commitments and clearer decarbonisation plans;
 - Perceived or real increased pricing of greenhouse gas emissions/carbon; and
 - Exposure to developing economies which have longer time horizons for country level phase down of fossil fuel usage.

Medium Term (2027 to 2035)

- **Transition risks continue to dominate** with **heightened asset re-pricing risk** driven by:
 - Future warming pathways become clearer;
 - Market awareness grows and is better priced into asset valuations; and
 - Unexpected policy changes that surprise markets.

Long Term (2035 to 2050)

- **Physical risks become increasingly important:**
 - Development of technology and low carbon solutions; and
 - Policy, legislation and regulation likely to also play a key role at the international, national and subnational level.

Strategy: Impacts and Opportunities

Short Term (Now to 2027)

In addition to the Scheme's existing insurance contracts, in December 2024, the Scheme invested in a longevity swap with Metropolitan Tower Life Insurance Company, a subsidiary of MetLife which is a globally recognised financial services company. The insurance policy forms part of the Scheme's investment portfolio and will provide additional income to the Scheme if pensions need to be paid for longer than expected. This strengthens the long-term financial stability of the Scheme and supports its ongoing risk management strategy.

The Scheme remains exposed to climate-related risks through the uninsured portion of its assets. Its current low-risk investment strategy is predominantly allocated to short-duration, high-quality corporate bonds, government bonds, securitised assets and cash, which the Trustee believes have low or manageable exposure to near-term transition risk. The Scheme also holds small allocations to private equity and alternatives.

For bond investments, issuers making minimal effort to support the low-carbon transition could face a higher risk of default or downgrade, even in the near term.

The Scheme's securitised assets are all investment grade, with highly diversified underlying credit exposures. BlackRock conducts extensive due diligence on all the securities held in the portfolio, including evaluating any exposure they might have to long-run systemic risks.

Medium Term (2027 to 2035)

The Scheme will be focussed on increasing the security of member outcomes and will only take additional investment risk over this timeframe if the Trustee believes it is justified in enhancing member outcomes.

The expectation is that climate-related focus over the medium-term will turn to government bonds as well as the run-off of the buy and maintain credit portfolio as the Scheme continues its de-risking journey.

Market surprises due to unexpected policy changes related to climate change could lead to asset price volatility and therefore funding level volatility. However, the Scheme has less exposure to market volatility compared to many other schemes given its low-risk investment strategy.

Long Term (2035 to 2050)

The Scheme is expected to still have a low-risk investment strategy predominantly invested in government bonds and cash, which the Trustee sees as suited to a transition to a low carbon economy due to being more resilient to climate-related risk.

Physical risks are expected to increase over the long-term without sufficient actions being taken, which may lead to investment opportunities in industries supporting the transition to a low-carbon economy, to the extent the Trustee will make such an investment decision. It is more likely that increasing physical risks will exacerbate any residual or tail risks still present.

Strategy: Climate Scenarios

The most recent climate scenario analysis was undertaken as at 31 December 2022. The Trustee believes it is still relevant, so it has been reproduced for this year's report. The Trustee reviews the climate scenario analysis annually and refreshes it at least triennially or if there has been a material change to the strategic asset allocation, funding strategy or the scenario modelling approach. Whilst a new allocation to structured credit was added to the strategic asset allocation over 2024, the Trustee has deemed it reasonable to not review the analysis this year due to difficulties in modelling climate risk associated with such assets and an expectation the risk would be relatively low given the high quality and diversification of the underlying credit.

Given the uncertainty around the timing and impact of climate-related transition and physical risks, the Trustee has considered a range of possible climate scenarios modelling different risks to test the resilience of the Scheme's investment strategy and funding strategy. The purpose of scenario analysis is to better understand the risks and opportunities posed by climate change to the Scheme and to inform the Trustee's strategy and investment decisions accordingly. They are hypothetical constructs, not forecasts, predictions or sensitivity analyses. The scenarios model the investment strategy in place as at 31 December 2022 and assume this is static over all time horizons. Longevity changes have not currently been built in quantitatively to the analysis. The scenario analysis does not include the Scheme's insurance arrangements and is based on the assets under BlackRock's management only. Links to Legal and General and Rothesay Life's TCFD reports are included in the "Additional Information" section.

This report summarises three of these scenarios which present different trajectories, based on Network for Greening the Financial System (NGFS) representative scenarios:

1. **"Orderly Transition"** – this models **transition risk** and **physical risk separately** and the global average temperature increase is 1.5°C above pre-industrial levels.

- The Trustee has chosen this as it meets the requirement of modelling a scenario of a temperature increase within the range of 1.5°C - 2°C above pre-industrial levels; and
- Is in line with the Paris Agreement, a global government pact signed in 2015, designed to keep global warming well below 2°C, while pursuing efforts to limit it to 1.5°C.

2. **"Disorderly Transition"** – this models **transition risk** and **physical risk separately** and the global average temperature increase is 1.8°C above pre-industrial levels.

- The Trustee has chosen this as it represents a scenario that breaches the 2°C global average temperature increase; and
- This scenario assumes that some corrective actions are taken but is a delayed transition starting in 2030.

3. **"Failed Transition"** – this models **physical risk only** and the global average temperature increase is 3.3°C above pre-industrial levels.

- The Trustee has chosen this as it represents a scenario that breaches the 2°C global average temperature increase; and
- This scenario assumes no corrective action to reduce emissions is taken and current policies are maintained.

Strategy: Climate Scenarios

Based on the data available, all three scenarios have a **limited expected impact** on the Scheme’s funding position. In the context of the scenario analysis undertaken, the Trustee believes that the current funding and investment strategies are resilient to climate-related risks. The Trustee has adopted a low-risk strategy including high interest rate and inflation hedge ratios. Due to this, the funding impact from the different scenarios is not significant.

31 December 2022	Transition Risk Change in Funding Ratio ¹	Physical Risk Change in Funding Ratio ¹
Orderly Transition	-0.9%	-0.1%
Disorderly Transition	-0.9%	-0.1%
Failed Transition ²	n/a	-0.1%

¹ The estimated impact on the Scheme’s funding ratio based on assets under management with BlackRock and the BlackRock liability proxy, based on the AVB + PP funding basis. The position shown is as a result of adjusting the present value of the current assets and liabilities. Note this does not include the Scheme’s insurance transactions.

² The Failed Transition scenario is based on "Current Policies" which are assumed to be priced in to current markets from a transition risk perspective.

The modelling may understate or overstate the true level of risk due to uncertainty around future economic impacts of climate change. In particular, it would not be appropriate to add together the impacts of a transition risk scenario and a physical risk scenario due to these being different models. Although the Trustee has evaluated the impact of transition and physical risk separately, it is conscious that it should take both into account. Analysis is developing in this area and the Trustee will review its scenarios in future reporting periods. The Technical Section of this report provides more detail on the modelling approach, along with the assumptions and limitations of the scenario analysis.

Source: BlackRock, December 2022. Readers are directed to the Disclaimers related to the scenario analysis in the Appendix.

Strategy: Climate Scenario 1 – Orderly Transition

Overview: BlackRock’s “Orderly Transition” scenario is based on the “Net Zero by 2050” pathway developed by the NGFS. Global warming is limited to c.1.5°C through stringent climate policies and innovation, with CO₂ emissions reaching “net zero” relative to pre-industrial levels in c.2050.

Risk Factors: Transition risk and physical risk factors. The impact of the Orderly Transition on the Scheme’s funding level has been considered over a single timespan over the lifetime of the scenario modelled. The model considers the impact of transition risk and physical risk factors separately to 2050, covering the Scheme’s short, medium and long-term time horizons.

Narrative: The main features of this scenario are higher carbon prices and taxes, higher end user energy prices and a changing energy mix (which are modelled out to 2050). Those companies which rely heavily on energy, utility and basic materials are most severely affected. The financial model also incorporates changing consumer behaviour, which impacts demand for goods and services.

Outcome: The estimated impact on Scheme funding from physical and transition risk under this scenario is small. Transition risk in this scenario results mainly from UK inflation, which is expected to be driven higher in the short-term by rising carbon prices and an increase in government investment. Higher inflation increases the value of both the Scheme’s liabilities and to a slightly lesser extent its assets, with the impact in both cases being modestly offset by higher interest rates. Wider credit spreads are expected to have a small negative impact on the value of the Scheme’s buy and maintain credit portfolio. Due however to the Scheme’s high levels of interest rate and inflation hedging, the overall impact on Scheme funding as modelled is modest

This analysis has been conducted on the Liability Matching Portfolio only. Property, Alternatives, Private Equity and the insurance arrangements have been excluded, therefore the summary below may be underestimating the impacts on the overall strategy. The Property, Alternatives and Private Equity assets are excluded due to lack of data availability, in addition to being small Scheme holdings which are currently being liquidated. The table below shows the estimated impact on the Scheme of the Orderly Transition scenario.

	Assets*	Liabilities**	Surplus (Deficit)	Funding Ratio	Change in Surplus	Change in Funding Ratio
Base, 31/12/2022	£1,503m	£1,419m	£84m	105.9%		
Orderly Transition – Transition Risk	£1,560m	£1,486m	£74m	105.0%	-£10m	-0.9%
Orderly Transition – Physical Risk	£1,497m	£1,415m	£82m	105.8%	-£2m	-0.1%

* Includes a negative adjustment for the value of the Scheme’s AVCs.

** The Scheme’s assets and liabilities have not been adjusted for changes in longevity. Liabilities are on the AVB + PP basis but are based on the liability proxy value from BlackRock’s Aladdin system. This will not necessarily match the liability value produced by the Scheme Actuary. Note this does not include the Scheme’s insurance transactions.

Source: BlackRock, December 2022. The Technical Section contains more information about the scenario modelled as well as the assumptions and limitations.

Strategy: Climate Scenario 2 – Disorderly Transition

Overview: BlackRock’s “Disorderly” scenario is based on the “Delayed Transition” pathway developed by the NGFS which assumes policy action is delayed until 2030.

Risk Factors: Transition risk and physical risk factors. The impact of the Disorderly Transition scenario on the Scheme’s funding level has been considered over a single timespan over the lifetime of the scenario modelled. The model considers the impact of physical risk factors and transition risk factors (separately) to 2050, covering the Scheme’s short, medium and long-term time horizons.

Narrative: This scenario assumes that the implementation of policies to ensure a transition to a low carbon economy is delayed until 2030. Carbon taxes are used to cut income tax, thus boosting private consumption. There is a negative shock to business confidence as stringent policies are introduced. Some corrective action is taken but temperatures still rise by 1.8 degrees by c.2100 relative to pre-industrial levels.

Outcome: The estimated impact on Scheme funding from physical and transition risk under this scenario is also small. Transition risk in this scenario is delayed relative to that modelled under an orderly transition, with policy action impacting economies and markets mainly after 2030. Due however to the Scheme’s high levels of interest rate and inflation hedging, the overall impact on Scheme funding as modelled is modest.

This analysis has been conducted on the Liability Matching Portfolio only. Property, Alternatives, Private Equity and the insurance arrangements have been excluded, therefore the summary below may be underestimating the impacts on the overall strategy. The Property, Alternatives and Private Equity assets are excluded due to lack of data availability, in addition to being small Scheme holdings which are currently being liquidated. The table below shows the estimated impact on the Scheme of the scenario.

	Assets*	Liabilities**	Surplus (Deficit)	Funding Ratio	Change in Surplus	Change in Funding Ratio
Base, 31/12/2022	£1,503m	£1,419m	£84m	105.9%		
Disorderly Transition – Transition Risk	£1,529m	£1,456m	£73m	105.0%	-£11m	-0.9%
Disorderly Transition – Physical Risk	£1,497m	£1,415m	£82m	105.8%	-£2m	-0.1%

* Includes a negative adjustment for the value of the Scheme’s AVCs.

** The Scheme’s assets and liabilities have not been adjusted for changes in longevity. Liabilities are on the AVB + PP basis but are based on the liability proxy value from BlackRock’s Aladdin system. This will not necessarily match the liability value produced by the Scheme Actuary. Note this does not include the Scheme’s insurance transactions.

Source: BlackRock, December 2022. The Technical Section contains more information about the scenario modelled as well as the assumptions and limitations.

Note: Totals may not sum due to rounding

Strategy: Climate Scenario 3 – Failed Transition

Overview: BlackRock’s “Failed Transition” scenario is based on the “Current policies” pathway developed by the NGFS.

Risk Factors: Physical risk factors only. Transition risk is not modelled as BlackRock makes the assumption that current policies are reflected in current asset prices. The impact of Failed Transition scenario on the Scheme’s funding level has been considered over a single timespan over the lifetime of the scenario modelled. The model considers the impact of physical risk factors to 2050, covering the Scheme’s short, medium and long-term time horizons.

Narrative: This scenario assumes that current policies are maintained, and that no additional corrective action is taken to reduce emissions is taken.

Outcome: The impact of physical risk is limited over the timeframe modelled, as an orderly transition reduces physical risk relative to other scenarios mainly from 2050 onwards. Due to the high levels of interest rate and inflation hedging the Scheme is relatively immune to changes.

This analysis has been conducted on the Liability Matching Portfolio only. Property, Alternatives, Private Equity and the insurance arrangements have been excluded, therefore the summary below may be underestimating the impacts on the overall strategy. The Property, Alternatives and Private Equity assets are excluded due to lack of data availability, in addition to being small Scheme holdings which are currently being liquidated. The table below shows the estimated impact on the Scheme of the scenario.

	Assets*	Liabilities**	Surplus (Deficit)	Funding Ratio	Change in Surplus	Change in Funding Ratio
Base, 31/12/2022	£1,503m	£1,419m	£84m	105.9%		
Failed Transition – Physical Risk	£1,497m	£1,415m	£82m	105.8%	-£2m	-0.1%

* Includes a negative adjustment for the value of the Scheme’s AVCs.

** The Scheme’s assets and liabilities have not been adjusted for changes in longevity. Liabilities are on the AVB + PP basis but are based on the liability proxy value from BlackRock’s Aladdin system. This will not necessarily match the liability value produced by the Scheme Actuary. Note this does not include the Scheme’s insurance transactions.

Source: BlackRock, December 2022. The Technical Section contains more information about the scenario modelled as well as the assumptions and limitations.

Note: Totals may not sum due to rounding

Strategy - Covenant

Impact of Climate-Related Risks for the Covenant of British Airways (BA)

The Scheme is very well funded on a prudent basis. The Scheme also has a very low-risk investment strategy. Overall, the Scheme's funding position is very resilient to changes in investment markets and other external factors. This resilience has also been shown via the outcomes of the scenarios on the earlier pages. The Scheme is expected to have very limited reliance on BA's covenant for future pension contributions.

The Trustee has undertaken an initial assessment of the scenarios in which the ongoing covenant of BA would become relevant to the Scheme's funding and investment strategies again. The outcome of this is that additional funding from BA is only expected in a very low likelihood, very high impact scenario.

The Trustee therefore notes the lack of impact and has not considered covenant risks in detail within this report.

This adopted approach remains under review and will be updated as necessary, should the Scheme's expected level of reliance on BA change in the future.

Contingent Payment* Scenario

The most significant funding obligation of BA to APS is likely to be the Contingent Payment of up to £40m in 2027. The Trustee considers it unlikely that a deterioration in ongoing sponsor covenant, for climate-change reasons, will arise in that time horizon which would result in the Contingent Payment becoming unaffordable.

NAPS TCFD Report

The TCFD report for the New Airways Pension Scheme ("NAPS") is available on the Scheme's website which includes relevant BA covenant risk wording from a NAPS perspective: <https://www.mybapension.com/naps/documents/responsible-investment>

Strategy - Actuarial

Impact of Climate-Related Risks on the Liabilities of the Scheme

The modelling carried out by BlackRock under the Scenario Analysis considers the impacts on the liabilities* by applying consistent economic stresses to those applied to the assets. However, BlackRock's model currently makes no allowance for the potential impact of climate change on demographic factors, in particular life expectancy. This approach has been taken because the Scheme's insurance contracts secured with Rothesay Life, Legal & General and Metropolitan Tower Life Insurance Company provide substantial protection against the Scheme's longevity risks and so any change in life expectancy as a result of changes in climate are unlikely to materially change the Scheme's funding position.

Longevity Assumptions

When assessing the level of assets required to meet future benefit obligations, the Trustee makes assumptions about how long members are expected to live and therefore how long their pensions will be paid. However, the Scheme has insured most of this risk.

The Trustee updates the Scheme's funding position every year to reflect the latest pension industry expectations of mortality, with a more in-depth review of this assumption every three years as part of the formal actuarial valuation. For funding purposes, the Trustee adopts mortality assumptions that it considers to be prudent. This means higher reserves are targeted than are expected to be necessary, providing an additional margin of security against longevity risk.

Climate-Related Impact

The impact of climate change on life expectancy is highly uncertain. The potential impacts of climate change on members' life expectancies under the Trustee's chosen scenarios over the three timescales described in this report could result in either an increase or decrease in future life expectancies.

For example, in the Failed Transition scenario, the continued use of fossil fuels may lead to higher temperatures, reducing cold-related deaths in winter and potentially increasing life expectancies. However, this effect could be offset by less prosperous economic conditions, which may limit the funding available for healthcare and therefore reduce life

expectancies. The extent to which these (and many other) factors outweigh each other will determine whether life expectancies increase or decrease. These factors are expected to emerge over the future lifetime of the membership.

Allowance in the most recent actuarial valuation

For the Scheme's actuarial valuation as at 31 March 2024, the Trustee considered how climate-related risks might manifest themselves within the Scheme and the assumptions adopted for funding purposes are intended to contain an appropriate degree of prudence taking into account these risks.

The Trustee also considered uncertainties associated with life expectancy and the sensitivity of the valuation results to the assumptions made. For example, due to the significant levels of longevity hedging in the Scheme, the funding position disclosed as at 31 March 2024 as part of the Scheme's actuarial valuation would have been only £2m worse if long-term rates of future improvement in mortality were to increase by 0.25% pa.

The Trustee will keep this area under review and consider it further as part of its strategic planning, risk management frameworks and as part of the next actuarial valuation as at 31 March 2027.

** The liabilities modelled by BlackRock will differ slightly from those modelled by the Scheme Actuary due to differing model approaches and assumptions.*

6 Metrics

Metrics: Introduction

This report presents data analysis for the Scheme’s assets as at 31 December 2024, where available.

In December 2024, the Scheme invested in a longevity swap with Metropolitan Tower Life. The net value of a longevity swap at inception is zero and as the inception date is close to 31 December 2024, the net value is considered negligible and has therefore been excluded from this report.

The metrics analysis for carbon footprint, carbon intensity and data quality allows for the Scheme’s insurance arrangements where available. However, the portfolio alignment metric excludes the Scheme’s insurance arrangements due to data availability and is based only on the assets under BlackRock’s management. Links to Legal and General and Rothesay Life’s TCFD reports are included in the “Additional Information” section and these reports include emissions data for these entities.

The Trustee has chosen to present four climate-related metrics in this report. These climate-related metrics help the Trustee to:

- Understand the climate-related risk exposures and opportunities within the Scheme’s investment strategy; and
- Identify areas potentially requiring risk management, which might include asking the investment manager to conduct additional due diligence.

The Trustee monitored the following metrics during the Scheme year:



Absolute Emission Metric: Total Greenhouse Gas (GHG) Emissions



Additional Metric: Data Quality



Emissions Intensity Metric: Carbon Footprint



Portfolio Alignment Metric: Binary Target

The Trustee recognises the challenges associated with the various metrics, tools and modelling techniques used to assess climate risk. The Trustee will work with BlackRock to continuously improve the approach to assessing and managing risks over time as more data becomes available. The Technical Section of this report sets out the data limitations and assumptions used in collating these metrics.

Comment on data: The Trustee is taking steps to address data gaps that are present, where possible. The Trustee seeks improvements from the industry, its investment manager and entities it has exposure to. The Scheme’s investment manager engages with companies to improve their data reporting in this area and with industry organisations on ways to enhance reporting of sovereign data. The Trustee notes to readers that emissions figures shown may increase as more data becomes available.

Metrics: Absolute Emissions Metric

– Total GHG Emissions

“Total GHG Emissions” measures the total Green House Gas (GHG) emissions associated with a portfolio. It attempts to calculate the amount of carbon emissions the Scheme “owns” (or finances) as a consequence of its holdings. Total GHG Emissions are measured in tonnes of CO₂ equivalent (“tCO₂e”) based on the Kyoto Protocol covering seven main GHGs^{1,2}.

Scope 1 and 2 carbon emissions data has been calculated for all asset classes or insurance arrangements where data is available.

Based on BlackRock managed assets only, data is reported for 75.8% of the portfolio, and allowing for estimated data the Trustee is reporting on 78.8% of the portfolio (Scope 1 and 2 only). Estimated Scope 3 data is available for 35.9% of the portfolio. Figures at 31 December 2024.

Scope 3 emissions are included for the Scheme’s corporate bonds portfolio. Due to low availability of company reported Scope 3 data, this has been estimated across the 15 GHG Protocol stated categories based on MSCI’s internally vetted model.

The emissions data helps the Trustee to see the breakdown of where the emissions come from in order to understand the exposures to climate-related risk within the investment strategy. The largest allocation for the Scheme’s assets under management with BlackRock is to the Liability Matching Portfolio. It is also most carbon intensive by asset class therefore it makes up the largest proportion of the Scheme’s total carbon emissions (based on Scope 1 and 2 available data) excluding the insurance arrangements. This portfolio provides good protection against changes in interest rates and inflation and therefore the Trustee expects the allocations to these assets to remain stable or increase over time as the funding level improves and the liquidation portfolio runs off. The majority of this portfolio is invested in UK Government bonds and so will be aligned with the UK Government’s climate-related targets. Currently, the UK is targeting emissions reductions of 78% by 2035 relative to 1990 levels³. The Trustee has very limited ability to influence these carbon reduction targets set by the UK Government. The methodology for the Liability Matching Portfolio (i.e. sovereign bonds) and the remainder of the portfolio is different. The Trustee also has very limited ability to influence the carbon reduction targets for the insurers behind its insurance arrangements.

¹Seven main GHGs: carbon dioxide, methane, nitrous oxide, nitrogen trifluoride, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.

²Total GHG Emissions assumes securities for which there is no reported or estimated carbon emissions data have portfolio-average Carbon Footprint. Total GHG Emissions are higher (more conservative) than they would be if we assumed the contribution from these securities was zero.

³<https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035>

BlackRock managed assets as at 31 December 2024

31/12/2024	Allocation Excluding insurance contracts (%)	Scope 1 and 2 GHG Emissions (tCO ₂ e) ²	Scope 3 GHG Emissions (tCO ₂ e) ²	Comments
Private Equity	1.6	-	-	Data/proxies not available
Alternatives	1.7	-	-	Data/proxies not available
Property	0.0	-	-	Data/proxies not available
Securitised Assets	14.7	-	-	Data/proxies not available
Corporate Bonds	43.6	45,601	341,401	
Liability Matching Portfolio – Gilts, Repo, TRS	36.7	139,583	-	Appendix has further details. Data/proxies not available for Scope 3 emissions
Cash	1.7	-	-	Data/proxies not available

The Scheme’s insurance arrangements as at 31 December 2024

31/12/2024	Scope 1 and 2 GHG Emissions (tCO ₂ e) ²	Scope 3 GHG Emissions (tCO ₂ e) ²	Comments
Reference Gilts backing the synthetic buy-in/longevity swap held with Rothesay Life	258,500	-	Appendix has further details
Bulk Annuity held with Legal and General	143,820	-	Appendix has further details

Source for BlackRock managed assets: BlackRock, Aladdin Climate, MSCI, Bloomberg.

Source for Scheme’s insurance arrangements: WTV, State Street, BlackRock, Legal and General, and Rothesay Life

The figures for the Scheme’s insurance arrangements exclude the Scheme’s longevity swap with Metropolitan Tower Life Insurance Company which transacted in December 2024

For the emissions of gilts (BlackRock assets and Reference Gilts) this has been calculated as the Scheme’s share of UK emissions using the face value of the gilts owned.

All data is as at 31 December 2024 unless otherwise noted.

Metrics: Emissions Intensity Metric – Carbon Footprint

“Carbon Footprint” calculates the carbon intensity of each asset class by dividing the total GHG emissions of each portfolio by the size of the portfolio in pounds sterling. Carbon Footprint is measured in tonnes of CO₂ equivalent per £ million invested.

Scope 1 and 2 carbon emissions data has been calculated for all asset classes or insurance arrangements where data is available.

Based on BlackRock managed assets only, data is reported for 75.8% of the portfolio, and allowing for estimated data the Trustee is reporting on 78.8% of the portfolio (Scope 1 and 2 only). Estimated scope 3 data is available for 35.9% of the portfolio. Figures at 31 December 2024.

Scope 3 emissions data are included for the Scheme’s corporate bond portfolio. Due to low availability of company reported Scope 3 data, this has been estimated across the 15 GHG Protocol stated categories based on MSCI’s internally vetted model.

The Gilts, index-linked Gilts and Gilts TRS within the Liability Matching Portfolio show the highest emissions intensity of the data available (based on scope 1 and 2 emissions data). However, these are included within the strategic asset allocation as they provide liability matching income streams and good protection against changes in interest rates and inflation. The Trustee expects the allocations to these assets to remain stable or increase over time as the funding level improves and the liquidation portfolio runs off. There are limited levers available to influence the intensity figure for government bonds within the Liability Matching Portfolio.

The Trustee has very limited ability to influence the intensity figures for the insurers behind its insurance arrangements.

BlackRock managed assets as at 31 December 2024

31/12/2024	Allocation Excluding insurance contracts (%)	Scope 1 and 2 Carbon Footprint (tCO ₂ e/£m) ¹	Scope 3 Carbon Footprint (tCO ₂ e/£m) ¹	Comments
Private Equity	1.6	-	-	Data/proxies not available
Alternatives	1.7	-	-	Data/proxies not available
Property	0.0	-	-	Data/proxies not available
Securitised Assets	14.7	-	-	Data/proxies not available
Corporate Bonds	43.6	73.5	550.5	
Liability Matching Portfolio – Gilts, Repo, TRS	36.7	203.0	-	Appendix has further details. Data/proxies not available for Scope 3 emissions intensity
Cash	1.7	-	-	Data/proxies not available

1) Carbon Footprint is calculated only for securities where BlackRock has either reported or estimated carbon emissions data.

2) Enterprise value data is not available for c.4.1% of the corporate bond portfolio. Where that’s the case, securities are excluded from both Total GHG Emissions and Carbon Footprint.

Source: BlackRock, Aladdin Climate, MSCI, Bloomberg. All data is as at 31 December 2024 unless otherwise noted.

The Scheme’s insurance arrangements as at 31 December 2024

31/12/2024	Scope 1 and 2 Carbon Footprint (tCO ₂ e/£m) ¹	Scope 3 Carbon Footprint (tCO ₂ e/£m) ¹	Comments
Reference Gilts backing the synthetic buy-in/longevity swap held with Rothesay Life	118.7	-	Appendix has further details
Bulk Annuity held with Legal and General	51.0	-	Appendix has further details

The figures for the Scheme’s insurance arrangements exclude the Scheme’s longevity swap with Metropolitan Tower Life Insurance Company which transacted in December 2024.

Source: WTW, Legal and General, State Street, BlackRock. All data is as at 31 December 2024 unless otherwise noted.

Note: For the BlackRock assets and Rothesay Life insurance arrangement, the carbon intensity figure shown uses the market value of gilts held as the denominator and does not include the impact of leverage.

Metrics: Additional Metric – Data Quality

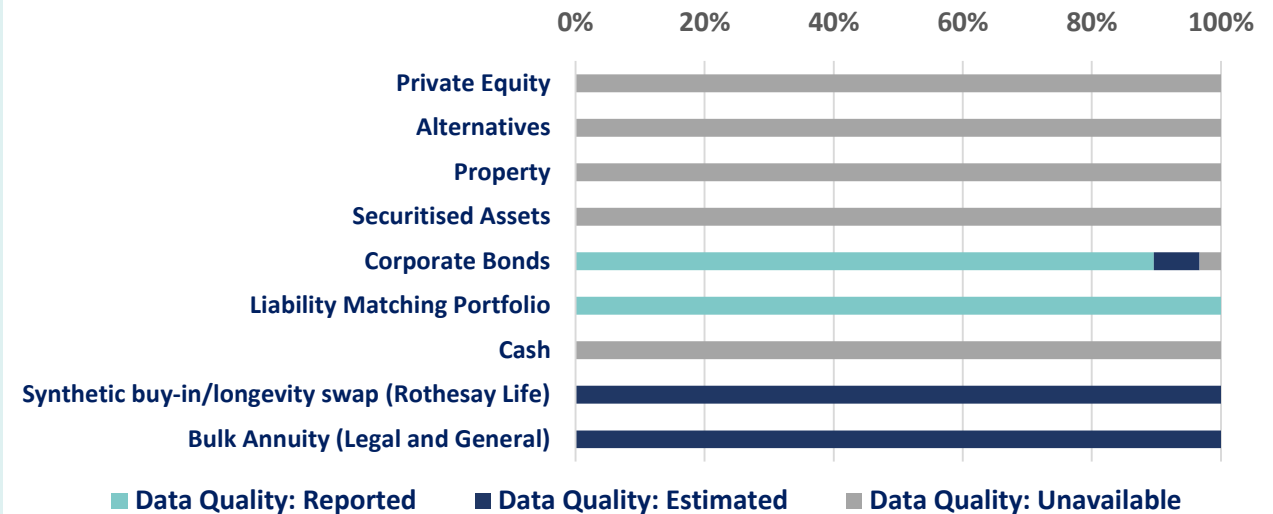
“Data Quality” will – over time – help the Trustee evaluate the reliability of the information collected. The measure aims to represent the proportions of the portfolio for which the Trustee has high quality data. This is based on four factors which consider what proportion of the data is verified, reported, estimated or unavailable. Note that the Scheme has been unable to source a breakdown between reported data that is verified or unverified. Therefore, the carbon emissions data shown is classified as “reported”, “estimated” or “unavailable”.

Comment on Scope 1 and 2 data for BlackRock managed assets: For the corporate bond mandate the level of reported data is reasonably high with only a small proportion unavailable or estimated. The largest mandate held with BlackRock, the liability matching portfolio, has 100% reported carbon emissions data.

Scope 3 emissions data are included for the Scheme’s corporate bond portfolio. Due to low availability of company reported Scope 3 data, this has been estimated across the 15 GHG Protocol stated categories based on MSCI’s internally vetted model. Scope 3 data is estimated for 82.4% of corporate bonds. For other asset classes and insurance arrangements, this is unavailable.

Based on total Scheme assets, data is reported for 16.0% of the portfolio, and allowing for estimated data the Trustee is reporting on 95.5% of the portfolio (Scope 1 and 2 only). Estimated scope 3 data is available for 7.6% of the total assets including insurance arrangements. Figures at 31 December 2024.

Scope 1 and 2 data quality across assets and insurance arrangements as at 31 December 2024



The figures for the Scheme’s insurance arrangements exclude the Scheme’s longevity swap with Metropolitan Tower Life Insurance Company which transacted in December 2024.

Note that even where carbon emissions data may be available, other data points essential for certain calculations may not be available. The data quality figures shown reflect the availability of emissions data only.

**Enterprise value data is not available for c.4.1% of the corporate bond portfolio. These securities are excluded from both Total GHG Emissions and Carbon Footprint*

*** The data quality for the Synthetic Buy-in and longevity swap held with Rothsay Life has been classified as estimated. These are derivative contracts in nature but the calculations are based on the government bonds backing the arrangements, rather than the emissions being provided directly.*

****The data quality for the bulk annuity with Legal and General has been labelled as estimated as this was calculated based on data reported by L&G on the emissions of its UK annuity book but not the specific annuity book backing the Scheme’s insurance contract.*

Source: BlackRock, MSCI, Bloomberg, State Street, Legal and General, WTW. All data is as at 31 December 2024 unless otherwise noted.

Metrics: Portfolio Alignment – Binary Target

A "**portfolio alignment**" metric means a metric which gives the alignment of the Scheme's assets with the climate change goal of limiting the increase in the global average temperature to 1.5 degrees Celsius above pre-industrial levels (i.e. In line with the goals of the Paris agreement).

The "**binary target**" that has been chosen measures the alignment of the portfolio with a given climate outcome, based on the proportion of portfolio by market value that has verified Paris-aligned targets.

Science Based Targets initiative (SBTi)'s Portfolio Coverage Tool for Financial Institutions is an open source example of a tool that can be used to track the percentage of companies in a portfolio that have such a targets.

51.7% of the Scheme's corporate bond portfolio was invested in issuers who have verified science-based carbon reduction targets. Another 6.4% were believed to be committed to working towards having verified targets.

The data is only available for corporate bonds. This was the preferred metric in terms of data coverage and reporting ability from the investment manager.

The positives of this metric are its simplicity, allowing a straightforward assessment of the extent to which a portfolio is committed to net zero. It is also the only forward-looking metric that could tie directly to real-world changes, whereas other metrics are more backwards looking. It is useful for challenging the investment manager if investing in new companies with no net zero target. However, it does not tell you where in the journey a company (or the portfolio) is in achieving the net zero target. Note, SBTi validation is not currently available for companies in certain sectors and different sectors can have different SBTi alignment targets.

This metric excludes analysis on the Scheme's insurance arrangements due to lack of data availability.

		31/12/2023 Comparator	31/12/2024
	Allocation 31/12/2024 Excluding insurance contracts (%)	Verified Target % of market value invested in issuers with verified SBTi targets	Verified Target % of market value invested in issuers with verified SBTi targets
Private Equity	1.6	-	-
Alternatives	1.7	-	-
Property	0.0	-	-
Securitised Assets	14.7	-	-
Corporate Bonds	43.6	51.2%	51.7%
Liability Matching Portfolio – Gilts, Repo, TRS	36.7	-	-
Cash	1.7	-	-

*Source: BlackRock, MSCI. All data is as at 31 December 2024 unless otherwise noted.
The calculation "looks up" to issuers' parent entities where appropriate*

7 Targets

Targets: Trustee’s Climate-Related Target

From 31 December 2022, the Trustee adopted a climate-related target for the corporate bond mandate only relating to the Portfolio Alignment, Binary Target metric. The corporate bond mandate consists of one segregated Buy and Maintain high-quality credit mandate.

The Trustee’s target is:

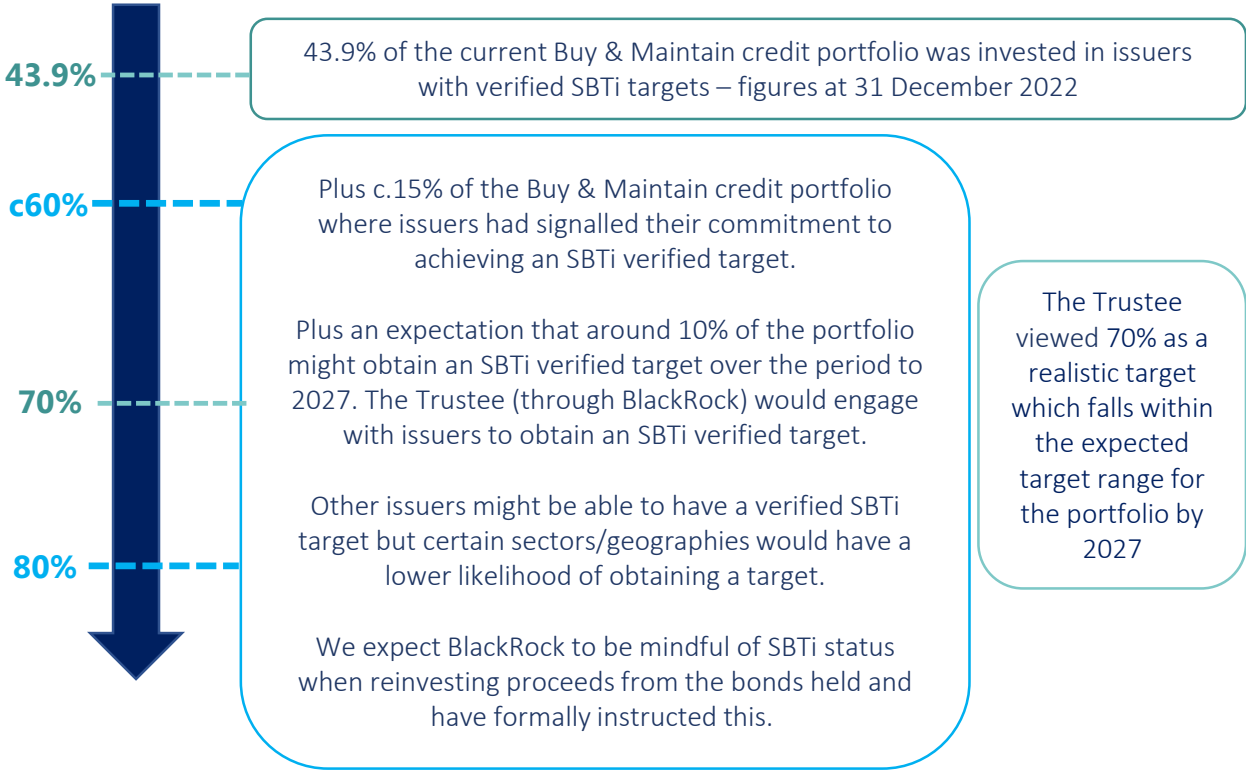
To increase the percentage of the issuers in the Buy & Maintain Credit portfolio (weighted by market value) that have an SBTi-approved target to 70% by 2027

The chart on the right explains why the Trustee chose this particular level for the target. Corporate bonds were chosen as the target portfolio given their expected future prominence in the Scheme’s long-term investment strategy within a low-risk investment portfolio.

A summary of the progress to date against this target is shown opposite. It can be seen that 51.7% of the corporate bond portfolio has a SBTi-verified target as at 31 December 2024. A further 6.4% of the portfolio holdings have committed to adopting SBTi in future. The remainder of the target will need to come from the proportion of the portfolio that is neither committed nor verified but which may commit in the future.

The Trustee considered the challenges around how to implement a climate-related target without requiring portfolio turnover. Use of engagement and stewardship are key to driving climate-positive outcomes. The target has the opportunity for real world impact through active engagement. Active stewardship should play a vital role over simply divesting in moving to a low carbon economy. We expect BlackRock to be mindful of SBTi status when reinvesting proceeds from the bonds held and have formally instructed this.

Why 70% by 2027?



	Corporate Bond Portfolio	
	31 December 2022 (comparator)	31 December 2024
Verified Target: % of market value invested in issuers with verified SBTi targets	43.9%	51.7%

8 Technical Section

Technical Section – Supporting Information for Scenario Analysis as at 31 Dec 2022

Scenario	Rationale	Catalysts	Calibration	Scenario Source
Orderly Transition – transition risk	<ul style="list-style-type: none"> A transition to Global Net Zero by 2050 is achieved via immediate and smooth policy responses Carbon taxes are channelled back to the economy via government investment 	<ul style="list-style-type: none"> UK sees up to 2% p.a. GDP gains peaking in 2027 (50% of carbon tax assumed to be reinvested into the economy) UK inflation around 1.9% higher peaking in 2026, largely driven by repricing of carbon prices Price of carbon rises to over 800 \$/ton by 2050. 	<ul style="list-style-type: none"> The UK yield curve rises modestly as growth accelerates Higher inflation drives most of the impact on UK LDI assets and pension liabilities Assumed no significant central bank response to higher inflation. 	NGFS Net Zero 2050*
Orderly Transition – physical risk	<ul style="list-style-type: none"> Robust corrective action is taken to reduce emissions but temperatures still rise by 1.5°C by c 2100 relative to pre-industrial levels 	<ul style="list-style-type: none"> Physical changes such as higher temperatures, sea-level rises and hurricanes impact GDP. The impacts are largely felt from 2050 onwards 	<ul style="list-style-type: none"> The UK yield curve increases modestly in the near term, but more for longer tenors as physical risks become more evident. 	NGFS Net Zero 2050*
Disorderly transition – transition risk	<ul style="list-style-type: none"> A delayed transition starts in 2030 Carbon taxes are used to cut income tax, thus boosting private consumption There is a negative shock to business confidence as stringent policies are introduced 	<ul style="list-style-type: none"> There is a negative impact on UK GDP particularly in the early to mid 2030s UK inflation around 1% higher than in a base case peaking in 2032 largely driven by repricing of carbon prices Price of carbon rises from 0 in 2030 to over 1000 \$/ton by 2050 	<ul style="list-style-type: none"> The middle of the UK yield curve rises modestly as the risk premia (probability of default) applied to the UK increases. Higher inflation is priced in from 2030 onwards There is assumed to be no significant central bank response to higher inflation. 	NGFS Delayed Transition*
Disorderly transition – physical risk	<ul style="list-style-type: none"> Some corrective action to reduce emissions is taken but temperatures rise by 1.8°C in 2100 relative to pre-industrial levels 	<ul style="list-style-type: none"> Physical changes such as higher temperatures, sea-level rises and hurricanes impact GDP. The impacts are largely felt from 2050 onwards 	<ul style="list-style-type: none"> The UK yield curve increases modestly in the near term, but more for longer tenors as physical risks become more evident. 	NGFS Delayed Transition*
Failed transition – physical risk	<ul style="list-style-type: none"> No corrective action to reduce emissions is taken meaning that temperatures rise by 3.3°C by c 2100 relative to pre-industrial levels 	<ul style="list-style-type: none"> Physical changes such as higher temperatures, sea-level rises and hurricanes impact GDP. The impacts are largely felt from 2050 onwards 	<ul style="list-style-type: none"> The UK yield curve increases modestly in the near term, but more for longer tenors as physical risks become more evident. 	NGFS Current Policies*

Note: the impact of transition and physical risk on sovereign bond portfolios and Scheme liabilities has been modelled separately by BlackRock through calibration of user specified stress tests intended to be consistent with the climate scenarios shown.

**NGFS (Network for Greening the Financial System) published scenarios can be found here: https://www.ngfs.net/sites/default/files/ngfs_climate_scenarios_technical_documentation_phase2_june2021.pdf*

Technical Section – Supporting Information for Scenario Analysis as at 31 Dec 2022

Context

- Results are expressed as “climate-adjusted valuations” for Transition and Physical Risks. These are based on discounted cash flow analysis in each scenario relative to a “counterfactual” scenario that is assumed to be priced into current valuations. BlackRock’s analysis considers a single timespan over the lifetime of the scenario modelled.
- The “counterfactual” assumes no additional warming for Physical Risk scenarios, and no additional policies enacted for Transition Risk scenarios. The outputs are therefore conservative by design (i.e. they produce more severe outcomes) which is consistent with stress testing market practice. Essentially “de minimis” pricing of climate change is assumed in current valuations.
- Due to different methods the **Physical and Transition Risk adjusted values cannot be added** to provide a total climate risk adjusted value.
- Given evolving nature of climate analytics, **we expect input data and models to change over time**, with potentially significant impacts on results.

BlackRock: Scenario Analysis Limitations

Modelling

- The climate models used focus separately on transition risk or physical risk. A holistic view of climate-related financial risks should take both into account
- The climate models used do not predict the abrupt or irreversible changes that may result from reaching critical climate thresholds or “tipping points”
- The economic models used may not adequately predict feedback loops and will therefore underestimate the chance of systemic failure in parts of the global economy
- Models also do not include the social or political impact of mass migration
- The current framework incorporates first order impacts on companies’ revenues and costs. It does not capture second order effects such as supply chain disruption
- Based on prior economic and financial crises, it can be hard to predict the scale of monetary and fiscal policy responses. The models’ assumptions about changes in financial valuations may therefore be incorrect.
- They also do not include the impact of other shocks that might occur such as recessions, conflicts or pandemics.

Data

- BlackRock have been able to provide transition risk scenario analysis for assets equalling c84% of the total, and have been able to provide physical risk scenario analysis for assets equalling c93% of the total
- There are a number of portfolios for which there is not adequate information on the underlying holdings to provide quantitative scenario analysis. These are: Private Equity, Property and Alternatives.
- Where BlackRock believe this could be misleading they have marked the estimated impact as N/A
- Cash is not included in this analysis

Note on Liabilities

- The Liabilities shown are based on the Trustee’s Agreed Valuation Basis (AVB) plus proposed pattern of discretionary pension increases: the AVB + PP basis. However, the liability figures are produced from the liability proxy provided to BlackRock and are an output from BlackRock’s Aladdin system and the figures will not necessarily match the liability value produced by the Scheme Actuary.
- The liabilities modelled by BlackRock will also differ slightly from those modelled by the Scheme Actuary due to differing model approaches, assumptions, and due to the cashflows provided to BlackRock being primarily for the purpose of maintaining the liability hedging portfolio.

Note on Insurance contracts

The scenario analysis has been calculated excluding the Scheme’s assets and liabilities in respect of the buy-in with Legal & General and synthetic buy-in with Rothesay Life (described in this report as “excluding insurance transactions”). It also makes no allowance for the potential impact of climate change on demographic factors, in particular life expectancy as the Scheme has extensive hedging of longevity risk in place.

Technical Section – Supporting Information for Scenario Analysis as at 31 Dec 2022

Description	Type	Climate Scenario ¹	Financial Model ¹	Temperature Rise	Climate Policy Assumptions
Orderly Transition	Transition and physical risk	NGFS Net Zero by 2050	Aladdin Climate	~1.5°C	Immediate and co-ordinated
Disorderly Transition	Transition and physical risk	NGFS Delayed Transition		~1.8°C	Delayed action
Failed Transition	Physical risk only	NGFS Current Policies		~3.3°C	Current policies only

Data Coverage	Corporate Bonds ²	Liability Hedging Assets	Total
All transition risk scenarios	74.0%	100%	83.6%
All physical risk scenarios	97.6%	100%	93.1%

BlackRock's climate models are intended to highlight the potential impact of climate policies and outcomes on the economy and on financial markets. Although they provide some insight into where the Scheme may face risks or have opportunities, modelling financial risks requires making a number of assumptions which may not be correct.

The scenario assessments BlackRock has considered should be taken independently. Physical risks and transition risks are however linked. Scenarios with increased transition risk in the short to medium term are likely to have lower physical risks in the long term (and vice versa). The DWP's guidance for Occupational Pension Schemes does however note that considering transition and physical risk separately may be helpful.

The BlackRock analysis presented here uses the Network for Greening the Financial System's scenarios as a starting point. The implications of each scenario are modelled at an economy-wide, sector, issuer and asset level by BlackRock. The models focus on the most likely direct impact of climate policy measures, evolving consumer trends, and technological innovation on corporate prospects.

Aladdin Climate has been used to calculate the impact on the Scheme's corporate equity and corporate credit portfolios. The impact of both physical and transition risk on the Scheme's liability matching assets and liabilities has been modelled separately in Aladdin through calibration of user specified stress tests intended to be consistent with the climate scenarios shown.

Note on modelling: The intricacies of climate systems present considerable difficulties in modelling the impacts on the Scheme's assets and liabilities. This is particularly true in the Failed Transition scenario. Due to the unprecedented nature of such warming, it is challenging to encompass all potential consequences within the modelling process. Simplifications in the modelling, such as not allowing for tipping points, mean the actual impact on the Scheme is likely to be more significant than is currently being modelled. As long as these limitations are understood, the scenarios still provide valuable insights to inform climate risk assessment and management.

- ¹ BlackRock's equity and corporate bond models forecast the impact of the various scenarios and look forward 30 years, or for corporate bonds a shorter time period relevant to their individual maturities. The climate and economics models look further out, for example the physical models currently run to 2090, but there is a limit of what is relevant to the current valuation of financial securities.
- ² Data coverage for bottom-up modelling of corporate bonds spreads. Coverage is as per LDI for modelling interest rate and inflation shocks

Technical Section – Supporting Information for Scenario Analysis as at 31 Dec 2022

Estimated impact on Assets

As at 31 December 2022, 94% of assets were within the Liability Matching Assets, as shown below. The remainder of the assets are not covered by the analysis.

Estimated Impact on Assets	Private Equity	Alternatives	Property	Liability Matching Assets	TOTAL ¹
AUM at 31/12/2022	£38m	£40m	£2m	£1,489m	£1,583m
Orderly Transition -Transition Risk -Physical Risk	Not covered	Not covered	Not covered	3.8% -0.4%	3.6% -0.4%
Disorderly Transition -Transition Risk -Physical Risk	Not covered	Not covered	Not covered	1.8% -0.4%	1.7% -0.4%
Failed Transition -Transition Risk -Physical Risk	Not covered	Not covered	Not covered	n/a -0.4%	n/a -0.4%

Climate Related Risks: Liability hedging portfolio as at 31 December 2022

The largest estimated change in the Scheme's liabilities occurs under the orderly transition scenario, where higher carbon prices and an increase in government investment drives higher inflation. In the disorderly scenario, transition-related activities are delayed, reducing the near-term impact.

1) Includes £14m of cash and other (which includes the mark to market currency hedging)

Technical Section – Supporting Information for Metrics

Gilts and Index-Linked Gilts approach (BlackRock managed assets)

Physical gilts, gilt repo and gilt Total Return Swaps (TRS) have been included. Interest rate and inflation swaps have been excluded from the calculation.

Total emissions is calculated as follows: Metrics tonnes of CO₂ and equivalents per country multiplied by (face value of gilts in the portfolio / public debt). This is based on MSCI data, Bloomberg data and the value of the gilts held. The Emissions footprint figure is arrived at by dividing the below figure through by the portfolio NAV.

Total emissions tCO₂e	For physical gilts: 139,583 tons CO ₂ and equivalents
	For sovereigns - other: out of scope
	For green gilts: 0 tons CO ₂ and equivalents
	For gilts TRS: 0 tons CO ₂ and equivalents

	Total in Liability Matching Portfolio
Physical gilts excluding green gilts	£688m
Sovereigns – other	£1m
Green Gilts	£0m
Gilt TRS	£0m
Cash, Repo, other	-£167m
Portfolio NAV	£522m

Insurance arrangements approach

For the Rothesay Life synthetic buy-in the total emissions is calculated as follows:

- Based on the UK Gilts held as collateral backing the arrangement. Metrics tonnes of CO₂ and equivalents per country multiplied by (face value of gilts in the portfolio / public debt). This is based on MSCI data, Bloomberg data, State Street data and the value of the gilts held. The Emissions footprint figure is arrived at by dividing the below figure through by the Market value of the UK gilts held as collateral.

For the Legal and General bulk annuity the total emissions is calculated as follows:

- Total emissions have been calculated based on emissions footprint data reported by Legal and General, for the emissions of its UK annuity book multiplied by an approximate market value of the contract. Figures are based on Legal and General and WTW data.

Insurer	Arrangement	Market Value (31/12/2024)	Total emissions tCO ₂ e
Rothesay Life	Synthetic Buy-in and longevity swap (derivative in nature)	£2,178m Based on the value of the Reference Gilts backing the contracts	258,500 tons CO ₂ and equivalents
Legal and General	Bulk Annuity	£2,820m Estimated	143,820 tons CO ₂ and equivalents

Although every effort has been made to use a comparable methodologies when calculating emissions data, it is unlikely that the figures produced by BlackRock, and by BA Pensions as estimates for the Rothesay Life and Legal and General contracts are fully aligned.

In December 2024, the Scheme invested in a longevity swap with Metropolitan Tower Life. The net value of a longevity swap at inception is zero and as the inception date is close to 31 December 2024, the net value is considered negligible and has therefore been excluded from this report.

9 Additional information

Scheme Information

Scheme overview

APS is a predominantly Defined Benefit (DB) arrangement which has been closed to new entrants since 1984 but is open to future accrual for the remaining active members. APS was introduced to new entrants in 1948. Some of the Scheme's AVC arrangements are classified as part-DB due to guarantees.

Access to key documents for the Scheme is available using the following website: www.mybapension.com including a copy of the Member's Handbook which succinctly explains the key features of the Scheme rules and options available to members. The full details can be found in the Trust Deed and Rules also available via the website.

All analysis has been carried out at Scheme-level. The analysis has not considered the AVC/Cash Balance holdings for proportionate reasons.

Insurance Arrangements

In addition to the assets managed by BlackRock, APS has conducted the following transactions:

- A bulk annuity held with Legal and General, transacted in 2018 for £4.4bn;
- A synthetic buy-in held with Rothesay Life consisting of an asset swap and a longevity swap covering c.24% of the pensions already in payment in June 2010;
- A further longevity swap held with Rothesay Life covering 20% of the Scheme's longevity risk for pensions already in payment in June 2010; and
- A longevity swap with Metropolitan Tower Life Insurance Company in December 2024 covering the remaining uninsured members.

Insurer's TCFD Reports

Rothesay Life:

<https://www.rothesay.com/media/trjc33d2/rothesay-climate-report-2024.pdf>

Legal and General:

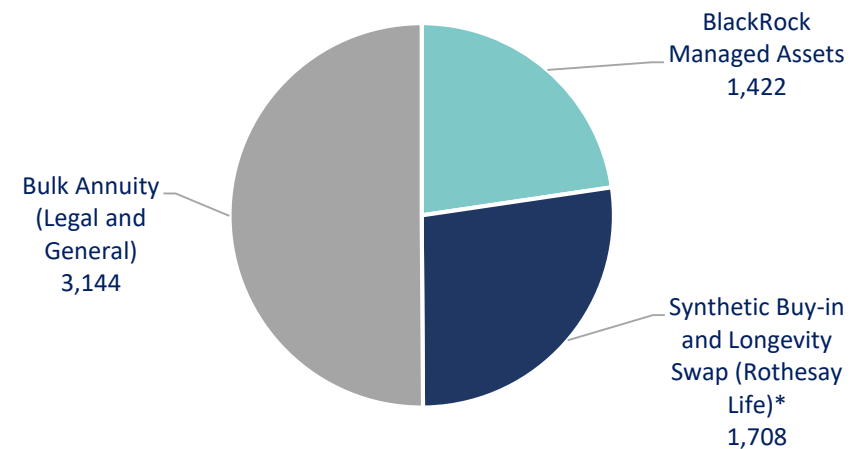
<https://group.legalandgeneral.com/media/1axftm2t/l-g-climate-and-nature-report-2024.pdf>

Asset Allocation - assets under BlackRock management

Assets as at 31 December 2024	Value (£m)	Allocation (%)
Private Equity	23.2	1.6%
Alternatives	23.9	1.7%
Property	0.1	0.0%
Securitised Assets	209.8	14.7%
Corporate Bonds	620.1	43.6%
Liability Matching Portfolio – Gilts, Repo, TRS	521.7	36.7%
Cash	23.5	1.7%
Total Assets	1,422.3	100.0%

Note: BlackRock, 31 December 2024. Totals may not sum due to rounding. Values above are net of insurance transactions.

Total Scheme Asset holdings 31/12/2024 (£m)



**Note: the value of the Rothesay Life transactions shown is that of the Reference Gilts backing the contracts for collateral purposes – as used in this report to calculate certain metrics. Alternatively, the mark to market of the asset swap and longevity swaps (excluding the December 2024 transaction) added to the market value of these Reference Gilts could be used resulting in a value of £667m.*

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- The BlackRock data, models and methodologies rely on comparatively new analysis and there is limited peer review or comparable data available.
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British Airways Pension Services Ltd registered address:
Waterside
HAA1
Harmondsworth
UB7 0GB

Address for communications:
PO Box 2074
Liverpool
L69 2YL

Website:
www.mybapension.com