

Annual Report and Financial Statements 2016

Airways Pension Scheme



**Year ended
31 March 2016**

Annual Report and Financial Statements

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Chair's Review

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

Addressing the Scheme's deficit

The Scheme's last formal three-yearly valuation was dated 31 March 2012. At that time, the Scheme's deficit on a technical provisions basis was £680m. A year later this deficit had improved to £547m. By 31 March 2014, it had further improved to £409m and we look forward to further reducing the funding gap in the coming years. In that way, we'll continue to improve the long-term strength and security of the Scheme.

As we announced in July this year, we have had to delay the formal agreement of our valuation dated 31 March 2015. This is because of ongoing legal proceedings – see below. We expect to be able to move forward with the valuation once we know the outcome of the litigation. We are keeping the Pensions Regulator fully up to date with progress on this valuation.

Responding to the Government's change to inflation measures

Each year, we increase members' pensions in line with the Government's measure of inflation. In 2010, the Government changed this measure from the Retail Prices Index to the Consumer Prices Index. This is generally expected to mean lower increases for members. In 2011 we decided to introduce a new power that would allow us each year to consider a further, discretionary increase. Although no discretionary increase was awarded in 2011 or 2012, we decided in 2013 to use that power for the first time, to give members a small extra increase of 0.2%.

In reaching these decisions, the Trustees took account of detailed advice from a number of leading firms. However, BA has challenged these decisions, and as a result we are currently engaged in legal proceedings. We expect these proceedings to last until December, and the judgement to be delivered in the new year. We will let members know about the outcome as soon as we can.

The Trustee maintains that it acted appropriately and within the Scheme rules when these decisions were made. However, we believe it is right to wait for the outcome of the litigation before we decide whether to make a discretionary increase for 2016.

Managing the challenge of the referendum result

There have been many news reports of the potential impact of the EU referendum result on UK defined benefit schemes. But against this backdrop, our Scheme has proved itself to be resilient. The financial disruption of the first few weeks following the result had a broadly neutral effect on the Scheme's overall funding level.

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

Updating our corporate structure

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

Chair's Review

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

Appointing a new Scheme Secretary and CEO

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

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

Welcoming new Trustees

Andrew Fleming and I joined the Trustees in October 2015, followed by Bill Francis in September 2016. In April 2016 we also welcomed Frances Axford and Ian Heath as Pensioner Trustees. Meanwhile, Sandra Sellers and Graham Tomlin completed their terms of office as Pensioner Trustees, and Nick Goddard has also left us.

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

Virginia Holmes
Chair of the Trustee
October 2016

Trustees & Advisers

Appointed by British Airways Plc (the Company)

Virginia Holmes
(Chair)
Independent Trustee
Appointed 1 October 2015

Charlie Maunder
Head of Flight
Operations
British Airways Plc

Ian Howick
Director of Heathrow
British Airways Plc

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

Philip Osmond
Director of Airport
Transformation
British Airways Plc

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

Members elected

Tom Mitchell
Active/pensioner elected

Stephen Mallett
Pensioner elected

Phil Hogg
Pensioner elected

Paul Douglas
Pensioner elected

Frances Axford
Pensioner elected
Appointed 1 April 2016

Ian Heath
Pensioner elected
Appointed 1 April 2016

Retired during the year

Paul Spencer CBE
Resigned 30 September 2015

Alan Buchanan
Resigned 30 September 2015

Graham Tomlin
Resigned 31 March 2016

Sandra Sellers
Resigned 31 March 2016

Nick Goddard
Resigned 31 August 2016

Advisers*

Scheme Actuary
Michael Pardoe
Willis Towers Watson

Legal Advisers
Eversheds LLP
Sacker & Partners LLP

Bankers
BNY Mellon

External Custodian
State Street Bank and
Trust Co

Investment Adviser
Willis Towers Watson
BAPIML

Auditor
KPMG LLP

Convenant Advisers
PricewaterhouseCoopers LLP

Independent Investment Advisers

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

Administration

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

Investment Management

**British Airways Pension Investment
Management Limited (BAPIML)**
Michelle McGregor Smith, Chief Executive Officer

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

Airways Pension Scheme – Pension Scheme Registry Number: 10057028

Trustees' Report

This report provides information about the management of the Scheme and provides more detail concerning the main activities undertaken during the year. There are sections on the funding position of the Scheme, investment, Scheme governance, Scheme changes and pension administration matters.

The financial statements of the Scheme for the year ended 31 March 2016, as set out on pages 20 to 35 have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

SCHEME FUNDING POSITION

Formal valuations are carried out every three years. The formal valuation for 31 March 2015 remains in progress. In the years between formal valuations the Scheme Actuary provides an interim update which is reported to the membership in an annual funding statement to show how the funding position is evolving. As the valuation for 31 March 2015 is still in progress an interim update is not applicable. As a reminder, a summary of the Scheme Actuary's 2014 findings is set out below.

The 31 March 2014 update showed that the funding level on a technical provisions basis had improved from 93.5% at 31 March 2013 to 94.7% as at 31 March 2014 and the deficit had reduced from £547m to £409m. The value of the Scheme's liabilities had decreased over the preceding year from £8.4bn at 31 March 2013 to £7.7bn at 31 March 2014.

This improvement in the funding level was mainly due to an increase in Government bond (gilt) yields over the 31 March 2013 to 31 March 2014 period which in turn led to a decrease in the value of the Scheme's liabilities. Although there had been an improvement, it is likely that the Trustees will seek to adopt revised and more cautious assumptions as part of the 2015 formal valuation. This will reflect the intended progress towards holding a higher proportion of the Scheme's assets in higher security investments, mainly Government bonds (gilts).

The funding levels are shown below:

	31 March 2014 £m	31 March 2013 £m	31 March 2012 £m
Liabilities*	(7,682)	(8,392)	(7,995)
Assets	7,273	7,845	7,315
(Deficit)	(409)	(547)	(680)
Funding level	94.7%	93.5%	91.5%

* The liabilities are based on the technical provisions agreed between the Trustees and BA at the 31 March 2012 valuation, updated by the Scheme Actuary in line with changes in market conditions as at 31 March 2013 and 31 March 2014.

The recovery plan

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

- the Company will pay additional contributions to the Scheme at a rate of £4,583,333 per month until 31 March 2023; and
- if the assumptions in the recovery plan are borne out in practice, the deficit will be removed by 31 March 2023. This includes an allowance for investment returns at 0.3% a year in excess of the discount rate.
- in addition, the Trustees and BA have agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which are documented in separate legal agreements. This includes a contingent payment of £250 million in January 2019.

PricewaterhouseCoopers LLP (PwC) is engaged by the Trustees to carry out extensive and on-going reviews of the Company's financial position and future cash flows. PwC has advised the Trustees that the contributions that the Company has committed to pay to the Scheme and the New Airways Pension Scheme (NAPS) are set at the level that the Company can reasonably afford in current circumstances. The airline industry is volatile and the Trustees have agreed protections in the event that the Company's position were to deteriorate but have also

Trustees' Report

agreed a cash sweep mechanism which means that the Scheme will receive additional contributions in the event that the Company's annual 31 March cash balance exceeds prescribed thresholds.

BA paid £25.3m to the Scheme in respect of the 31 March 2015 cash sweep payment, received and accounted for in the current years financial statements, and £31.4m in respect of the 31 March 2016 cash sweep payment, which is accounted for in the 2016/17 financial statements.

SCHEME INVESTMENT

The broad strategic asset allocations as at 31 March 2016 (net of the Rothesay Life swaps) are shown below:

Investment category	Allocation
Return seeking	19%
Liability matching	81%

Return seeking assets are those chosen with long term returns expected to exceed risk-free assets – which compensates for the higher risk exposure. Equities (UK and overseas), private equity, property and alternatives are return seeking assets. Liability matching assets are those held to be aligned with the Scheme's future benefit payments and are intended to reduce the amount of risk. Government bonds are an example of a liability matching asset. The strategic asset allocation set out above is subject to more detailed control limits and bandwidths exercised by the Investment Committee in consultation with the investment advisers and BAPIML.

DYNAMIC DE-RISKING AND YIELD TRIGGER FRAMEWORK

Dynamic de-risking

The Trustees have put in place suitable policies to dynamically manage risk as funding levels improve, to buy insurance against longevity risk for a specified group of liabilities (referred to earlier in this document as the Rothesay Life swaps arrangements), to hedge a proportion of the liabilities using specific assets on a buy and hold basis, to move the weighting from return seeking assets towards liability matching assets and to hedge interest rate and inflation risks.

The strategy underpinning the framework operates within the following parameters:

- Target 100% funding on a gilts+0% RPI basis by March 2023, allowing for best estimate investment returns (the 'on track funding level').
- Linear de-risking in annual steps of 2.5% from return seeking assets to achieve 100% matching gilts by March 2023.
- Corporate bonds to be retained until the final year of de-risking.
- Upside triggers for de-risking if funding is ahead of plan as a result of investment outperformance.
- Downside triggers to require a review of the framework in the event of poor investment returns or funding falling behind plan.

The dynamic nature of these policies mean that the asset allocation described above will move over time towards a position with a higher allocation to liability matching assets linked to the funding position and appropriate market conditions.

Liability hedging

The Trustees have also established liability hedging arrangements involving interest rate and inflation hedging triggers. The aim of the liability hedging programme is to better align the Scheme's assets with the liabilities by hedging the Scheme's exposure to interest rates and inflation which are the key drivers in relation to the value placed on the liabilities. A range of instruments can be used for this purpose including government bonds and swaps.

As part of the valuation process, there will be a full review of the investment strategy.

Trustees' Report

Statement of Investment Principles (SIP)

No changes were made to the SIP during the year to 31 March 2016.

A copy of the SIP is available on request from the Secretary's office or can be accessed on the member website www.mybapension.com.

Measuring investment performance

The Trustees have adopted a customised strategic benchmark as this ensures that the investment performance objectives are related directly to the circumstances of the fund.

The Trustees monitor the fund's performance by comparing the returns achieved against this benchmark. The performance of each asset category is measured against an index. For example, the UK equity portion of the fund is measured relative to the performance of the FTSE All Share Index.

BAPIML is the in-house investment manager to the Scheme. BAPIML's expenses are charged to the Scheme at cost and routine or day to day investment decisions are delegated to them. The Trustees have set BAPIML the target of performance of 0.3% per annum above the weighted average of the agreed strategic benchmark over a rolling five year period, though the Trustees will continue to monitor performance over a range of different time periods.

Details of the fund performance can be found on pages 15 to 18.

SCHEME GOVERNANCE

Trustee knowledge and understanding (TKU)

The Trustees have a formal training policy, the foundation of which is the Pension Regulator's TKU regime. The Trustees conduct a detailed review of their approach to training biennially.

An induction programme is provided for new Trustees on appointment. The amount of material covered in the induction programme is significant and will usually take several months to complete. This is consistent with the law on TKU which allows 6 months for a new Trustee to be trained before they are expected to have achieved the required level of knowledge and understanding. After the initial training Trustees are encouraged to undertake a formal pensions qualification.

Further requirements for training are established by asking Trustees to complete an individual skills gap analysis which informs future training provision. The content, frequency and level of training is tailored to the outcomes of the assessment of each Trustee's particular learning needs but is also related to the Committee(s) on which the Trustee serves. The Trustee Board and each of its Committees produce an annual business plan which identifies the topics and issues that are to be discussed and determined during the year. Appropriate training sessions are then scheduled to support these activities.

Training is provided in a range of formats by a variety of providers. The Scheme Actuary and other advisers provide training to some or all of the Trustees either in routine Main Board or Committee meetings or in specially arranged sessions. Bespoke training is also provided by BAPIML and BAPSL, and Trustees are actively encouraged to supplement this formal training plan by accessing other resources including the Regulator's Trustee Toolkit, pensions related publications and, where appropriate, industry conferences, seminars and publications. Records of all training undertaken are maintained in respect of each individual Trustee.

Trustees' Report

Conflicts of interest

The Trustees understand that they are in a position of trust and need to have policies and arrangements in place to identify, monitor and manage conflicts. The Scheme's primary legal advisers are Eversheds LLP and they are also the primary legal advisers for NAPS. To ensure that appropriate processes are in place to manage conflicts of interest, Sacker and Partners LLP acts for APS in relation to matters which require separate legal advice.

The Scheme's current policy and procedure for managing conflicts of interest was adopted in April 2015.

Monitoring of the employer covenant

The Trustees consider it critical that they understand and monitor the financial strength and covenant of the employer on a continuing basis and in order to achieve this PwC act as advisers to the Trustees on employer covenant issues. A reporting framework was agreed with the Company during the 2012 valuation to ensure that the Trustees receive regular updates on the business activities and financial position of the Company.

Trustee arrangements

- The Scheme is administered by twelve Trustees.
- Six of the Trustees are appointed by the Company.
- Five of the Trustees are elected by pensioner members* and adult survivor pensioners of the Scheme and must be pensioner members* of APS.
- One of the Trustees is elected by active members of the Scheme and must be an active member of APS.
- Where an active member vacancy results in no nominations the vacancy is opened to pensioner members* and a notice inviting nominations from both active and pensioner members* is issued. Such a notice was issued in July 2015 and Tom Mitchell was elected as Trustee in the resulting ballot.
- A Trustee may remain in office for a minimum of five years and a maximum of five and a half years and is eligible for re-appointment (provided that he/she still meets the eligibility criteria for the relevant vacancy).
- Nominations for elected active member Trustees must be supported by at least ten members in the relevant constituency and nominations for pensioner member* Trustees must be supported by ten pensioner

members* or adult survivor pensioners. If there is more than one nomination for a vacancy a postal ballot of the relevant members is held. The result is decided on a simple majority of the votes cast.

- Members taking flexible retirement cannot apply to be a pensioner member* Trustee and an active member Trustee at the same time, however flexible retirement members are eligible to vote in both active member and pensioner member* Trustee elections.
- An elected Trustee may be removed from office following a postal ballot in which two thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustees by fifty of the relevant members.

* For this purpose 'pensioner members' do not include pensioners whose benefits have not yet come into payment, contingent beneficiaries and pensioners receiving only Equivalent Pension Benefits under the National Insurance Acts.

Committees

APS and NAPS have separate Trustee Boards and Committees however much of the business of the two Schemes is common. Although separate meetings are held when required, most Main Board and Committee meetings have been held in tandem although each Trustee Board reaches its decisions independently. Much of the work is undertaken by Trustee Committees who are able to review matters in detail before making recommendations to the Main Board. Each Committee operates under clear Terms of Reference which govern its activities. Each Committee constructs a forward looking annual business plan which is used to allocate budgetary resources and informs the development of the Trustee training programme.

The Governance and Audit Committee is principally concerned with legislative compliance, audit and risk management. It monitors the management of the risks to which the Scheme is exposed and oversees audit activity (including the work of both the external and internal auditors appointed by the Trustees). It is also responsible for the establishment of training programmes, reviewing the performance of the Scheme Advisers, budget reviews and internal procedures such as ballot processes.

Trustees' Report

The Operations Committee considers a range of matters requiring Trustee discretion (e.g. payment of death-in-service benefits) and second stage applications under the internal dispute resolution procedures. In addition, the Committee considers certain proposed Rule changes, oversees the Scheme's communication strategy and monitors levels of service.

The Investment Committee, which is supported by independent and strategic investment advisers, deals with investment approval and reporting arrangements, the monitoring of investment performance and consideration of the various investment options available to the Scheme. In valuation years it also undertakes a detailed review of the Scheme's investments in the context of its liabilities which includes an asset liability modelling (ALM) study.

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

Performance of Trustees

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

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

On occasions that Trustees are not able to attend a meeting, the Rules provide for them to appoint an alternate to attend and vote for them. During the period under review this has been standard practice. In addition, some Trustees attended, as observers, meetings of Committees to which they were not formally appointed. Such occurrences are not included in the attendance list.

Security of assets

The Custodian Trustee of the Scheme, British Airways Pension Trustees Limited, holds title to the assets of the Scheme on behalf of the Trustees, however physical custody of the Scheme's securities (i.e. bonds and shares) has been delegated to independent external custodians, State Street Bank and Trust Co.

Defined contribution (DC) governance statement

Additional Voluntary Contributions (both money purchase and cash balance AVCs) are considered in some respects to be Defined Contribution (DC) benefits by the Pensions Regulator. In this regard the Trustees of the Scheme annually review and assess the systems, processes and

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of Appointment to Main Board
Paul Spencer (<i>Chair</i>)	2/2	3/3	-	4/4	Part Year
Virginia Holmes (<i>Chair</i>)	2/2	4/4	-	3/3	Part Year
Alan Buchanan	-	-	-	4/4	Part Year
Paul Douglas	-	7/7	-	7/7	Whole year
Andrew Fleming	-	-	-	3/3	Part Year
Nick Goddard	-	-	-	7/7	Whole Year
Phil Hogg	-	5/6	-	6/7	Whole Year
Ian Howick	-	7/7	-	7/7	Whole Year
Stephen Mallett	4/4	-	-	7/7	Whole Year
Charlie Maunder	4/4	-	7/8	7/7	Whole year
Tom Mitchell	-	-	4/6	4/5	Part Year
Philip Osmond	-	-	6/8	6/7	Whole year
Sandra Sellers	4/4	-	-	5/7	Whole year
Graham Tomlin	-	-	4/8	7/7	Whole year

Trustees' Report

controls across key governance functions (the "controls") to ensure that they are consistent with the Standards of Practice set out in the Pensions Regulator's DC Code of Practice and Regulatory Guidance. The Trustees are satisfied that the controls are consistent with that Code, however, were the annual review to identify any areas where those Standards of Practice are not met, the Trustees would consider the reason for those differences and whether any changes to current practice are required.

SCHEME CHANGES

Factor review

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

Transfer value factors

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

State pension changes

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

Contracting-out

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

- For members choosing to stay on the same build up-rate, pension contributions increased by 3.1% of Band Earnings (total pay within a band set by the Government each year, currently between £5,824 and £40,040) until State Pension Age.
- An option was introduced to enable employee members who did not wish to pay the 3.1% increase to choose a new lower pension build-up rate of 1/54 for flying staff or 1/58 for ground staff. Personal NICs still increased by 1.4% of Band Earnings for those electing this option.
- Option dates for electing to change pension build-up rates were introduced for 2016 effective on 6 April, 1 July and 1 October. For future years the election dates will be 1 April and 1 October.
- Crystallised active members (members at or after their NRA who have elected to cease pension contributions but delay drawing their pension) are enrolled into the British Airways Retirement Plan.

Pensionable Dependants

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

Trustees' Report

Trust Deed amendments

The following amendments were made during the year:

- Bankruptcy and forfeiture – amended to reflect current overriding legislation.
- End of contracting-out: deed implementing statutory override – BA exercised its statutory right to pass on its increase in National Insurance Contributions to members following the abolition of contracting-out from 6 April 2016. Amendment implemented the increase in member contributions to include 3.1% of Band Earnings for members under State Pension Age.
- End of contracting-out: deed amending revaluation of guaranteed minimum pensions – changes agreed to enable the Trustees to retain the ability to change the Scheme's revaluation basis for members under guaranteed minimum pension age.
- Delegation powers – amended to align the powers with current best practice.

Copies of the Deeds implementing these changes can be viewed on the member website www.mybapension.com.

PENSIONS ADMINISTRATION MATTERS

Cash equivalent transfer values

Transfer values paid during the year were calculated and verified in the manner prescribed by the regulations under Section 97 of the Pension Schemes Act 1993. A partial allowance for discretionary pension increases is included in the calculation of transfer values.

Pension increases

The Scheme Rules provide that the annual increase shall be the percentage specified in the Pensions Increase (Review) Orders (Orders). Following the Rule amendment made in March 2011, the Trustees are required to consider, on at least an annual basis, whether to award an additional pension increase to that provided in the Orders. The Trustees undertook a review in March 2016 and decided that no discretionary award for 2016 would be awarded but that when the power to award discretionary increases is confirmed, the Trustees would reconsider the position. The Orders currently reflect the rise in the Consumer Prices Index (CPI) over a twelve-month period measured up to the end of the preceding September. The change in CPI as at September 2015 was -0.1% and as a result no Order was issued for 2016. Despite the period of negative inflation, pensions were not reduced and instead the standard pension increase was set at zero. Increases apply to all pensions payable under the Rules of the Scheme (whether in deferment or currently in payment excluding any guaranteed minimum pension in payment) except where the member remained in active service after 31 December 1973 and did not transfer to Part VI of the Scheme. People in this latter category receive increases in line with price inflation, as determined by the Orders annually, up to 5% a year in respect of any part of the pension relating to pensionable service after 5 April 1997. The Pensions Act 2004 reduced increases to pensions in payment for people within this category to inflation up to 2.5% in respect of service after 5 April 2005. The Pensions Act 2008 reduced increases to deferred pensions for people within this category who have not attained their normal pension date to inflation up to 2.5% in respect of pension accrued after 5 April 2009. Dependants

Trustees' Report

in receipt of pensions derived from a deceased member within this category receive increases at the rate shown in the Orders, but only up to 5% a year. Any increases above those provided for by the Orders are granted on a discretionary basis; those increases provided in line with the Orders are a right under the Scheme.

Internal dispute resolution procedure (IDRP)

Trustees are required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The designated person to deal with the first stage adjudication is Kate Tollis, Head of Trustee Governance & Secretariat, BAPSL. In the event that the complainant is not satisfied with the outcome the matter is then referred to the Trustees' Operations Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House.

Tax allowance changes

The Lifetime Allowance reduced from £1.25m to £1m with effect from 6 April 2016. Protections are available from HMRC for members who expect their benefit value at the point of drawing to exceed the new lower allowance. A tapered Annual Allowance, which may affect individuals with total earnings subject to income tax (defined by HMRC as Threshold Earnings) of £110,000 or more, was introduced from 6 April 2016. To enable the operation of the tapered Annual Allowance, the period over which a

member's Annual Allowance is assessed changed to 6 April to 5 April each year from 6 April 2016. To implement the change in assessment period, the period 2015/16 was split into two tax periods for Annual Allowance purposes, for APS this was 1 April to 8 July 2015 and 9 July 2015 to 5 April 2016. For the first of these periods, a member had an Annual Allowance of £80,000 and for the second they had no Annual Allowance, but they were able to take through up to £40,000 unused Annual Allowance from the first period to be used in the second period. Pension savings during a tax year which exceed the Annual Allowance incur an Annual Allowance charge. The standard Annual Allowance is currently £40,000 but if a member is affected by tapering, their Annual Allowance may be reduced by up to £30,000. HMRC has said that it is an individual's responsibility to calculate any tapered Annual Allowance.

Online address changes

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

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

Teresa Suriyae
Scheme Secretary

Statement of Trustees' Responsibilities

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

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

The Trustees also have certain responsibilities in respect of contributions which are set out in the statement of Trustees' responsibilities accompanying the Trustees' summary of contributions.

The Trustees have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Investment Report

(Forming part of the Trustees' Report)

REVIEW OF THE YEAR

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

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

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

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

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

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

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

Investment Report

(Forming part of the Trustees' Report)

Whilst sterling fell initially in line with expectations, the un-hedged overseas equity portfolios appreciated in value, offsetting the falls in asset value elsewhere.

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

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

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

Asset allocation and benchmarks

The Trustees and their advisers have set bandwidths around the strategic benchmarks shown below. The strategic benchmark is composed of assets which can broadly be categorised as having a principal focus of either return seeking or liability matching. The bandwidths around the strategic benchmark allow BAPIML to make tactical asset allocation decisions to take advantage of valuation differentials between asset classes which may occur from time to time. The actual allocation shown was within the allowed bandwidths. Since 2011 the decision to hedge overseas currency is a tactical decision to be taken by BAPIML, within allowed limits.

The Rothesay Life asset swap and longevity swap does not form part of the benchmarks and performance returns.

Strategic benchmark and performance

The Trustees' Investment Committee sets a business plan each year which deals with the annual monitoring of performance and activities such as corporate governance alongside work on developing the strategic benchmark to improve the risk return profile of the fund where possible, as well as having a trigger based dynamic governance framework to be able to take advantage of opportunities as they arise. AllenbridgeEpic Investment Advisers Ltd. monitors the Investment Committee's achievement against the business plan and during the year the committee met the targets.

Asset category		Actual % 31 March 2016	Benchmark % 31 March 2016	Actual % 31 March 2015	Benchmark % 31 March 2015
Return Seeking	Equities	9.8	8.5	11.6	9.4
	UK	2.8	2.6	2.7	2.8
	Overseas	7.0	5.9	8.9	6.6
	Private equity	1.4	1.4	1.4	1.8
	Alternatives	3.9	4.0	4.3	4.5
	Property	4.6	4.8	5.2	5.5
	Loan notes	1.1	-	1.0	-
Liability Matching	Real assets	2.1	1.0	1.3	1.0
	Bonds	76.7	77.8	73.5	75.3
	UK fixed	14.9	16.0	15.6	15.5
	UK index-linked	61.3	61.8	57.4	59.8
	Overseas index-linked	0.5	-	0.5	-
	Cash	0.4	2.5	1.7	2.5
	Total	100.0	100.0	100.0	100.0

Investment Report

(Forming part of the Trustees' Report)

The Trustees' Investment Committee revised the strategic benchmark, reducing return seeking assets by 2.5%. All return seeking assets classes were reduced, with a bias towards a greater reduction in the less liquid asset classes to take advantage of exit opportunities. The Investment Committee reviews the liquidity of the asset portfolio annually.

The performance of the fund is shown in tables 1 and 2. Table 1 shows the performance of the fund including the liability hedging portfolio which includes the derivatives held to hedge interest rate and inflation risk. Table 2 shows the performance of the fund compared to agreed strategic benchmarks.

Table 1 – Including interest rate and inflation swaps

Fiscal years to 31 March 2016	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	0.67	3.74	7.41	6.56

Tactical asset allocation and stock selection performance

The fund managers are set an outperformance target of 0.3% per annum relative to the strategic benchmark on a rolling five year period. Since 1 April 2011 the decision to hedge overseas currency is a tactical decision to be taken by BAPIML, within allowed limits. The long term returns excluding hedging up to that date are shown in table 2.

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

Fiscal years to 31 March 2016	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Fund return	0.88	4.00	7.49	6.68
Benchmark	1.44	4.70	7.69	6.59
Relative performance	(0.55)	(0.67)	(0.19)	0.08

In the year under review (1 April 2015 to 31 March 2016) the fund underperformed the benchmark. In relation to the outperformance target of 0.3% per annum relative to the strategic benchmark over a rolling five year period, the fund underperformed (returning 7.49% compared to a benchmark return of 7.69%).

The overweight in equities and underweight in bonds was a drag on performance. In equities the North American equity portfolio exceeded the benchmark over the year whilst other equity portfolios underperformed their respective benchmarks. The corporate bond portfolio outperformed the benchmark in the latest year.

The illiquid assets such as private equity, property and real assets produced positive returns and the portfolios exceeded their benchmarks.

Fund's 10 largest holdings as at 31 March 2016

Stock Name	Security Type	£m	% Portfolio
UK Treasury 0.125% Index-Linked 2029	Government Bond	366.7	5.2
UK Treasury 1.875% Index-Linked 2022	Government Bond	340.2	4.8
UK Treasury 0.75% Index-Linked 2034	Government Bond	305.1	4.4
Network Rail 1.75% Index-Linked 2027	Government Bond*	289.2	4.1
UK Treasury 1.25% Index-Linked 2032	Government Bond	285.5	4.1
UK Treasury 1.25% Index-Linked 2017	Government Bond	272.6	3.9
UK Treasury 0.125% Index-Linked 2019	Government Bond	267.9	3.8
UK Treasury 0.625% Index-Linked 2040	Government Bond	214.2	3.1
UK Treasury 1.125% Index-Linked 2037	Government Bond	208.5	3.0
UK Treasury 0.625% Index-Linked 2042	Government Bond	203.6	2.9

*Government Guaranteed Corporate Bond

Investment Report

(Forming part of the Trustees' Report)

AVCs

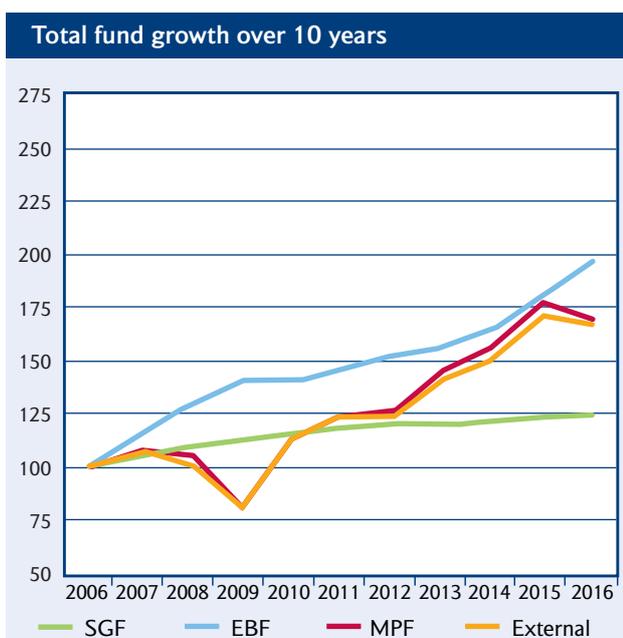
The MPF returned (4.44)% in the year to March 2016.

The Trustees set a benchmark for each type of asset (shares, bonds etc.) held within the fund and use this to monitor the fund's performance. The fund has underperformed the benchmark by (1.4)% over the year as the benchmark returned (3.1)% overall and has not met its target to beat the benchmark by 0.5% per annum over five years. The MPF returns were below those of other large AVC providers in the market place over the latest year, which returned an average of (2.8)%.

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

In the year to March 2016, the short dated gilt fund returned 0.79% and the equity biased fund returned 8.27%. Further information on the performance of the AVC funds can be found in the annual AVC funds investment commentary at www.mybapensions.com.

The long term returns for all of the AVC funds are shown in the chart and table below.



Fund	EBF %	SGF %	MPF %	External %
10 years	6.91	2.18	5.39	5.29
5 years	6.02	0.87	6.42	6.46
3 years	7.81	0.90	5.36	5.96
1 year (to 2016)	8.27	0.79	(4.44)	(2.76)

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

The MPF hedges a proportion of holdings in overseas assets by converting these back to sterling. These returns are shown as the 'including hedging' returns in the following table. From 1 January 2012 the currency hedging was incorporated into the strategic benchmark and will be tactically managed by BAPIML within agreed tolerances, a similar policy to NAPS.

Fiscal years to 31 March 2016	1 year %p.a.	3 years %p.a.	5 years %p.a.	10 years %p.a.
Including hedging				
MPF	(4.45)	5.35	6.41	5.38
Excluding hedging				
MPF	(4.45)	5.35	6.52	6.02
Benchmark	(3.09)	5.79	6.65	5.83
Relative performance	(1.40)	(0.42)	(0.12)	0.18

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

Investment Report

(Forming part of the Trustees' Report)

Corporate governance

The fund managers follow the UK Stewardship Code which aims to improve and enhance the quality of engagement between companies and institutional investors. The fund managers monitor and engage with companies on aspects of corporate governance and exercising voting rights in all regions through our custodian bank. Research and monitoring aspects of corporate social responsibility are also taken into account to assess impacts on shareholder value. In respect of climate change, the fund manager

participates in the Carbon Disclosure Project investor initiatives to encourage investee companies to disclose their impact on the environment and natural resources. The outcomes of these programmes are reported back yearly to the Trustees of APS and NAPS. The voting records of the fund manager are held on our website: www.mybapension.com in the 'Corporate governance' section of the 'Scheme documents' page. These records are updated each year.

Independent Auditor's Report

Independent auditor's report to the Trustees

We have audited the financial statements of the Airways Pension Scheme for the year ended 31 March 2016 set out on pages 20 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) (including FRS 102 The Financial Reporting Standard Applicable to UK and Republic of Ireland).

This report is made solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustees and the auditor

As explained more fully in the statement of Trustees' responsibilities set out on page 13, the Scheme's Trustees are responsible for supervising the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2016 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Richard Hinton

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

28 September 2016

15 Canada Square

Canary Wharf, London E14 5GL

Fund Account

	Note	31 March 2016 £'m	31 March 2015 £'m
Contributions and benefits			
Employer contributions		86.7	68.9
Employee contributions		3.7	4.6
Total contributions	3	<u>90.4</u>	<u>73.5</u>
Benefits paid or payable	4	(375.9)	(374.3)
Payments to and on account of leavers	5	(9.1)	(8.7)
Administrative expenses	6	(2.8)	(6.9)
		<u>(387.8)</u>	<u>(389.9)</u>
Net withdrawals from dealings with members		<u>(297.4)</u>	<u>(316.4)</u>
Returns on Investments			
Investment income	7	94.0	104.3
Investment management expenses	8	(7.4)	(6.4)
Change in market value of investments	9	(304.0)	615.4
Net return on investments		<u>(217.4)</u>	<u>713.3</u>
Net (decrease)/increase in the fund during the year		<u>(514.8)</u>	<u>396.9</u>
Net assets of the Scheme at 1 April		7,509.2	7,112.3
Net assets of the Scheme at 31 March		<u><u>6,994.4</u></u>	<u><u>7,509.2</u></u>

The notes on pages 22 to 35 form part of the financial statements.

Statement of Net Assets

(available for benefits)

	Note	31 March 2016 £'m	31 March 2015 £'m
Investment assets:			
Equities		572.2	743.3
Fixed interest bonds		949.2	1,019.6
Index-linked bonds		6,739.0	6,564.4
Pooled arrangements			
Property		278.5	317.7
Alternative investments		364.1	348.6
Private equity		84.0	85.5
Derivatives		3.9	24.6
AVC mixed portfolio fund		17.6	19.5
Cash		30.1	93.5
Other investment balances		40.5	29.9
		9,079.1	9,246.6
Investment liabilities:			
Derivatives		(2,068.6)	(1,721.8)
Other investment balances		(5.7)	(2.5)
		(2,074.3)	(1,724.3)
Total net investments	9,10,11,12,13,14	7,004.8	7,522.3
Current assets		3.6	0.4
Current liabilities		(14.0)	(13.5)
Net assets of the Scheme at 31 March		6,994.4	7,509.2

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the report on actuarial liabilities on pages 41 and 42 and these financial statements should be read in conjunction with this report.

The notes on pages 22 to 35 form part of these financial statements.

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

Virginia Holmes Management Trustee

Paul Douglas Management Trustee

Teresa Suriyae Secretary

Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (revised November 2014). This is the first year FRS102 and the revised SORP have applied to the Scheme's financial statements. The Scheme's Trustees have taken advantage of the option to adopt the revised fair value hierarchy outlined in the amendment to FRS102 (March 2016) for an accounting period earlier than that required in the Standard.

2. Accounting policies

The principal accounting policies of the Scheme are as follows:

a. Contributions

- i. Employees' contributions, including AVCs, are accounted for when they are deducted from pay by the Employer.
- ii. Employer normal contributions are accounted for on the same basis as the Employees' contributions, in accordance with the schedule of contributions in force during the year. Employer normal contributions include contributions payable to the Scheme under salary sacrifice arrangements.
- iii. Employer augmentation contributions are accounted for in accordance with the agreement under which they are payable.
- iv. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions or on receipt if earlier with the agreement of the Employer and the Trustees.
- v. Income from cash and short term deposits is accounted for on an accruals basis.

b. Payments to members

- i. Pensions in payment are accounted for in the period to which they relate.
- ii. Benefits are accounted for in the period in which the member notifies the Trustees of their decision on the type or amount of benefit to be taken, or if there is no member choice, the date of retiring or leaving.
- iii. Individual transfers out of the Scheme are accounted for when member liability is discharged which is normally when the transfer amount is paid.

c. Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

d. Investment income

- i. Dividends from equities are accounted for on the ex-dividend date.
- ii. Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- iii. Rental income is accounted for on an accruals basis.
- iv. Income from pooled arrangements is accounted for when declared by the fund manager, net of any associated management fees.

e. Investment change in market value

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Notes to the Financial Statements

f. Investments

Investments are included at fair value as described below:

- i. Quoted securities in active markets are usually valued at either the current bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the reporting date.
- ii. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- iii. Exchange traded derivatives are stated at market value determined using market quoted prices.
- iv. Over the counter (OTC) derivatives are stated at fair value.
- v. Swaps are valued by taking the current value of future cash flows arising from the swap determined using discounted cash flow models and relevant market data at the reporting date.
- vi. Longevity swaps are valued on a fair value basis based on the expected future cash flows arising under the swap discounted using market interest rates and taking account of the risk premium inherent in the contract.

g. Rothesay Life swaps

The Scheme has entered into two contracts with Rothesay Life.

Firstly, the Artemis contract which is structured as one contract with two components – an asset swap and a longevity swap. The Scheme pays a fixed stream of cash flows based on an underlying portfolio of assets in exchange for a floating stream of cash flows which represent 24% (2015: 24%) of the actual pension payments due to the members who are covered by the contract.

Secondly, the Concerto contract, a longevity swap, where a further 20% (2015: 20%) longevity risk has been hedged through a second longevity swap with Rothesay Life. The swaps are valued at fair value in accordance with the accounting policy set out above.

Collateral is posted between the Scheme and Rothesay Life as the asset and longevity swap values change; as the contract matures over time and as life expectancy changes over time.

The assets used by the Scheme to purchase the swap under the Artemis contract are still held by the Scheme and they have been recognised separately in the financial statements.

Cash flows from the longevity swaps are recorded as movement on investments as either sales or purchases within the investment movements table.

Notes to the Financial Statements

h. Pooled arrangements

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

Direct and indirect investment properties have been valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS 1.1 Valuation for Financial Statements taking into consideration the current estimate of the rental values and market yields. The valuations for the direct properties have been carried out by Cushman & Wakefield, chartered surveyors, who have the appropriate knowledge and experience to value such assets. Indirect properties are valued by the management companies. The Scheme's interest in the Tesco Red Limited Partnership was accounted for as an associate using the equity method.

Private equity and alternative investments are valued at the best estimate of fair value taking the latest available valuations issued by the managers and adjusting for any cash movements occurring between the date of the valuation and the Scheme year end.

i. Foreign currencies

Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

3. Contributions

	2016 £'m	2015 £'m
Employer contributions		
Normal	6.4	8.1
Deficit funding - regular	55.0	55.0
Deficit funding – cash sweep	25.3	5.8
Employee contributions		
Normal	0.2	0.2
Additional voluntary contributions	3.5	4.4
	<u>90.4</u>	<u>73.5</u>

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

Deficit funding contributions of £4.6m (2015: £4.6m) per month are due until 31 March 2023 in order to improve the Scheme's funding position.

Notes to the Financial Statements

4. Benefits paid or payable

	2016 £'m	2015 £'m
Pensions	358.0	359.8
Commutations of pensions and lump sum retirement benefits	17.2	14.2
Lump sum death benefits	0.7	0.1
Taxation where lifetime or annual allowance exceeded	-	0.2
	<u>375.9</u>	<u>374.3</u>

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

5. Payment to and on account of leavers

	2016 £'m	2015 £'m
Individual transfers out to other schemes	<u>9.1</u>	<u>8.7</u>

6. Administrative expenses

The Scheme bears the cost of administration. However, the levies required by the Pension Protection Fund are payable by BA Plc. The Airways Pension Scheme bears 30% (2015: 30%) of the costs of BAPSL except where a cost relates specifically to the Scheme. The administrative expenses include the in-house costs of running the BAPSL team who provide pension administration services, finance operations and secretariat support. They also include the costs of external advisers engaged by the Trustees including the auditor, actuary, financial advisers, legal advisers and compliance costs. The split of costs at the year end are as follows:

	2016 £'m	2015 £'m
BAPSL in-house administration and processing	1.7	1.6
External professional fees	7.4	5.3
Reimbursed by employer in respect of litigation *	(6.3)	-
	<u>2.8</u>	<u>6.9</u>

* £2.0m of the amount reimbursed by the employer relates to costs incurred in the prior year.

Notes to the Financial Statements

7. Investment income

	2016 £'m	2015 £'m
Dividends from equities	17.4	21.4
Income from fixed interest bonds	41.5	42.0
Income from index-linked bonds	31.4	36.8
Net rents from properties	1.5	1.4
Interest on cash deposits	0.6	1.3
Other income	1.6	1.4
	<u>94.0</u>	<u>104.3</u>

8. Investment management expenses

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

9. Reconciliation of investments

	Value at 31 March 2015	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 March 2016
	£'m	£'m	£'m	£'m	£'m
Equities	743.3	331.8	(464.8)	(38.1)	572.2
Fixed interest securities	1,019.6	246.6	(286.6)	(30.4)	949.2
Index-linked securities					
Rothsay Life assets	3,004.4	277.9	(278.3)	39.3	3,043.3
Index-linked bonds	3,560.0	426.7	(286.3)	(4.7)	3,695.7
Pooled arrangements					
Property	317.7	32.1	(103.5)	32.2	278.5
Alternative investments	348.6	49.6	(43.0)	8.9	364.1
Private equity	85.5	4.9	(20.2)	13.8	84.0
Derivatives					
Rothsay Life swaps	(1,675.5)	72.7	(151.9)	(287.6)	(2,042.3)
Inflation-linked swaps	(9.8)	-	(0.5)	(12.7)	(23.0)
Futures	0.9	8.0	(10.7)	2.5	0.7
Forward foreign exchange	(12.8)	61.0	(21.9)	(26.4)	(0.1)
AVC mixed portfolio fund	19.5	0.2	(1.3)	(0.8)	17.6
	<u>7,401.4</u>	<u>1,511.5</u>	<u>(1,669.0)</u>	<u>(304.0)</u>	<u>6,939.9</u>
Cash	93.5				30.1
Other investment balances	27.4				34.8
	<u>7,522.3</u>				<u>7,004.8</u>

Notes to the Financial Statements

There were 3 individual investments which comprised greater than 5% of the net assets of the Scheme; the 2050 0.5% Treasury index-linked gilt 2016: 43.5% (2015: 32.3%), the Artemis asset swap 2016: 29.3% (2015: 22.5%) and 2029 0.125% Treasury index-linked gilt 2016: 5.2% (2015: 4.8%).

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

	Fees £'m	Commission £'m	Taxes £'m	2016 Total £'m	2015 £'m
Equities	0.1	1.0	0.4	1.5	1.9
Other	-	0.1	-	0.1	0.1
	<u>0.1</u>	<u>1.1</u>	<u>0.4</u>	<u>1.6</u>	<u>2.0</u>
2015	<u>0.1</u>	<u>1.6</u>	<u>0.3</u>	<u>-</u>	<u>2.0</u>

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

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

10. Pooled arrangements

Property	% held	2016 £'m	2015 £'m
Externally pooled indirect		69.2	68.6
Direct UK property		209.3	249.1
Total property unitised	17.80%	278.5	317.7
Alternative	% held	2016 £'m	2015 £'m
Alternative unitised fund	50.63%	1.8	2.4
Direct investments		362.3	346.2
Total		364.1	348.6
Private equity	% held	2016 £'m	2015 £'m
Private equity unitised fund	50.63%	18.6	20.9
Direct investments		65.4	64.6
Total		84.0	85.5

Notes to the Financial Statements

11. Derivatives

The Scheme uses derivative instruments for both investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange, longevity and liquidity risks arising in the normal course of business.

Rothesay Life swaps

The Scheme holds an asset swap (2015: 1) and 2 longevity swaps (2015: 2) with Rothesay Life. The Artemis contract covers 24% (2015: 24%) of the Scheme's pensioner liabilities, and provides protection against the pensioners living longer, and interest and inflation rates movements. The Concerto contract covers 20% (2015: 20%) of the Scheme's pensioner longevity risk and provides protection against the pensioners living longer.

The total net investment of £2,042.3m shown on the net assets statement includes Artemis and Concerto swap contract assets that comprise:

Rothesay Life assets and liabilities	2016	2015
	£'m	£'m
United Kingdom public sector quoted		
2050 index-linked gilt 0.5%	2,171.0	2,426.3
2052 index-linked gilt 0.25%	193.6	189.4
2044 index-linked gilt 0.125%	211.3	209.3
2046 index-linked gilt 0.125%	287.4	-
2047 index-linked gilt 0.75%	180.0	179.4
	<u>3,043.3</u>	<u>3,004.4</u>
Artemis asset swap	(2,021.3)	(1,692.7)
Artemis longevity swap	(15.9)	6.3
Concerto longevity swap	(5.1)	10.9
	<u>(2,042.3)</u>	<u>(1,675.5)</u>

For collateral purposes there is a fixed charge, agreed at the outset of the Artemis contract which represents the collateral Rothesay Life, as insurer, could expect to receive if the Scheme defaulted. This reduces over the life of the contract.

A proportion of the Scheme's UK Treasury index-linked 1.25% 2032 and 0.5% 2050 positions are held in fixed charge accounts to the order of Rothesay Life to cover their longevity risk exposure and also the fixed charge. The value of this proportion for the Concerto contract was £58.9m as at 31 March 2016 (2015: £59.2m). The value of the proportion for the Artemis contract was £77.1m as at 31 March 2016 (2015: £76.9m). The gilts are also used to cover the collateral requirements of the asset swap. See note 12 for the collateral values.

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

Notes to the Financial Statements

Over the counter swaps

Nature	Duration	Nominal amount £'m	Asset value £'m	Liability value £'m
Inflation-linked swaps	<10 years	153.2	-	(5.1)
Inflation-linked swaps	10-20 years	109.6	-	(7.6)
Inflation-linked swaps	20-30 years	56.8	-	(8.4)
Inflation-linked swaps	30-40 years	30.0	0.2	(2.1)
Total 2016		349.6	0.2	(23.2)
Total 2015		391.6	-	(9.8)

Futures

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

Nature		Nominal amount/ contract size	Duration	Fair value £'m
FTSE 100 stock futures	Buy	2,090	June 2016	0.0
Total UK Futures				0.0
DJ STX 50 stock futures	Sell	(7,080)	June 2016	0.3
EMINI S&P stock futures	Buy	7,400	June 2016	0.2
Topix stock futures	Buy	1,040,000	June 2016	0.2
Total overseas futures				0.7
Total 2016				0.7
Total 2015				0.9

Included within cash balances are £3.3m (2015: £4.6m) in respect of initial and variation margins arising on open futures contracts at the year end.

Forward foreign exchange contracts

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

The Scheme enters into over the counter foreign exchange forward contracts to offset the impact of currency fluctuations in foreign currency. The open FX contracts at the year end were as follows:

Contract	Maturity date	Nominal value	Asset value £'m	Liability value £'m
EUR				
Forward to sell EUR	Apr16-Apr16	€ 122.6	-	(2.8)
USD				
Forward to sell USD	Apr16-Jun16	\$427.7	2.4	-
Forward to buy USD	Apr16-Jun16	\$31.4	0.1	-
JPY				
Forward to sell JPY	Apr16-Jun16	¥6.3	0.5	-
Forward to buy JPY	Apr16-Jun16	¥5.1	-	(0.3)
Total 2016			3.0	(3.1)
Total 2015			2.7	(15.5)

Notes to the Financial Statements

12. Collateral

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

Counterparty	Type collateral	Pledge £'m	Derivative position
Rothesay Life	UK Gilt	(2,041.9)	Asset Swap/Longevity Swap
Barclays	UK Gilt	(10.9)	Inflation Swaps
Goldman Sachs	UK Gilt	(0.8)	Inflation Swaps
Morgan Stanley	UK Gilt	(0.6)	FX forwards
RBS	UK Gilt	(5.3)	FX Forwards & Inflation Swaps
UBS	UK Gilt	-	FX Forwards & Inflation Swaps
Nomura	UK Gilt	(0.3)	FX Forward
JP Morgan	UK Gilt	(2.2)	FX Forwards & Inflation Swaps
		<u>(2,062.0)</u>	

Collateral pledged with counterparty is reflected as a negative value.

13. Additional Voluntary Contributions (AVCs)

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

There are three additional voluntary contribution funds. The mixed portfolio fund, which is a separately managed internally pooled arrangement, the short-dated gilts fund and the equity biased fund, which are held within the investments. The values of these funds are as follows:

	% held	2016 £'m	2015 £'m
Mixed portfolio fund			
Equities		14.8	16.4
Fixed interest		2.6	2.7
Cash		0.2	0.4
Total mixed portfolio fund	12.03%	<u>17.6</u>	<u>19.5</u>
Short-dated gilts fund		2.7	2.8
Equity biased fund		25.2	25.7
		<u>45.5</u>	<u>48.0</u>

Notes to the Financial Statements

14. Fair value determination

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

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

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

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

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

	As at 31 March 2016			Total £'m
	Category (1) £'m	Category (2) £'m	Category (3) £'m	
Equities	572.2	-	-	572.2
Bonds	7,688.2	-	-	7,688.2
Pooled arrangements	-	-	726.6	726.6
Derivatives	0.7	(23.1)	(2,042.3)	(2,064.7)
AVC mixed portfolio fund	17.6	-	-	17.6
Cash	28.0	2.1	-	30.1
Other investment balances	34.8	-	-	34.8
	<u>8,341.5</u>	<u>(21.0)</u>	<u>(1,315.7)</u>	<u>7,004.8</u>

	As at 31 March 2015			Total £'m
	Category (1) £'m	Category (2) £'m	Category (3) £'m	
Equities	743.3	-	-	743.3
Bonds	7,584.0	-	-	7,584.0
Pooled arrangements	-	-	751.8	751.8
Derivatives	0.9	(22.6)	(1,675.5)	(1,697.2)
AVC mixed portfolio fund	19.5	-	-	19.5
Cash	93.5	-	-	93.5
Other investment balances	27.4	-	-	27.4
	<u>8,468.6</u>	<u>(22.6)</u>	<u>(923.7)</u>	<u>7,522.3</u>

Notes to the Financial Statements

15. Investment risk disclosures

Investment risks

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

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

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

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

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

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

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

(i) Investment strategy

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

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

Notes to the Financial Statements

The current strategy is to hold:

- Liability matching assets - 79% in investments that move in line with the long term liabilities of the Scheme. This is referred to as liability matching investments and comprises UK and overseas government and corporate bonds and inflation and interest rate swaps, the purpose of which is to hedge against the impact of interest rate and inflation movements on long term liabilities.
- Return seeking assets - 19% in return seeking investments comprising UK and overseas equities, equities futures, investment property, alternatives and private equity.
- Cash - 2% of the total portfolio assets are held as liquid cash to meet the day-to-day Scheme requirements.

13% of the above investments are in overseas currencies. To minimise the currency risk the fund manager is permitted to engage in currency hedging on a discretionary basis using forward foreign exchange contracts.

(ii) Credit risk

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

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

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

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

The Scheme lends certain fixed interest and equity securities under a Trustees-approved stock lending program which is managed at the discretion of, and is fully indemnified by, the custodian State Street Bank and Trust Company. The Trustees manage the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the year end, the Scheme had lent £374.4 million (2015: £143.1 million) of public sector securities and £20.9 million (2015: £47.5 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 105% of stock lent.

The Scheme invests in private equity, alternatives, real assets, and indirect property funds through pooled arrangements and some of these investments are exposed to credit risk and leverage. This risk is mitigated through active management of the funds, the regulatory environments in which the pooled arrangements operate, and diversification of investments amongst a number of funds.

Trustees carry out due diligence checks on the appointment of a new fund and on an on-going basis monitor any changes to the management, regulatory, and operating environment of the funds. The Scheme's holdings in pooled investment vehicles are unrated and predominantly held through shares of limited liability partnerships.

Notes to the Financial Statements

(iii) Currency risk

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

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

	2016	2015
	£'m	£'m
US Dollar	224.5	311.5
Euro	66.9	111.6
Other	166.7	238.5
	<u>458.1</u>	<u>661.6</u>

(iv) Interest rate risk

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

(v) Inflation risk

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

(vi) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, investments held in pooled arrangements including private equity, alternatives, real assets, investment properties and equity futures. The Scheme has set a target asset allocation of 19% of investments in return seeking assets. This was the position at the year end.

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

Notes to the Financial Statements

16. Contingent liabilities and contractual commitments

The following contractual commitments existed at the year-end:

	2016 £'m	2015 £'m
Pooled arrangements		
Property	17.6	19.4
Alternatives	46.6	31.3
Private equity	28.4	31.7
	<u>92.6</u>	<u>82.4</u>

In addition, at the year end the Scheme had committed to the disposal of a property for sales proceeds of £32.2m.

17. Self-investment

The Scheme holds no direct investment in BA Plc or any shares or other securities as defined by section 40 of the Pensions Act 1995.

18. Related party transactions

BAPSL provides secretariat and financial administration services to the British Airways Retirement Pension Plan. BA Plc is recharged for these services. BA Plc provide occasional services to the Scheme (e.g. recruitment, advice on contracts for the purchase of equipment) for which the Scheme is not recharged.

Some of the Trustees appointed by BA Plc are members or pensioners of APS or NAPS with the exceptions of Virginia Holmes, Paul Spencer, Peter Simpson and Philip Osmond who are not members of the Scheme. If they are members or pensioners then their pension rights are on terms normally granted to members.

Virginia Holmes and Paul Spencer were remunerated by BA Plc in respect of their services as Chair of the Trustees and Alan Buchanan was remunerated by the Company in respect of his services as an Employer appointed Trustee. Pensioner elected Trustees were also eligible for payment by the Company.

BAPTL, a company limited by guarantee, holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the pooled arrangements. The directors of BAPTL are all Trustees of APS or NAPS. The companies described below are all wholly owned by BAPTL.

BAPSL provides administration services and BAPIML provides investment management services.

British Airways Pension Property Holdings Ltd and British Airways Property Holdings (Number 2) Ltd hold the legal title to some of the properties held by the Scheme.

British Airways Pension APS Nominees Ltd, a 100% owned subsidiary of BAPTL, held the legal title to units held in the Jersey Property Unit Trust for investment in the Tesco Red Limited Partnership up until they were sold on 25 February 2016. The Jersey Property Unit Trust holds 49.95% interest in The Tesco Red Limited Partnership UK Ltd (LP). BAPTL had 50% ownership of Tesco Red (GP) Ltd of which 70% was held in its capacity as Custodian Trustee for the Scheme.

Independent Auditor's Statement About Contributions

Independent auditor's statement about contributions to the Trustees

We have examined the summary of contributions payable under the schedule of contributions to the Airways Pension Scheme in respect of the Scheme year ended 31 March 2016, which is set out on page 37.

This statement is made solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of the Trustees and the auditor

As explained more fully in the statement of Trustees' responsibilities set out on page 11, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid to the Scheme and to report our opinion to you.

Scope of work on statement about contributions

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

Statement about contributions payable under the schedules of contributions

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

Richard Hinton

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

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

Summary of Contributions

Statement of Trustees' responsibilities in respect of contributions

The Scheme's Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustees are also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the schedule.

Trustees' summary of contributions payable under the schedules in respect of the Scheme year ended 31 March 2016

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

Contributions payable under the schedules in respect of the Scheme year

	£'m
Employer normal contributions	6.4
Employer deficit funding - regular	55.0
Employer deficit funding – cash sweep	25.3
Employee normal contributions	0.2
Contributions payable under the schedules (as reported on by the Scheme auditor)	86.9

Reconciliation of contributions

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

	£'m
Contributions payable under the schedules (as above)	86.9
Contributions payable in addition to those due under the schedules: Employee additional voluntary contributions	3.5
Total contributions reported in the financial statements	90.4

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

Teresa Suriyae Secretary

Schedule of Contributions

The Airways Pension Scheme Schedule of Contributions

Period covered by this schedule: From the date of certification of this Schedule by the Actuary until 31 March 2023

Level of contributions payable:

By members:

- Salary sacrifice members: Nil
- Members who are not salary sacrifice members:

	% Pay for contribution purposes
General Staff	7.25%
Air Cabin Crew	8.50%
Pilots and Officers	8.50%

In addition, from 6 April 2016 for members under State Pension Age and who are not 2016 Lower Accrual Members, additional contributions of 3.1% of Band Earnings.

All rates subject to detailed variation as specified in the Scheme Rules.

By the Employers:

- Until 30 June 2013, contributions at the following rates to cover the cost of accrual:

	% Pay for contribution purposes
General Staff	33.0%
Air Cabin Crew	40.2%
Pilots and Officers	41.8%

- From 1 July 2013, contributions at the following rates to cover the cost of accrual:

	% Pay for contribution purposes
All categories of staff	34.7%

- In addition, for salary sacrifice members, an amount equal to the contributions that would be payable by the members if they were not salary sacrifice members.
- In addition, for those members who elect to link increases in their "Pay for Pension Purposes" to increases in their Pay, contributions will be paid at 4.5% of "Pay for Contribution Purposes" from the date the election is effective.
- In addition to the above, contributions will be paid at £4,583,333 per month, for the period 1 April 2012 to 31 March 2023.

The Trustees and BA have agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. These include a contingent payment of £250 million in January 2019. As part of these additional agreements, payments have been made as part of the cash sweep arrangement, including a one-off payment of £3,750,000 paid in June 2012.

In accordance with the 2013 Funding Agreement, any payment made under Section 75 of the Pensions Act 2004 may be treated as a pre-payment of amounts due under this schedule.

Schedule of Contributions

Due date for payment of contributions

All contributions (from both members and the Employers except where noted otherwise above) are payable monthly and are due to be paid to the Scheme by the 19th day of the month following that to which the contributions relate.

Note: This Schedule of Contributions relates to the payment of normal contributions to the Scheme payable under Rule 5 of Part VI and Rule 6 of Parts I-V; it does not relate to payment of any amounts under the separate legal agreement, nor to the payments of additional voluntary contributions (AVCs) under Rule 32 of Part VI and Rule 29 of Parts I-V, nor to contributions payable under Clause 24. Pension Protection Fund levies are to be paid directly by BA Plc in addition to the amounts specified in this Schedule.

Date of Schedule (for reference purposes): 23 March 2016

Signed on behalf of the Trustees of the Scheme

Signed for and on behalf of the participating employers of the Scheme

Virginia Holmes
Chair of the Trustees

Keith Williams
Executive Chairman

Actuarial Certificate

Actuarial Certificate Schedule of Contributions

Name of Scheme: Airways Pension Scheme

Adequacy of rates of contributions

- 1 I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 March 2012 to be met by the end of the period specified in the recovery plan dated 28 June 2013.
- 2 I also certify that any rates of contributions forming part of this Schedule which the Scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the Schedule, the Statement of Funding Principles and any Recovery Plan.

Adherence to Statement of Funding Principles

- 3 I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 28 June 2013.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up

Michael J Pardoe
Fellow of the Institute of Actuaries

23 March 2016

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

Report on Actuarial Liabilities

(Forming part of the Trustees' Report)

Airways Pension Scheme Report on Actuarial Liabilities

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

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

The value of the technical provisions was: £7,995 million

The value of the assets at that date was: £7,315 million

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

Method

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

Significant actuarial assumptions

Discount rate (past service): the present value of the liabilities not covered by the swap contracts is derived using term-dependent discount rates from the full nominal gilt curve at the valuation date, with an addition of 0.4% per annum at all durations. The single equivalent discount rate weighted by the relevant liability cash flows at the valuation date is approximately 3.61% per annum.

Discount rate (future service): the present value of the liabilities in respect of future service is derived using term-dependent discount rates from the full nominal gilt curve at 31 March 2012 with an addition of 1.05% per annum at all durations.

Price inflation (RPI): the RPI assumption is derived from the difference between the full index-linked and nominal gilt curves at the valuation date. The single equivalent RPI assumption weighted by the relevant past service liability cash flows at the valuation date is 3.35% per annum.

Price inflation (CPI): the CPI assumption is derived from the RPI assumption and the long-term expected differential between RPI and CPI (0.75% per annum).

Salary increases: in relation to general increases in salary for pension purposes, the assumption reflects a zero increase for the first year, followed by increases in line with RPI in each future year.

Pension increases: the main pension increase assumption at 31 March 2012 is derived from RPI and CPI, adjusted for the timing of actual pension increases and the pension increase awarded in April 2013 at 2.2%. To allow for possible discretionary increases, pension increases are assumed to transition linearly from CPI in April 2013 to RPI from April 2023 onwards. The Trustees will consider at least annually whether a discretionary increase may be awarded, and the size (if any) could be higher or lower than the allowance in the technical provisions. An additional margin of 0.1% per annum is included from April 2023 onwards to allow for the possible impact of the 0% floor on RPI pension increases in any subsequent year.

Report on Actuarial Liabilities

(Forming part of the Trustees' Report)

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

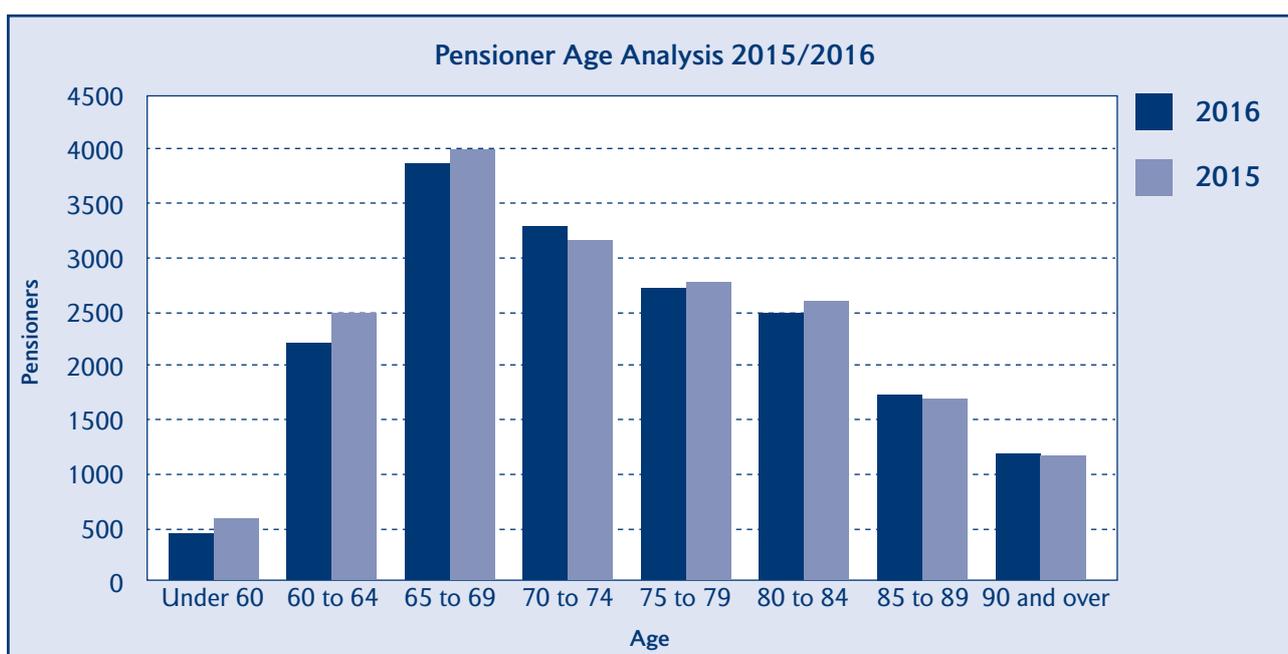
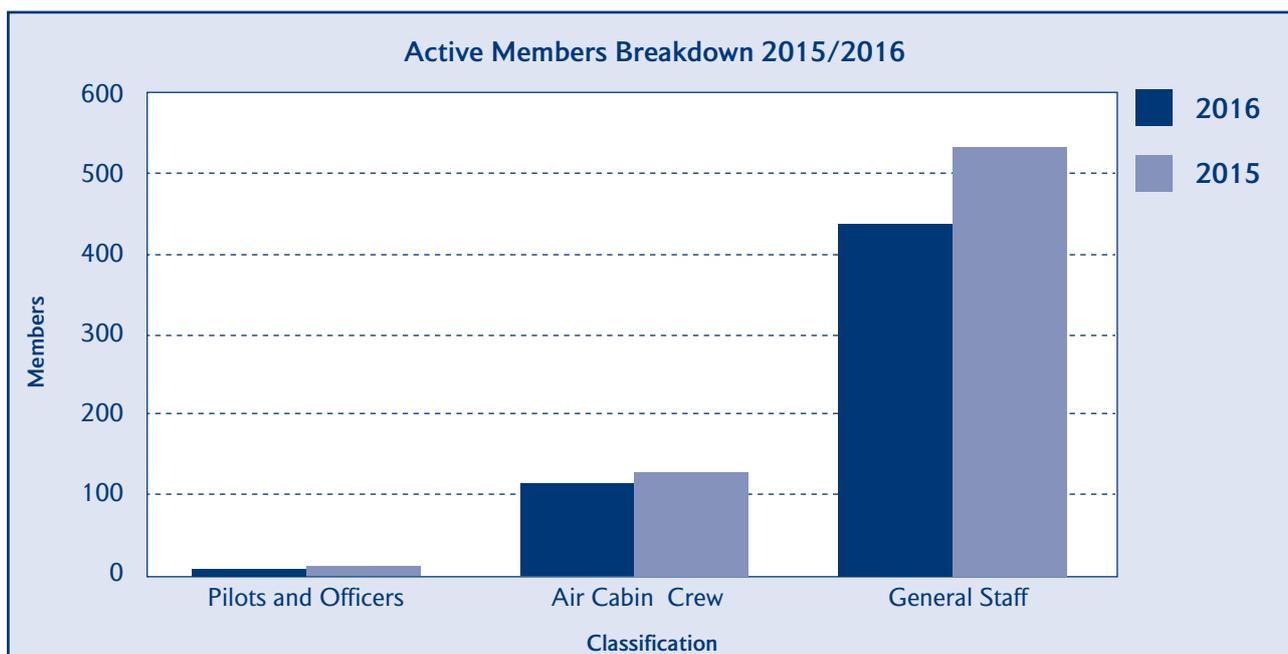
Group	
Male non-pensioners with:	
Low pensions*	87% of S1PML
High pensions*	113% of S1PMA_L
Female non-pensioners	85% of S1PFA
Male dependents of non-pensioners	124% of S1PMA
Female dependents of non-pensioners	90% of S1DFL
Male pensioners with:	
Low pensions*	88% of S1PML
High pensions*	91% of S1PMA_L
Female pensioners	93% of S1PFA
Male dependents of pensioners	123% of S1PMA
Female dependents of pensioners	87% of S1DFL

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

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

Membership Information

	2016	2015
Active members	548	661
Pensioners in payment	17,829	18,315
Dependant pensioners	6,702	6,833
Deferred pensioners	1,272	1,459
	<u>26,351</u>	<u>27,268</u>



In addition to the above, there are approximately 23,950 (2015: 24,800) deferred pensioners with Equivalent Pension Benefits (EPBs).

Compliance Statement

The Scheme

The Scheme provides retirement benefits for employees of BA and some of its subsidiary and associated companies and benefits for dependants of members and pensioners who die.

The Scheme was established under a Trust Deed dated 8 October 1948 in accordance with Regulations made under Section 20 of the Civil Aviation Act 1946 and was closed to new members at 31 March 1984.

The Scheme was "exempt approved" by the Inland Revenue and is now a registered pension scheme under the Finance Act 2004. Parts V and VI of the Scheme were contracted-out of the State Second Pension (formerly known as the State Earnings-Related Pension Scheme) until contracting-out ceased with effect from 6 April 2016. Part IV of the Scheme was contracted-in to the State Second Pension.

Membership

Membership of the Scheme is voluntary and members can opt out on giving one calendar months' notice in writing to the Trustees. Members of the Scheme who opt out cannot re-join APS, may only join NAPS in special circumstances as determined by the Company and may be auto enrolled into the British Airways Retirement Plan, a defined contribution pension scheme offered by BA Plc.

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