

Annual Report & Financial Statements



Year ended
31 March 2018

ANNUAL REPORT AND FINANCIAL STATEMENTS

Airways Pension Scheme

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

Discretionary increase – Court of Appeal judgment

In 2011, the Trustee decided to introduce the power to award discretionary increases. It then exercised that power by granting a 0.2% increase in 2013. The decisions were made in response to the Government changing the inflation measure for Pensions Increase (Review) Orders from the Retail Prices Index to the Consumer Prices Index in 2010. This change is likely to mean lower increases for members' pensions. The 19 May 2017 High Court judgment ruled that the Trustee at the time and its advisers had acted appropriately and that both decisions were valid.

BA appealed part of the judgment on two technical points: i) on whether the APS amendment power could be used to introduce the discretionary increase power and ii) on whether discretionary increases were "benevolent or compassionate" payments which are prohibited under the APS Trust Deed. On 5 July 2018, the Court of Appeal ruled, by a two to one majority, in favour of BA on the first technical point, accepting its appeal that both the introduction and therefore the use of the discretionary increase power by the APS Trustee were not valid. The Court of Appeal unanimously rejected BA's second appeal point. Further updates about the next steps in relation to an appeal to the Supreme Court will be provided to members on the '[Other news](#)' page of our member website, www.mybapension.com.

2015 Formal Valuation

Due to the discretionary increase court case, the 2015 Valuation was put on hold. The Pensions Regulator (TPR) had said that it expects the APS Trustee and BA to progress the 2015 Valuation once the discretionary increase litigation has concluded. While the Trustee considers the next steps in relation to an appeal to the Supreme Court, the 2015 Valuation remains on hold. Updates will be provided to members on the '[Other news](#)' page of our website, www.mybapension.com.

Funding and investment

The Scheme's last formal three-yearly valuation was at 31 March 2012. Until the 2015 Valuation can be agreed, BA must continue to contribute to the Scheme in the way agreed in the 2012 valuation. The Trustee's report on [page 4](#) describes this in detail. The Scheme Actuary has assessed current contributions and considers that they are sufficient to improve the Scheme's financial position until the 2015 valuation is concluded. In the year ending 31 March 2018, BA paid £95.1m (including employee salary sacrifice contributions) into the Scheme and the Scheme paid £400.9m to members as benefits payments (including administrative expenses).

As a result of this the Scheme's assets decreased in round terms from £8bn in 2017 to £7.6bn. We have continued to take steps to make members' benefits more secure by reducing our exposure to investment risk, notably removing the strategic asset allocation to equities from November 2017. In particular, in November 2017, we reduced our holding of return-seeking assets and moved the proceeds into less volatile, liability-matching assets. Following the November 2017 movements 88% of the Scheme's investments were held in low-risk assets such as bonds. In December 2017 we reduced cash holdings from 2.5% to 1.5% and added that 1% to bonds.

In September 2018 we insured c.£4.4 bn of liabilities through a pensioner buy-in. This was the result of a long-running project to identify opportunities to reduce risk and improve the security of members' benefits. This builds on the insured transactions we have previously completed and results in the Scheme being fully protected against longevity risk for pensioners in payment at 31 March 2018 as well as being over 90% hedged against inflation and interest rates.

You can read more about our investments on [pages 12-16](#).

Governance matters

As a matter of good governance we review each of our professional advisers on a regular basis. We reviewed the Scheme's Auditor and Actuary and retained the incumbents, KPMG and Willis Towers Watson respectively.

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

BA's pension arrangement changes

Following BA's consultation with active members of the New Airways Pension Scheme (NAPS) and the British Airways Retirement Plan (BARP), pension build up ceased in both arrangements on 1 April 2018. BA introduced a new pension arrangement, the British Airways Pension Plan, on 1 April 2018. Pension accrual within APS is unaffected by the changes to NAPS and BARP.

New office premises for BA Pensions - Whitelocke House Team

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

Long term vision and objectives

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

Employer Appointed Trustee Directors

After the end of the Scheme year, BA made some changes to the Employer Appointed Trustee Directors (ENDs) serving the APS Trustee Board. Up until 24 July 2018, the ENDs had sat jointly on the APS Trustee and NAPS Trustee Boards. With effect from 25 July 2018, BA appointed five additional ENDs, allocating them between the Boards so that, apart from me, the ENDs no longer sit on both Boards. This resulted in the following changes to the APS Trustee Board. William Francis and Sian Davies ceased to serve as APS Trustee Directors with effect from 24 July 2018. BA appointed Zoe Davis and Steven Showell as APS Trustee Directors with effect from 25 July 2018. On behalf of the APS Trustee Board I would like to thank William and Sian for their valuable contribution and extend a warm welcome to Zoe and Steven.

Acknowledgements

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

Virginia Holmes
Chair of the Trustee
September 2018

Appointed by British Airways Plc (the Company)

Virginia Holmes
(Chair)
Independent Trustee

Zoe Davis
Group Chief Procurement
Officer
IAG
Appointed 25 July 2018

Andrew Fleming
Head of Legal and Company
Secretary
BA Plc

Rebecca Napier
Head of Finance
Transformation
BA Plc

Steven Showell
Finance Controller
BA Plc
Appointed 25 July 2018

Jude Winstanley
Head of Brand and Customer
Experience Effectiveness
BA Plc

Elected by pensioners/members

Frances Axford
Pensioner elected

Paul Douglas
Pensioner elected

Ian Heath
Pensioner elected

Phil Hogg
Pensioner elected

Stephen Mallett
Pensioner elected

Tom Mitchell
Active/Pensioner elected

Left office during the year

David Maunder
Ceased 2 May 2017

Sian Davies
Appointed 2 May 2017
Ceased 24 July 2018

William Francis
Ceased 24 July 2018

Administration & investment management (BA Pensions)

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

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

Advisers*

Scheme Actuary
Michael Pardoe
Towers Watson Limited

Legal Advisers
Eversheds Sutherland LLP
Sacker & Partners LLP

Bankers
BNY Mellon

External custodian
State Street Bank
and Trust Co

Investment Advisers
Towers Watson Limited
BAPIML

Auditor
KPMG LLP

Covenant Adviser
PricewaterhouseCoopers LLP

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

Airways Pension Scheme – Pension Scheme Registry Number: 10057028

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

The financial statements of the Scheme for the year ended 31 March 2018, as set out on [pages 19-35](#) have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

SCHEME FUNDING POSITION

The last formal actuarial valuation was made as at 31 March 2012. The on-going discretionary increases litigation and the statutory requirement to reach formal agreement with BA on certain aspects of the valuation mean that, at the time of writing, it has not been possible to conclude the 31 March 2015 funding valuation or commence the 31 March 2018 funding valuation. The Trustee has engaged with the TPR, who expects the 2015 valuation to be finalised once the litigation has concluded. The Trustee anticipates that the same approach may be taken with the 2018 valuation.

In the years between formal valuations, the Scheme Actuary provides an interim update which shows how the funding position had evolved since the last valuation date. As the 31 March 2015 valuation has yet to conclude the table below only covers the period to 31 March 2014.

	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 Trustee 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.

In the meantime, the Trustee continues to monitor the development of the funding position, which has improved over the period to 31 March 2018. This has

been largely due to continued receipt of contributions from BA. Deficit reduction contributions of £55m were received over the year to 31 March 2018, along with a cash sweep payment of £36.0m. The equivalent figures for the prior year to 31 March 2017 were £55m and £31.4m respectively.

Asset values have performed strongly and there has been a decrease in liabilities due to lower inflation expectations.

The recovery plan

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

- The Company will pay additional contributions to the Scheme at a rate of £4,583,333 per month until 31 March 2023.
- 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 Trustee and BA have agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which are documented in separate legal agreements. This includes a contingent payment of £250 million in January 2019.

Until such time as the 31 March 2015 valuation can be concluded, BA is obliged to comply with the existing contribution arrangements. The Scheme Actuary's assessment is that the existing contribution arrangements are sufficient to improve the financial position of the Scheme until the 2015 valuation is agreed.

PricewaterhouseCoopers LLP (PwC) is engaged by the Trustee to carry out extensive and on-going reviews of the Company's financial position and future cash flows. PwC advised the Trustee that the contributions that the Company had committed to pay to the Scheme and to NAPS, as agreed through its 2015 valuation process, were set at a level that the Company could reasonably afford. The airline industry is volatile and the Trustee has agreed protections in the event that the Company's position were to deteriorate but have

also 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 £36.0m to the Scheme in respect of the 31 March 2017 cash sweep payment, received and accounted for in the current years financial statements, and £40.0m in respect of the 31 March 2018 cash sweep payment, which will be accounted for in the 2018/19 financial statements.

Scheme investment

The broad strategic asset allocations as at 31 March 2018 (net of the Rothesay Life swaps) are shown below:

Investment category	Allocation
Return seeking	9.5%
Liability matching	90.5%

Return seeking assets are those chosen with long-term returns expected to exceed those of 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

The Trustee has 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 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.

These policies led to the Trustee identifying an opportunity in November 2017 to de-risk considerably by removing the strategic benchmark asset allocation to equities. As the de-risking actions under the policy have now been completed, the Trustee will consider setting out a new de-risking strategy.

Liability hedging

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

Statement of Investment Principles (SIP)

An updated SIP was adopted in March 2018.

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

Measuring investment performance

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

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

BAPIML is the in-house investment manager to the Scheme. BAPIML's expenses are charged to the Scheme at cost and routine or day to day investment decisions are delegated to them. The Trustee 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 Trustee will continue to monitor performance over a range of different time periods. Following the de-risking activity, with effect from 1 January 2018, the Trustee reduced the outperformance target to 0.15% per annum on the same measure.

Details of the Fund performance can be found on [pages 12 to 16](#).

SCHEME GOVERNANCE

Trustee knowledge and understanding (TKU)

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

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

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

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

Conflicts of interest

The Trustee understands that it is in a position of trust and needs to have policies and arrangements in place to identify, monitor and manage conflicts. The Scheme's primary legal advisers are Eversheds Sutherland LLP and they are also the primary legal advisers for 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 updated and adopted in December 2017.

Monitoring of the employer covenant

The Trustee considers it critical that it understands and monitors the financial strength and covenant of the employer on a continuing basis and in order to achieve this PwC act as advisers to the Trustee on employer covenant issues. There is a reporting framework, which has been agreed with the Company to ensure that the Trustee receives regular updates on the business activities and financial position of the Company.

Trustee arrangements

- The Scheme is administered by twelve Trustee Directors.
- Six of the Trustee Directors, including the independent Chair, are appointed by the Company.
- Five of the Trustee Directors are elected by pensioner members* and adult survivor pensioners of the Scheme and must be pensioner members* of APS.
- One of the Trustee Directors 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 Director may remain in office for a minimum of five years and a maximum of five and a half years and is eligible for re-appointment (provided that he/she still meets the eligibility criteria for the relevant vacancy).

- Nominations for elected active member Trustee Directors must be supported by at least ten members in the relevant constituency and nominations for pensioner member* Trustee Directors must be supported by ten pensioner members* or adult survivor pensioners. If there is more than one nomination for a vacancy a ballot of the relevant members is held. The result is decided on a simple majority of the votes cast.
- Members taking flexible retirement cannot apply to be a pensioner member* Trustee Director and an active member Trustee Director at the same time, however flexible retirement members are eligible to vote in both active member and pensioner member* Trustee Director elections.
- An elected Trustee Director may be removed from office following a ballot in which two thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustee 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 jointly although each Trustee Board reaches its decisions independently. Much of the work is undertaken by Trustee Committees who are able to review matters in detail before making recommendations to the Main Board. Each Committee operates under clear Terms of Reference which govern its activities. Each Committee constructs a forward looking annual activity calendar plan which is used to allocate budgetary resources and informs the development of the Trustee training programme.

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

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

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

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

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

On occasions that Trustee Directors are not able to attend a meeting, the Rules provide for them to appoint an alternate to attend and vote for them. During the period under review this has been standard practice. In addition, some Trustee Directors attended,

Performance of Trustee Directors

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

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of appointment to Main Board
Virginia Holmes (Chair)	4/4	6/6	-	4/4	Whole Year
Frances Axford	4/4	-	-	4/4	Whole Year
Sian Davies	3/3	-	6/6	4/4	Part year
Paul Douglas	-	5/6	-	3/4	Whole Year
Andrew Fleming	-	-	-	3/4	Whole Year
William Francis	-	-	8/8	3/4	Whole Year
Ian Heath	-	-	8/8	4/4	Whole Year
Phil Hogg	-	5/6	-	4/4	Whole Year
Stephen Mallett	2/4	-	-	4/4	Whole Year
Tom Mitchell	-	-	6/8	2/4	Whole Year
Rebecca Napier	-	4/5	-	4/4	Whole Year
Jude Winstanley	1/1	-	1/2	4/4	Whole Year

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 Trustee; however physical custody of the Scheme's securities (i.e. bonds and shares) has been delegated to independent external custodians, State Street Bank and Trust Co.

Defined contribution (DC) governance statement

Additional Voluntary Contributions (both money purchase and cash balance AVCs) are considered in some respects to be Defined Contribution (DC) Benefits by TPR. In this regard the Scheme Trustee annually reviews and assesses the systems, processes and controls across key governance functions (the "controls") to ensure that they are consistent with the Standards of Practice set out in TPR's DC Code of Practice and Regulatory Guidance. The Trustee is satisfied that the controls are consistent with that Code, however, were the annual review to identify any areas where those Standards of Practice are not met, the Trustee would consider the reason for those differences and whether any changes to current practice are required.

SCHEME CHANGES

Factor review

Scheme factors are reviewed from time to time approximately every three years, usually at the end of the formal valuation process. Pending the finalisation of the March 2015 formal actuarial valuation, the Scheme Actuary has conducted an interim review of the current factors used to calculate member options and confirmed the current factors fall within a reasonable range and can therefore continue to be used.

Pensions Advice Allowance

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

Scheme Pays

The Scheme Pays facility was available to members who incurred an Annual Allowance charge of at least £2,000. The £2,000 minimum threshold has been removed enabling all members affected by an Annual Allowance charge to use the Scheme Pays facility. The Scheme Pays conversion terms have been amended to give members with an existing Scheme Pays debt the option to convert the Annual Allowance charge to an immediate actuarial adjustment to their main Scheme

benefits. New Scheme Pays debts will be settled solely by an immediate actuarial adjustment.

TRUST DEED AMENDMENTS

The following amendments were made during the year:

- Administrative amendments in relation to scheme payment power – clarified formalities to be followed when certain directions are given by the Trustee to British Airways Pension Trustee Limited.
- Pension Advice Allowance – enabled a pension advice allowance payment to be made from a member's AVC account.
- Member-nominated trustee arrangements – introduced the option of e-comms in the Member Nominated Trustee Director election ballot process.

Copies of the Deeds implementing these changes can be viewed via the '[Scheme documents](#)' page of the member website, www.mybapension.com.

PENSION ADMINISTRATION MATTERS

Cash equivalent transfer values

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

Pension increases

The Scheme Rules provide that for most pensions in payment the annual increase is a percentage specified in the Pensions Increase (Review) Orders (Orders). 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. The Trustee has engaged with The Pensions Regulator, who expects the 2015 valuation to be finalised once the litigation has concluded. The Trustee anticipates that the same approach may be taken with the 2018 valuation.

The Orders currently reflect the rise in the Consumer Prices Index (CPI) over a twelve-month period measured up to the end of the preceding September.

The 2018 Order was 3% and in accordance with the Scheme Rules, qualifying pensions were increased by 3% on 9 April 2018.

These 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 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.

The Rule amendment made in March 2011 required the Trustee to consider, on at least an annual basis, whether to award an additional pension increase to that provided in the Orders. The Trustee undertook a review in March 2018 and decided that no discretionary increase would be awarded but that the position would re-considered on conclusion of the discretionary increase litigation. The current legal position is that the Court of Appeal has ruled that the introduction of the discretionary increase power was invalid, although this may change if the Supreme Court overrules the Court of Appeal.

Internal dispute resolution procedure (IDRP)

The Trustee is required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The designated person to deal with the first stage adjudication is Richard Pilsworth, Head of Legal & Governance, BAPSL. In the event that the complainant is not satisfied with the outcome the matter is then referred to the Trustee's Operations

Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from BAPSL.

Tax

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

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

Online communications

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

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

Fraser Smart
Scheme Secretary

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The audited financial statements which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the Trustee. Pension scheme regulations requires the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

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

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis.

They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

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

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

(Forming part of the Trustee's Report)

Review of the year

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

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

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

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

Overall most major asset classes exhibited single digit positive returns, with some equity markets producing double digit returns for APS. Property was, once again a relatively strong performer, with the benchmark returning 10.1%. The modest positive absolute return in APS reflects the very high percentage invested in bonds, where the benchmark produced a return of 0.5% overall.

(Forming part of the Trustee's Report)

Asset allocation and benchmarks

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

The asset swap and longevity swaps do not form part of the benchmarks and performance returns.

Strategic benchmark and performance

The Trustee Directors' Investment Committee (IC) sets a business plan each year which deals with the annual monitoring of performance and other activities such as transaction cost monitoring and corporate governance. The IC also carries out work on developing the strategic benchmark to improve the risk return profile of the Fund where possible, as well as having a trigger based dynamic governance framework to be

able to take advantage of opportunities as they arise. The Investment Committee reviews the liquidity of the asset portfolio annually. During the last scheme year the IC also conducted a review of investment governance, modernising the arrangements and the accompanying documentation, as well as further developing the integrated risk framework. This framework integrates the analysis of the sponsor covenant, funding arrangements and investment activities of the Scheme.

In March 2017 the Trustee Directors conducted the annual review of the strategic benchmark and approved a de-risking of return seeking assets by 1.5%, reducing equity and private equity benchmark allocations, with a commensurate increase in liability matching assets. This became effective from 1 April 2017.

In November 2017 the Scheme achieved a sufficient funding level versus the liabilities to allow a further reduction in return seeking assets whilst still being forecast to achieve the required return on assets to meet the APS funding target. The Trustee Directors approved the removal of the allocation to equity in the strategic benchmark and reduced the benchmark weight in property, with a commensurate increase in liability matching assets.

	Asset category	Actual % 31 March 2018	Benchmark % 31 March 2018	Actual % 31 March 2017	Benchmark % 31 March 2017
Return seeking	Equities	0.4	0.0	9.8	8.5
	UK	0.2	0.0	2.7	2.6
	Overseas	0.2	0.0	7.1	5.9
	Private equity	0.9	1.0	1.1	1.4
	Alternatives	3.7	4.0	4.2	4.0
	Property	4.6	4.5	4.2	4.8
Liability matching	Real assets	1.9	1.8	1.9	1.0
	Bonds	87.1	87.2	77.2	77.8
	UK fixed	18.0	17.9	14.9	16.0
	UK index-linked	68.2	69.3	61.4	61.8
	Overseas index-linked	0.9	-	0.9	-
	Cash	1.4	1.5	1.6	2.5
	Total	100.0	100.0	100.0	100.0

(Forming part of the Trustee's Report)

Following this de-risking further work was undertaken on refining limits, bandwidths, benchmarks and updating the Investment Management Agreement. As part of this review the cash benchmark was reduced from 2.5% to 1.5%.

The performance of the Fund is shown in the two tables below.

Table 1 shows the performance of the Fund including the liability hedging portfolio which includes the derivatives held to hedge interest rate and inflation risk.

Table 1 – Including interest rate and inflation swaps				
Fiscal years to 31 March 2018	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	2.23	5.90	5.66	7.13

Table 2 shows the tactical performance of the Fund compared to agreed strategic benchmarks.

Table 2 – Excluding hedging, benchmark interest rate and inflation swaps				
Fiscal years to 31 March 2018	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	2.34	5.88	5.76	7.23
Benchmark	1.77	5.80	6.03	7.03
Relative performance	0.56	0.08	(0.25)	0.19

Tactical asset allocation and stock selection performance

The portfolio managers were set an outperformance target of 0.30% per annum relative to the strategic

benchmark on a rolling five year period. Following the November 2017 de-risking activity, the IC agreed to reduce the performance target to 0.15% per annum with effect from 1 January 2018.

Since 1 April 2011 the decision to hedge overseas currency became a tactical decision to be taken by BAPIML, the portfolio manager, within allowed limits. The long-term returns exclude hedging up to that date and are shown below.

In the year under review, 1 April 2017 to 31 March 2018, the Fund outperformed the benchmark by 0.56%. In relation to the outperformance target of 0.30% per annum relative to the strategic benchmark over a rolling five year period the Fund underperformed, returning 5.76% compared to a benchmark return of 6.03%.

During the year the contribution to relative performance was broad based. Tactical asset allocation, the choice of asset class, such as equity versus bonds, country and currency exposure, has had a positive impact on the performance of the Fund against its benchmark. Stock selection in bonds, property, alternative and real assets also made positive contributions. Over the five year period the underperformance relates to a volatile period in index-linked gilts from 2012 to 2014 where the Government was reviewing inflation measures. This led to positive relative returns in the fiscal year ending 2013, these reversed in 2014 when no change was made to the measure, thus negatively impacting the five year return.

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

Stock name	Security type	£m	% Portfolio
UK Treasury 0.125% Index-Linked 2029	Government Bond	501.1	6.5
UK Treasury 1.875% Index-Linked 2022	Government Bond	465.6	6.1
UK Treasury 0.125% Index-Linked 2019	Government Bond	457.8	6.0
UK Treasury 1.25% Index-Linked 2032	Government Bond	322.1	4.2
UK Treasury 0.125% Index-Linked 2044	Government Bond	317.1	4.1
Network Rail 1.75% Index-Linked 2027	Government Bond*	314.4	4.1
UK Treasury 0.125% Index-Linked 2026	Government Bond	305.0	4.0
UK Treasury 0.75% Index-Linked 2034	Government Bond	299.9	3.9
UK Treasury 0.625% Index-Linked 2042	Government Bond	294.6	3.8
UK Treasury 0.125% Index-Linked 2046	Government Bond	235.7	3.1

*Government guaranteed corporate bond

(Forming part of the Trustee’s Report)

Additional Voluntary Contributions (AVCs)

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

The Trustee Directors set a benchmark for each type of asset class held within the Fund and use this to monitor the Fund’s performance. The benchmark returned 4.79% over the year and so the Fund outperformed its benchmark by 0.81%. The Fund’s target is to beat its benchmark by 0.5% per annum over a five year period and this goal has not been achieved, largely due to stock selection in earlier years.

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

In the year to March 2018, the Short-dated Gilts Fund (SGF) returned 0.48% and the Equity Biased Fund (EBF) returned 7.88%. Further information on the performance of the AVC funds can be found in the annual AVC funds investment commentary on the ‘[Scheme documents](#)’ page of the member website, www.mybapension.com.

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

Fund	EBF %	SGF %	MPF %	External %
10 years	5.60	1.29	7.29	7.23
5 years	7.32	0.72	8.09	7.91
3 years	7.15	0.56	6.44	6.15
1 year (to 2018)	7.88	0.48	5.64	1.42



(Forming part of the Trustee's Report)

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

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

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

Corporate governance

The portfolio managers follow the UK Stewardship Code which aims to improve and enhance the quality of engagement between companies and institutional investors. The portfolio managers monitor and engage with companies on aspects of corporate governance and exercising voting rights in all regions through our custodian bank. Research and monitoring aspects of corporate social responsibility are also taken into account to assess impacts on shareholder value. In respect of climate change, BAPIML participates in the Carbon Disclosure Project investor initiatives to encourage investee companies to disclose their impact on the environment and natural resources. The outcomes of these programmes are reported back yearly to the Trustees of APS and NAPS. The voting records are held on our website, www.mybapension.com, in the 'Corporate Governance' section of the [Scheme documents](#) page.

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

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

Opinion

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

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going concern

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

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the

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

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

Trustee's responsibilities

As explained more fully in their statement set out on [page 11](#), the Scheme's Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Fang Fang Zhou

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, Canary Wharf

London E14 5GL

Date: 28 September 2018

	Note	31 March 2018 £'m	31 March 2017 £'m
Contributions and Benefits			
Employer contributions	3	95.1	91.7
Employee contributions	3	2.4	2.9
Total contributions		97.5	94.6
Benefits paid or payable	4	(361.7)	(367.5)
Payments to and on account of leavers	5	(34.4)	(31.6)
Administrative expenses	6	(4.8)	(6.0)
		(400.9)	(405.1)
Net withdrawals from dealings with members		(303.4)	(310.5)
Returns on Investments			
Investment income	7	82.0	88.0
Investment management expenses	8	(6.8)	(6.6)
Change in market value of investments	9	(103.7)	1,245.0
Net return on investments		(28.5)	1,326.3
Net (decrease)/increase in the fund during the year		(331.9)	1,015.9
Net assets of the Scheme at 1 April		8,010.3	6,994.4
Net assets of the Scheme at 31 March		7,678.4	8,010.3

The notes on [pages 21 to 35](#) form part of these financial statements.

STATEMENT OF NET ASSETS

Airways Pension Scheme

(available for benefits)

	Note	31 March 2018 £'m	31 March 2017 £'m
Investment assets:			
Equities		-	659.1
Fixed interest bonds		1,176.0	983.6
Index-linked bonds		8,454.9	7,995.5
Pooled arrangements			
Property	10	302.6	287.6
Alternative investments	10	376.5	413.3
Private equity	10	58.9	73.9
Derivatives	12	17.7	23.8
AVC mixed portfolio fund	14	17.4	18.4
Cash		90.8	90.9
Other investment balances		47.2	27.7
		10,542.0	10,573.8
Investment liabilities:			
Longevity swaps and insurance contracts	11	(2,832.4)	(2,537.2)
Captive insurance	11	(0.9)	-
Derivatives	12	(14.9)	(9.1)
Other investment balances		(0.1)	(3.8)
		7,693.7	8,023.7
Total net investments	9,13,15	7,693.7	8,023.7
Current assets		1.2	1.0
Current liabilities		(16.5)	(14.4)
		7,678.4	8,010.3
Net assets of the Scheme at 31 March		7,678.4	8,010.3

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

The notes on [pages 21 to 35](#) form part of these financial statements.

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

Virginia Holmes	Trustee Director
Ian Heath	Trustee Director
Fraser Smart	Secretary

(available for benefits)

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (revised November 2014).

2. Accounting policies

The principal accounting policies of the Scheme are as follows:

a Contributions

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

b. Payments to members

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

c. Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

d. Investment income

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

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.

(available for benefits)

2. Accounting policies – continued

f. Investments

Investments are included at fair value as described below:

- i Quoted securities in active markets are usually valued at either the current bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the reporting date.
- ii Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- iv Exchange traded derivatives are stated at market value determined using market quoted prices.
- iv Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the Scheme year end.
- 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 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. 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 manager of the pooled funds.

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

h. Longevity swaps and insurance contracts

The Scheme has entered into two longevity swap 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% (2016: 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% (2016: 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.

(available for benefits)

2. Accounting policies – continued

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

The Scheme set up a captive insurance arrangement and during the year the Scheme entered into two longevity insurance contracts via the captives. The contracts are valued based on the future expected net cash flows, taking into account the time value of money and using market data at 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

	2018 £'m	2017 £'m
Employer contributions		
Normal	4.1	5.3
Deficit funding – regular	55.0	55.0
Deficit funding – cash sweep	36.0	31.4
Employee contributions		
Normal	0.1	0.2
Additional voluntary contributions	2.3	2.7
	<u>97.5</u>	<u>94.6</u>

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

Deficit funding contributions of £4.6m (2017: £4.6m) per month are due until 31 March 2023 in order to improve the Scheme's funding position.

Further details regarding contributions are included in the trustee's summary of contributions on [page 37](#).

4. Benefits paid or payable

	2018 £'m	2017 £'m
Pensions	349.7	353.0
Commutations of pensions and lump sum retirement benefits	11.9	14.3
Lump sum death benefits	-	0.1
Taxation where lifetime or annual allowance exceeded	0.1	0.1
	<u>361.7</u>	<u>367.5</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.

(available for benefits)

5. Payments to and on account of leavers

	2018 £'m	2017 £'m
Individual transfers out to other schemes	<u>34.4</u>	<u>31.6</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 32% (2017: 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 member services, finance operations and trustee support. They also include the costs of external advisers engaged by the Trustee including the auditor, actuary, financial advisers, legal advisers and compliance costs. The split of costs at the Scheme year end are as follows:

	2018 £'m	2017 £'m
BAPSL in-house administration and processing	2.3	1.9
External professional fees	2.8	9.6
Reimbursed by employer in respect of litigation	(0.3)	(5.5)
	<u>4.8</u>	<u>6.0</u>

7. Investment income

	2018 £'m	2017 £'m
Dividends from equities	11.1	19.3
Income from fixed interest bonds	33.8	33.4
Income from index-linked bonds	33.5	33.0
Interest on cash deposits	0.5	0.4
Other income	3.1	1.9
	<u>82.0</u>	<u>88.0</u>

8. Investment management expenses

The investment management expenses include the in-house costs of running the BAPIML team as well as the costs of running the Captive insurance arrangement. The Scheme bears 39% of the BAPIML costs except where a cost relates specifically to the Scheme.

	2018 £'m	2017 £'m
BAPIML in-house investment management	6.4	6.2
Captive insurance	0.4	0.4
	<u>6.8</u>	<u>6.6</u>

(available for benefits)

9. Reconciliation of investments

	Value at 31 March 2017	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 31 March 2018
	£'m	£'m	£'m	£'m	£'m
Equities	659.1	216.2	(908.7)	33.4	-
Fixed interest bonds	983.6	674.4	(476.7)	(5.3)	1,176.00
Index-linked bonds					
- Rothersey Life assets	3,876.00	-	-	53.3	3,929.31
- Index-linked bonds	4,119.50	1,175.00	(752.8)	(16.1)	4,525.61
Pooled arrangements					
- Property	287.6	27.0	(45.1)	33.1	302.6
- Alternative investments	413.3	24.7	(67.0)	5.5	376.5
- Private equity	73.9	6.8	(24.2)	2.4	58.9
Longevity swaps and insurance contracts					
- Rothersey Life swaps	(2,537.21)	70.3	(140.5)	(225.0)	(2,832.41)
- Captive insurance	-	4.8	-	(5.7)	(0.9)
Derivatives					
- Inflation-linked swaps	(0.6)	-	-	(6.9)	(7.5)
- Interest rate swaps	10.5	-	-	(2.3)	8.2
- Futures	0.3	6.1	(3.7)	(2.9)	(0.2)
- Forward foreign exchange	4.5	17.7	(53.4)	33.5	2.3
AVC mixed portfolio fund	18.4	1.6	(3.6)	1.0	17.4
	7,908.91	2,224.61	(2,475.71)	(102.0)	7,555.81
Cash	90.9	1.6	-	(1.7)	90.8
Other investments	23.9	23.7	(0.5)	-	47.1
	8,023.71	2,249.91	(2,476.21)	(103.7)	7,693.71

There were 5 (2017: 4) individual investments which comprised greater than 5% of the net assets of the Scheme; the 2050 0.5% Treasury index-linked gilt 2018: 36.6% (2017: 34.6%), the Artemis asset swap 2018: 35.6% (2017: 30.8%), the 2029 0.125% Treasury index-linked gilt 2018: 6.5% (2017: 5.4%), the 2022 1.875% Treasury index-linked gilt 2018: 6.1% (2017: 5.2%) and the 2019 0.125% Treasury index-linked gilt 2018: 6.0% (2017: 4.7%).

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	Commission	Taxes	2018	2017
	£'m	£'m	£'m	Total £'m	£'m
Equities	0.1	0.6	0.3	1.0	1.7
Other	-	0.1	-	0.1	0.1
2018	0.1	0.7	0.3	1.1	1.8
2017	0.1	1.3	0.4	1.8	-

(available for benefits)

9. Reconciliation of investments - continued

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

10. Pooled arrangements

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 2018 the value of these funds are as follows:

Property

	% held	2018 £'m	2017 £'m
Externally pooled indirect funds		94.2	80.8
Direct UK property fund		208.4	206.8
Total property unitised	17.80%	302.6	287.6

Alternatives

	% held	2018 £'m	2017 £'m
Alternative unitised fund	50.63%	1.5	2.0
Direct investment funds		375.0	411.3
Total		376.5	413.3

Private equity

	% held	2018 £'m	2017 £'m
Private equity unitised fund	50.63%	13.8	16.6
Direct investment funds		45.1	57.3
Total		58.9	73.9

(available for benefits)

11. Longevity swaps and insurance contracts

The Scheme uses these instruments to manage exposures to longevity risk arising in the normal course of business.

Rothesay Life swaps

The Scheme holds an asset swap and 2 longevity swaps with Rothesay Life. The Artemis contract covers 24% of the Scheme's liabilities for pensions already in payment by June 2010, and provides protection against the pensioners living longer, and interest and inflation rates movements. The Concerto contract covers 20% of the Scheme's longevity risk for pensions already in payment by June 2010 and provides protection against the pensioners living longer.

The total net investment of £2,832.4m shown on the net assets statement includes Artemis and Concerto swap contract assets that comprise:

Rothesay Life assets and liabilities	2018 £'m	2017 £'m
United Kingdom public sector quoted		
2050 index-linked gilt 0.5%	2,807.7	2,770.0
2052 index-linked gilt 0.25%	255.1	251.8
2044 index-linked gilt 0.125%	268.8	264.1
2046 index-linked gilt 0.125%	369.6	364.1
2047 index-linked gilt 0.75%	228.1	226.0
	3,929.3	3,876.0
Artemis asset swap	(2,731.9)	(2,464.0)
Artemis longevity swap	(60.6)	(45.2)
Concerto longevity swap	(39.9)	(28.0)
	(2,832.4)	(2,537.2)

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, 0.25% 2052 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 £57.2m as at 31 March 2018 (2017: £58.0m). The value of the proportion for the Artemis contract was £73.4m as at 31 March 2018 (2017: £75.4m). The gilts are also used to cover the collateral requirements of the asset swap. See note 13 for the collateral values.

Captive insurance

The Scheme entered into two longevity insurance arrangements in April 2017 and in August 2017 to protect the Scheme against costs associated with potential increases in life expectancy. These arrangements were transacted through the Guernsey Insurance companies, APS No 1 IC Ltd and APS No 2 IC Ltd, and covers approximately 21% of the Scheme's longevity risk.

12. Derivatives

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

(available for benefits)

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

Over the counter swaps

Nature	Duration	Nominal amount £'m	Asset value £'m	Liability value £'m
Inflation-linked swaps	<10 years	205.7	1.2	(2.6)
Inflation-linked swaps	10-20 years	67.1	-	(2.0)
Inflation-linked swaps	20-30 years	46.8	1.1	(5.5)
Inflation-linked swaps	30-40 years	30.0	1.8	(1.5)
Interest rate swaps	<10 years	1,088.0	11.0	(2.8)
Total 2018		1,437.6	15.1	(14.4)
Total 2017		1,437.6	18.4	(8.5)

Futures

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

Nature		Notional amount/ contract size	Duration £'m	Fair value
FTSE100 stock futures	Buy	1,410	June 2018	-
Total UK futures				-
DJ STX 50 stock futures	Buy	5,780	June 2018	(0.2)
Total overseas futures				(0.2)
			Total 2018	(0.2)
			Total 2017	0.3

Included within index linked bond balances are £1.7m (2017: cash balances of £2.5m) in respect of initial and variation margins arising on open futures contracts at the Scheme year end.

Forward foreign exchange contracts

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

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

Contract	Maturity Date	Nominal value m	Asset value £'m	Liability value £'m
EUR				
Forward to sell EUR	Apr 18-Jun 18	€ 63.39	0.6	-
USD				
Forward to sell USD	Apr 18-Jun 18	\$420.10	2.0	(0.3)
Total 2018			2.6	(0.3)
Total 2017			5.2	(0.7)

(available for benefits)

13. Collateral

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

Counterparty	Collateral Type	Pledge £'m	Derivative position
Rothesay Life	UK Gilt	(2,819.2)	Asset swap/longevity swap
Barclays	UK Gilt	(6.6)	Swaps
Goldman Sachs	UK Gilt	2.2	FX Forwards & Swaps
RBS	Cash	8.8	FX Forwards & Swaps
UBS	Cash	1.0	FX Forwards & Swaps
Morgan Stanley	UK Gilt	1.0	FX Forwards
JP Morgan	UK Gilt	(1.7)	FX Forwards & Swaps
		(2,814.5)	

Collateral pledged with counterparty is reflected as a negative value.

The collateral balances at the 2017 Scheme year end amounted to (£2,484.2m).

14. Additional Voluntary Contributions (AVCs)

The Trustee holds assets to secure additional benefits on a defined contribution basis for those defined benefit section members electing to pay AVCs. 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 AVC 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	2018 £'m	2017 £'m
Mixed portfolio fund			
Equities		14.3	15.3
Fixed interest		2.9	2.6
Cash		0.2	0.5
Total mixed portfolio fund	10.57%	17.4	18.4
Short-dated gilts fund		2.3	2.5
Equity biased fund		26.2	25.5
		45.9	46.4

(available for benefits)

15. Fair value determination

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

- Level (1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level (2) Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level (3) Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

	As at 31 March 2018			Total £'m
	Level (1) £'m	Level (2) £'m	Level (3) £'m	
Equities	-	-	-	-
Bonds	9,630.9	-	-	9,630.9
Pooled arrangements	-	-	738.0	738.0
Longevity swaps and insurance contracts	-	-	(2,833.3)	(2,833.3)
Derivatives	(0.2)	3.0	-	2.8
AVC mixed portfolio fund	17.4	-	-	17.4
Cash	81.9	8.9	-	90.8
Other investment balances	47.1	-	-	47.1
	9,777.1	11.9	(2,095.3)	7,693.7

	As at 31 March 2017			Total £'m
	Level (1) £'m	Level (2) £'m	Level (3) £'m	
Equities	659.1	-	-	659.1
Bonds	8,979.1	-	-	8,979.1
Pooled arrangements	-	-	774.8	774.8
Longevity swaps and insurance contracts	-	-	(2,537.2)	(2,537.2)
Derivatives	0.3	14.4	-	14.7
AVC mixed portfolio fund	18.4	-	-	18.4
Cash	85.0	5.9	-	90.9
Other investment balances	23.9	-	-	23.9
	9,765.8	20.3	(1,762.4)	8,023.7

Interest, inflation and discount rate assumptions were based on the prevailing market rates at the Scheme year end, and longevity assumptions were based on the 2012 actuarial valuation, updated for changes in demographic assumptions.

(available for benefits)

16. Investment risk disclosures

Investment risks

The disclosure of information in relation to certain investment risks are as follows:

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

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

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

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

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

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

(i) Investment strategy

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

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

(available for benefits)

The current strategy is to hold:

- Liability matching assets – 89% 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 – 9.5% in return seeking investments comprising investment property, alternatives and private equity.
- Cash – 1.5% of the total portfolio assets are held as liquid cash to meet the day-to-day Scheme requirements.

6% 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 Trustee manages the associated credit risk by requesting that the Investment Manager diversifies the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to have predominantly investment grade credit quality. This was the position at the Scheme year end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). Exchange traded derivatives are guaranteed by a regulated exchange 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 13).

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

The Scheme lends certain fixed interest and equity securities under a Trustee-approved stock lending program which is managed at the discretion of, and is fully indemnified by, the custodian State Street Bank and Trust Company. The Trustee manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the Scheme year end, the Scheme had lent £284.3 million (2017: £139.7 million) of public sector securities and £nil (2017: £44.7 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 102.1% 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.

(available for benefits)

16. Investment risk disclosures – continued

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

(iii) Currency risk

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

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

	2018 £'m	2017 £'m
US Dollar	35.3	186.4
Euro	9.6	45.5
Other	0.3	180.4
	45.2	412.3

(iv) Interest rate risk

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

(vi) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, investments held in pooled arrangements including private equity, alternatives, real assets, investment properties and equity futures. The Scheme has set a target asset allocation of 9.5% of investments in return seeking assets. This was the position at the Scheme year end.

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

(available for benefits)

17. Contingent liabilities and contractual commitments

The following contractual commitments existed at the Scheme year end:

	2018 £'m	2017 £'m
Pooled arrangements		
Property	18.9	13.7
Alternatives	55.3	52.9
Private equity	16.0	24.4
	90.2	91.0

18. Self-investment

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

19. Related party transactions

The Corporate Trustee of APS is Airways Pension Scheme Trustee Limited (APSTL). This company is dormant, and its set up cost in the prior year was paid by the Scheme.

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

APS Insurance ICC Limited, a company incorporated in Guernsey, is used to facilitate longevity insurance for the Scheme. This company is a subsidiary of BAPTL. The operational costs were paid by the Scheme.

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

BAPSL provides secretariat and financial administration 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.

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

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

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

(available for benefits)

20. Post balance sheet events

In September 2018 c.£4.4 bn of assets were transferred to Legal & General Assurance Society Limited as part of a pensioner buy-in. The buy-in policy is held as an asset of the Scheme, broadly matching the cashflows in relation to c.60% of the current pensioner payroll.

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

Statement about contributions

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 2018 which is set out on [Page 37](#).

In our opinion contributions for the Scheme year ended 31 March 2018 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 23 March 2016.

Scope of work on statement about contributions

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

Respective responsibilities of the Trustee and the auditor

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

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

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

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

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

Statement of Trustee's responsibilities in respect of contributions

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

Trustee's summary of contributions payable under the schedule in respect of the Scheme year ended 31 March 2018

This summary of contributions has been prepared on behalf of and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the schedule of contributions certified by the actuary on 23 March 2016 in respect of the Scheme year ended 31 March 2018. The Scheme auditor reports on contributions payable under the schedule in the auditor's statement about contributions.

Contributions payable under the schedule in respect of the Scheme year	£'m
Employer normal contributions	4.1
Employer deficit funding – regular	55.0
Employer deficit funding – cash sweep	36.0
Employee normal contributions	0.1
Contributions payable under the Schedule (as reported on by the Scheme auditor)	95.2

Reconciliation of contributions

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

Contributions payable under the schedule (as above)	95.2
Contributions payable in addition to those due under the schedule:	2.3
Employee additional voluntary contributions	
Total contributions reported in the financial statements	97.5

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

Fraser Smart
Secretary

**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 rate 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.

**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

**Virginia Holmes
Chairman of the Trustees**

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

**Keith Williams
Executive Chairman**

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 and Faculty of Actuaries

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

23 March 2016

(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 Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 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 Trustee 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.

(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).

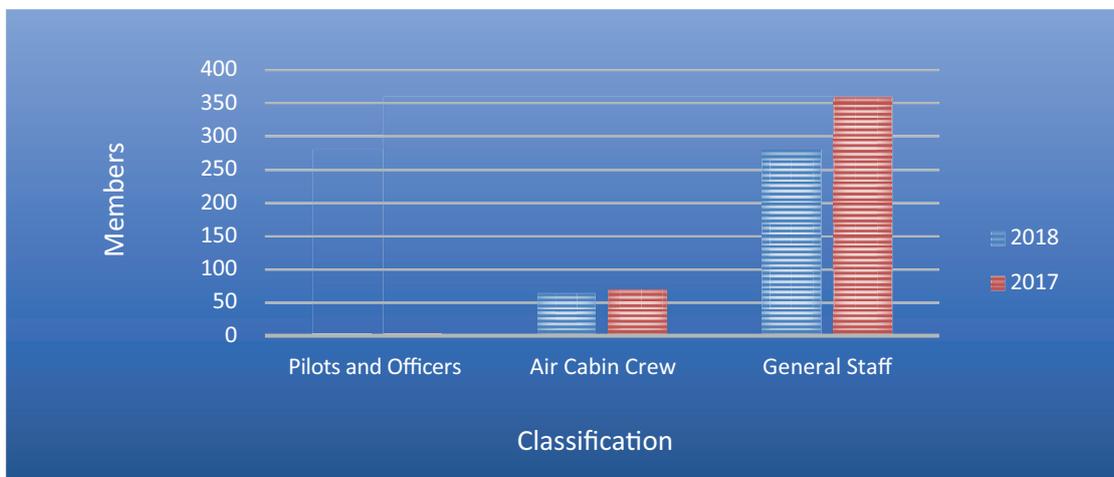
Group	
Male non-pensioners with:	
- Low pensions*	87% of S1PML
- High pensions*	113% of S1PMA_L
Female non-pensioners	85% of S1PFA
Male dependents of non-pensioners	124% of S1PMA
Female dependents of non-pensioners	90% of S1DFL
Male pensioners with:	
- Low pensions*	88% of S1PML
- High pensions*	91%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

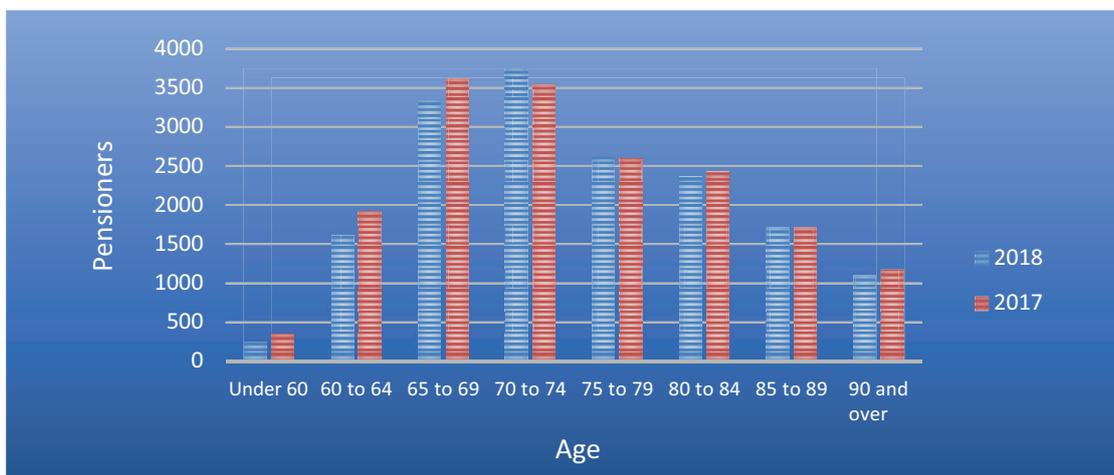
At 31 March 2012 an allowance for future reductions in mortality rates has been included based on the CMI's 2011 core projection model, with an explicit allowance for long-term trend reductions in mortality rates of 1.5% per annum.

	2018	2017
Active members	345	431
Pensioners in payment	16,733	17,330
Dependant pensioners	6,237	6,509
Deferred pensioners	881	1,083
	24,196	25,353

ACTIVE MEMBERS BREAKDOWN 2017/18



PENSIONER AGE ANALYSIS 2017/18



In addition to the above, there are approximately 22,000 (2017: 23,000) deferred pensioners with Equivalent Pension Benefits (EPBs).

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 Trustee. Members of the Scheme who opt-out cannot re-join APS and may be auto enrolled into the British Airways Pension Plan, a defined contribution pension scheme offered by BA Plc.



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