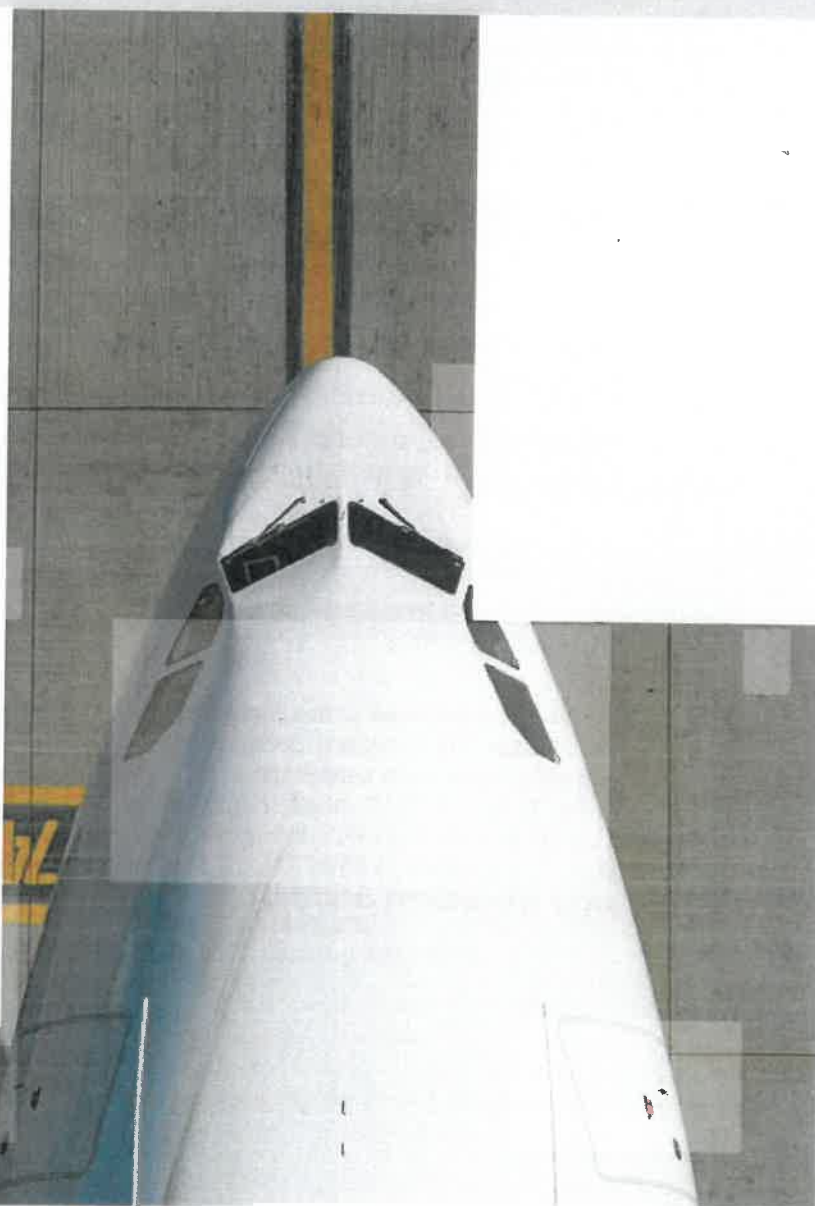


Airways Pension Scheme

Actuarial valuation
as at 31 March 2018

28 November 2019



Summary

The main results of the Scheme's actuarial valuation are as follows:

- Technical provisions funding level as at 31 March 2018 has increased to 108.5% (2015: 98.0%)



- Surplus of assets relative to technical provisions as at 31 March 2018 is £599 million (2015: deficit of £150 million)



- As the Scheme is in surplus as at 31 March 2018, no recovery plan is required.
- The Scheme Actuary's statutory estimate of solvency as at 31 March 2018 has increased to 91.9% (2015: 84.3%)



- Pending the outcome of the litigation between the Company and the Trustee, the Company continued to pay ongoing contributions and deficit reduction contributions in line with those agreed as part of the 31 March 2012 valuation until 31 December 2018. From 1 January 2019, deficit contributions ceased and the Company pays contributions to cover the full cost of accrual calculated as part of this actuarial valuation.

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Throughout this report the following terms are used:

Scheme

Airways Pension Scheme

Trustee

Airways Pension Scheme Trustee Limited

Company

British Airways plc and other participating employers

Trust Deed & Rules

The Scheme's Trust Deed and Rules dated 1 April 2008, as subsequently amended by supplemental deeds executed between 1 April 2008 and the valuation date

Settlement Agreement

The Settlement Agreement dated 8 April 2019 between the Company and the Trustee

Scope

This report is the actuarial valuation of the Airways Pension Scheme as at 31 March 2018. I have prepared it for the Trustee, who should forward a copy to the Company along with any recommendations in accordance with Clause 11(a) of the Trust Deed. The actuarial valuation is required under the terms of Clause 11 of the Scheme Rules and Part 3 of the Pensions Act 2004. The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Scheme at 31 March 2018 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2015. It also describes how the Scheme has been financed since the valuation date and provides commentary on how the funding position is expected to evolve in the future. Finally, it sets out additional information related to the actuarial valuation of the Scheme as at 31 March 2018, including risks faced by the Scheme, membership data and asset information.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which will be carried out as at 31 March 2021.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 March 2019, must be completed by 31 March 2020.

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company
28 November 2019

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Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements.

Membership data was provided by BA Pensions as at the time of the valuation. For the avoidance of doubt, unless explicitly specified, we have not updated the membership data as at the effective date to incorporate any updates to the data that may have subsequently occurred (for example, late reported deaths).

Although an allowance for the estimated cost of GMP equalisation has been made, no reserve has been included in the technical provisions for changes to GMP data as a result of GMP reconciliation.

On 13 September 2018 the Trustee completed a buy-in transaction ("Project Delius"). There is uncertainty regarding a number of data issues identified as part of Project Delius that it is not currently possible to quantify accurately. The estimated impact to the liabilities of these data issues is £10m but the actual impact could be more or less than this once investigated and verified. This has been allowed for in the 2018 valuation results set out in this report.

I have taken reasonable steps to satisfy myself that the data provided is otherwise of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. Other than as noted above, these checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

Some of the member data (such as date of birth and salary) required for the running of the Scheme, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act (DPA) and the General Data Protection Regulation (GDPR), which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the DPA and GDPR). Data controllers would include the Trustee of the Scheme and may also include the Scheme Actuary and Willis Towers Watson, so we have provided further details on the way we may use this data on our website at <http://www.willistowerswatson.com/personal-data>.

This report is based on information available to Towers Watson Limited at the date of the valuation. The liability values provided take no account of subsequent developments after that date. In particular, no adjustments to the liabilities have been made for the discretionary increase framework agreed as part of the Settlement Agreement, nor in respect of Project Delius.

Assumptions

The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated 28 November 2019, is the responsibility of the Trustee, in agreement with the Company, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out

in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has been made for climate-related risks.

Funding

Statutory funding objective

The Trustee's formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Scheme over the next 50 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2018 have been agreed between the Trustee and Company and are documented in the Statement of Funding Principles dated 28 November 2019. These methods and assumptions implicitly assume that the Scheme is not discontinued.

The benefits covered by insurance and hedging contracts are treated consistently within both the assets and the liabilities with their valuation based on the values in the audited Report and Accounts.

Financial assumptions

The table below summarises the main assumptions used to calculate the Scheme's technical provisions for this and the previous actuarial valuation.

Financial assumptions	31 March 2018 % pa	31 March 2015 % pa
Discount rate	Willis Towers Watson gilt yield curve	Willis Towers Watson gilt yield curve
RPI inflation	Willis Towers Watson gilt yield break-even inflation curve	Willis Towers Watson gilt yield break-even inflation curve
CPI inflation	RPI less 1.1% pa	RPI less 0.75% pa
Pay increases	RPI ¹	RPI ¹
Pension increases ²		
– Pensions Increase Review Orders (in deferment and payment)	Pension increases are assumed to be in line with CPI inflation ³	Pension increases are assumed to be in line with CPI inflation ³
– Post 1988 GMP in payment with an annual cap of 3% and a floor of 0%.	Pension increases are assumed to be in line with CPI inflation ⁴	Pension increases are assumed to be in line with CPI inflation ⁴
– APS I-V pensions in payment with an annual cap of 2.5% and floor of 0%	Pension increases are assumed to be in line with CPI inflation ⁴	Pension increases are assumed to be in line with CPI inflation ⁴

¹ Pay increases for members who have not elected to link their Pay for Pension Purposes to increases in their Pay are assumed to be in line with Pensions Increase (Review) Orders.

² These assumptions are derived from the RPI assumption and the long-term expected differential between RPI and pension increases at the relevant valuation date, adjusted for the known timing of the actual pension increase and the relevant caps and floors for each pension increase type applied to the forward rates. Allowance has been made for the known pension increase in the April immediately following the valuation date (with no allowance for any known increases being different from those assumed thereafter).

³ The income streams in respect of pensions covered by the Artemis, Concerto and Bonaparte contracts are assumed to increase in line with RPI with no adjustment, subject (where relevant) to the annual floor applied to the forward rates.

⁴ The income streams in respect of pensions covered by the Artemis and Concerto contracts are assumed to increase in line with RPI with no adjustment, subject (where relevant) to the annual caps and floors applied to the forward rates.

Demographic assumptions

The key demographic assumptions used to calculate the technical provisions are the mortality rates that are assumed to apply in the year following the valuation date (the 'base table' of mortality) and the allowance for future reductions in mortality rates. The base tables of mortality assumed at 31 March 2018 and 31 March 2015 are summarised below. These are based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. These tables have been 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).

Demographic assumptions	31 March 2018	31 March 2015
Male non-pensioners with:		
- Low pensions*	102% of S2PMA	103% of S2PMA
- High pensions*	64% of S2PMA_L	107% of S2PMA_L
Female non-pensioners	101% of S2PFA_L	83% of S2PFA_L
Male dependants of non-pensioners	82% of S2PMA_H	85% of S2PMA_H
Female dependants of non-pensioners	99% of S2DFA	93% of S2DFA
Male pensioners with:		
- Low pensions*	105% of S2PMA	101% of S2PMA
- High pensions*	69% of S2PMA_L	82% of S2PMA_L
Female pensioners	106% of S2PFA_L	91% of S2PFA_L
Male dependants of pensioners	84% of S2PMA_H	88% of S2PMA_H
Female dependants of pensioners	98% of S2DFA	94% of S2DFA
Future improvements in longevity	2017 CMI core projections model subject to a long-term improvement rate of 1.5% pa	2014 CMI core projections model subject to a long-term improvement rate of 1.5% pa
Allowance for commutation	Members are assumed to commute 15% of their pension for cash at retirement on terms 5% higher than the rates applicable at the valuation date, based on a 2.5% pa real (relative to RPI) discount rate	Members are assumed to commute 15% of their pension for cash at retirement on terms 5% higher than the rates applicable at the valuation date, based on a 2.5% pa real (relative to RPI) discount rate
Expenses	£145 million**	1% of the technical provisions

*Low pensions are classed as being lower than £26,100 pa at 31 March 2018 and lower than £25,100 pa at 31 March 2015; high pensions are higher than the specified limits

** Fixed capitalised value of expenses as per the Settlement Agreement

For those benefits covered by the longevity swap contracts, the demographic assumptions (including the marital statistics) are based on the assumptions used for the valuation of this contract within the Scheme's accounts. At 31 March 2018 this approach was equivalent to a net decrease of 0.7% to the value of the benefits covered by the longevity hedge swaps compared with the value using the demographic assumptions specified in this report.

Details of the other demographic assumptions used for this actuarial valuation are documented in the Statement of Funding Principles.

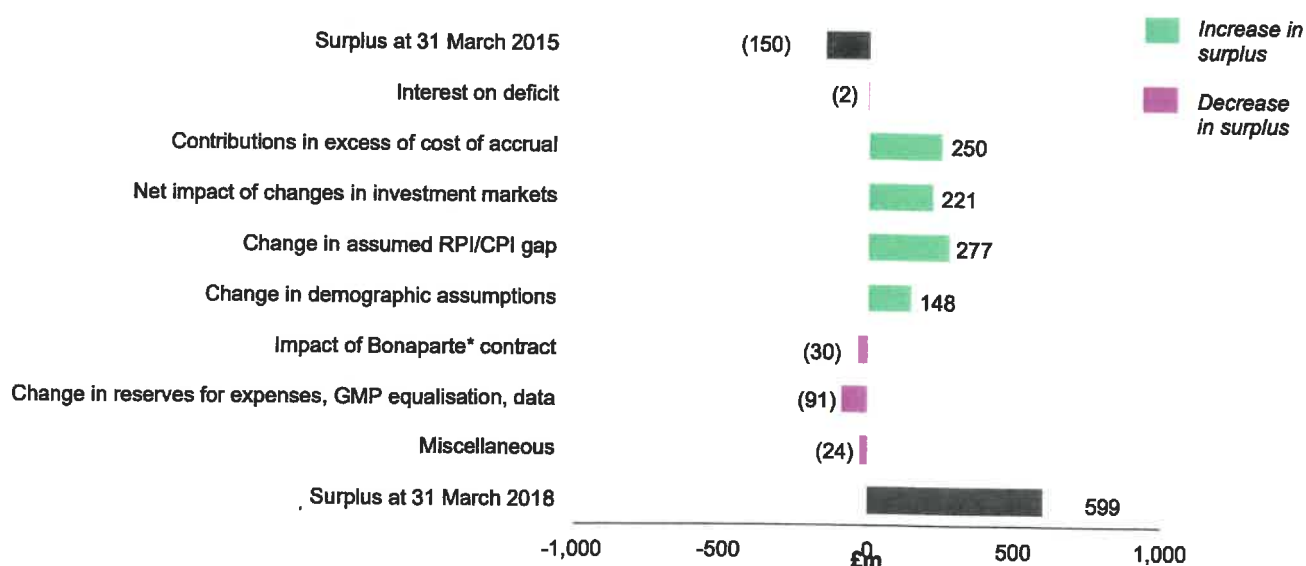
Past service results

The table below compares the Scheme's technical provisions as at the date of the actuarial valuation (31 March 2018) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 March 2018	31 March 2015
	£m	£m
Amount required to provide for the Scheme's liabilities in respect of:		
Employed members	321	559
Deferred pensioners	181	254
Pensioners and dependants	6,366	6,718
Expenses	145	80
Data uncertainties reserve	10	-
GMP equalisation reserve	10	-
AVCs and other money purchase benefits	46	48
Technical provisions	7,079	7,659
Market value of assets	7,678	7,509
Past service (deficit)/surplus (technical provisions less assets)	599	(150)
Funding level (assets ÷ technical provisions)	108.5%	98.0%

Developments since the previous valuation

The funding position has improved to a surplus of £599m from a deficit of £150m at the previous valuation. The main factors contributing to this improvement are shown below.



*See Glossary on page 23.

Note: The figures in this analysis are approximate and depend on the order in which the items are analysed

Contribution requirements

Future accrual of benefits

Under the method and assumptions described in the Statement of Funding Principles, the Company contribution rate required, in addition to Scheme members' normal contributions, to provide the benefits expected to accrue between this valuation and the next valuation was 53.4% of Pay for Contribution Purposes. No allowance is included in this contribution rate for administration expenses as a full reserve for these is included in the technical provisions. There is also no allowance in the contribution rate for Pension Protection Levies as these are paid in full by the Company following receipt of the relevant invoices from the PPF Board.

As the Scheme is closed to new entrants, the cash amount required to meet the cost of the accrual of future benefits will fall because the number of members to whom the rate applies will fall as active members leave service, retire or die.

Between the valuation date (31 March 2018) and 31 December 2018, the Company paid a contribution rate of 34.7%, in line with that agreed at the 31 March 2012 valuation but has also been paying regular deficit contributions of £4.583m per month as well as a lump sum (cash sweep) payment of £40.0m in June 2018; these additional payments have been more than sufficient to address the slight shortfall in respect of accrual between the valuation date and 31 December 2018. From 1 January 2019, the Company has agreed to pay the full rate noted above of 53.4% of Pay for Contribution Purposes.

Recovery plan

As the Scheme's assets as at 31 March 2018 exceeded the technical provisions, a recovery plan for the 31 March 2018 actuarial valuation is not required.

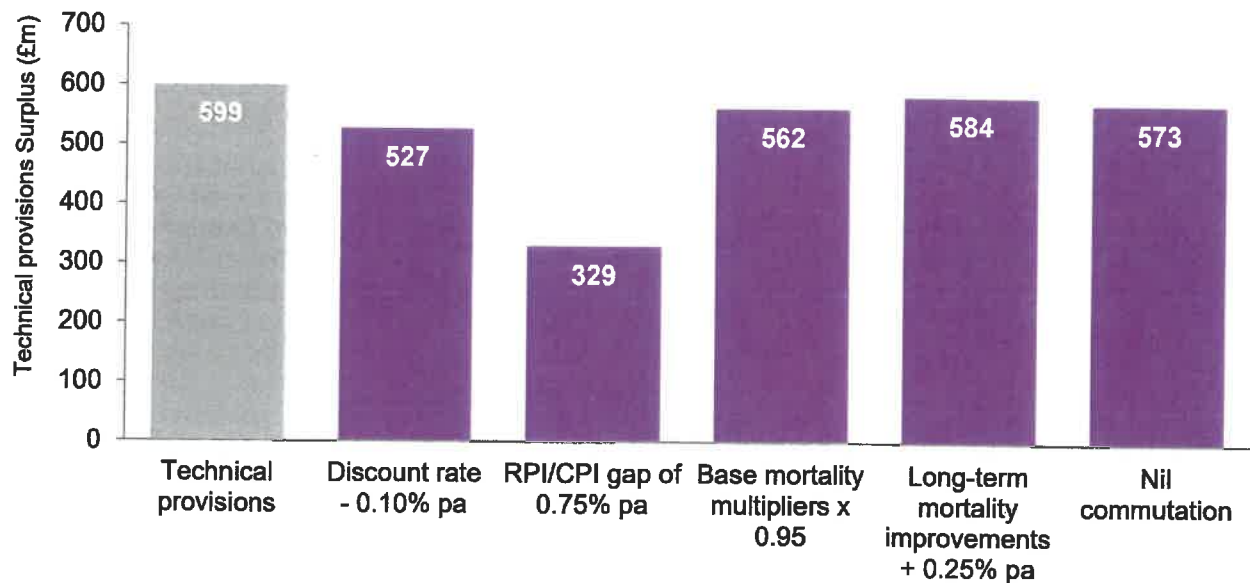
Projections and sensitivities

The Scheme has a significant surplus of assets relative to its technical provisions as at 31 March 2018 and under the assumptions at that date the funding level is expected to remain above 100%.

Since the valuation date, the Trustee entered into buy-in contract in respect of most of the Scheme's pensioner liabilities and the terms for this were favourable relative to the technical provisions assumptions leading to an improvement in the Scheme's financial position.

Following the Settlement Agreement with the Company entered into on 8 April 2019, the Trustee will consider granting discretionary pension increases in line with a 'Proposed Pattern' of increases under Rule 15. Should such increases be awarded, then the funding level will gradually fall over time. Over the period to the next valuation, the funding level is expected to remain over 100%.

The chart below illustrates the resulting surplus as at 31 March 2018 from variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



No allowance has been made for the Delius annuity policy in the calculation of these sensitivity figures.

Solvency

Discontinuance

In the event that the Scheme is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Scheme. There would be no entitlement to further accrual of benefits.

If the Scheme's discontinuance is not the result of the Company's insolvency, the Company would ultimately be required to pay to the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run the Scheme as a closed fund for a period of years before buying such policies, for example if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Scheme's discontinuance is a result of the Company's insolvency, the "employer debt" would be determined as above and the Scheme would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Company) were not sufficient to secure benefits equal to the PPF compensation then the Scheme would be admitted to and members compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Scheme at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the valuation date. For this purpose I have assumed that no further payments are received from the Company, although in practice certain payments and guarantees set out in a separate legal agreement may have been available in such circumstances.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson at around the valuation date. However, there is very limited capacity in the market for annuities that provide increases in line with Pensions Increase (Review) Orders, and having considered the limited evidence available I have assumed that PIRO increases might have been secured on terms broadly equivalent to those available for RPI increases.

In addition, it is difficult to estimate what costs may be associated with unwinding some of the insurance contracts that the Scheme holds. For example, we understand that the Artemis contract would incur significant cost if converted to individual annuities. For the purposes of the Solvency estimate at 31 March 2018, no adjustment is made to the liabilities in respect of the Artemis contract, whereas in the asset value, we have allowed for the value of assets identified in the asset valuation provided by BA Pensions, which are lower than the value of the corresponding liabilities (the difference effectively represents the costs of surrendering the Artemis policy). This differs to the method used in calculating the 31 March 2015 solvency estimate.

I have assumed the cost of implementing the winding-up to be £120 million (2015: £137 million).

The table below summarises how the main assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities.

Financial assumptions	31 March 2018	31 March 2015
	% pa	% pa
Pensioner discount rate	Willis Towers Watson gilt yield curve plus a margin of 0.25% pa	Willis Towers Watson gilt yield curve less a margin of 0.15% pa
Non-pensioner discount rate	Willis Towers Watson gilt yield curve less a margin of 0.35% pa	Willis Towers Watson gilt yield curve less a margin of 0.55% pa
Pensions Increase Review Orders (in deferment and payment)	RPI	RPI plus 0.25% pa ⁽¹⁾

(1) The RPI assumption is derived from the difference between the full index-linked and nominal gilt curves at the valuation date with an addition of 0.25% at all durations to allow for the expected cost of purchasing annuities with floor of 0%

The demographic assumptions used in the solvency estimates are as set out in the relevant Statement of Funding Principles, except that the allowance for future improvements in longevity for the 31 March 2018 estimate is in line with the 2016 CMI core projections model subject to a long-term improvement rate of 1.50% from 2018 onwards. In addition, no allowance is made for the impact of members commuting pension for cash at retirement.

In calculating the solvency estimate I have used the financial and demographic assumptions for all benefits provided from the Scheme and have taken the asset values as shown in the audited Report and Accounts for the longevity swaps.

My estimate of the solvency position of the Scheme as at 31 March 2018 is that the assets of the Scheme would have met 91.9% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2018	31 March 2015
	£m	£m
Estimated cost of buying insurance policies to cover:		
Employed members	446	780
Deferred pensioners	248	354
Pensioners and dependants	7,474	7,589
Expenses	120	137
Data uncertainties reserve	10	-
GMP equalisation reserve	10	-
AVCs and other money purchase benefits	46	48
Total estimated cost	8,354	8,908
Market value of assets	7,678	7,509
Solvency (deficit)/surplus (total estimated cost less assets)	(676)	(1,399)
Solvency level (assets ÷ total estimated cost)	91.9%	84.3%

The change in the solvency level from 84.3% to 91.9% is due mainly to the investment performance of the Scheme's assets being better than assumed, more favourable assumed insurance pricing than was available in 2015 and the receipt of deficit reduction and cash sweep contributions from the Company.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Company became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above;
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

As the Scheme assets covered the Section 179 liabilities as at 31 March 2018 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Company become insolvent at 31 March 2018, in which case members would have received more than the PPF compensation but only around 92%, on average, of the entitlements described above.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £8,354 million is £1,275 million higher than the Scheme's technical provisions of £7,079 million.

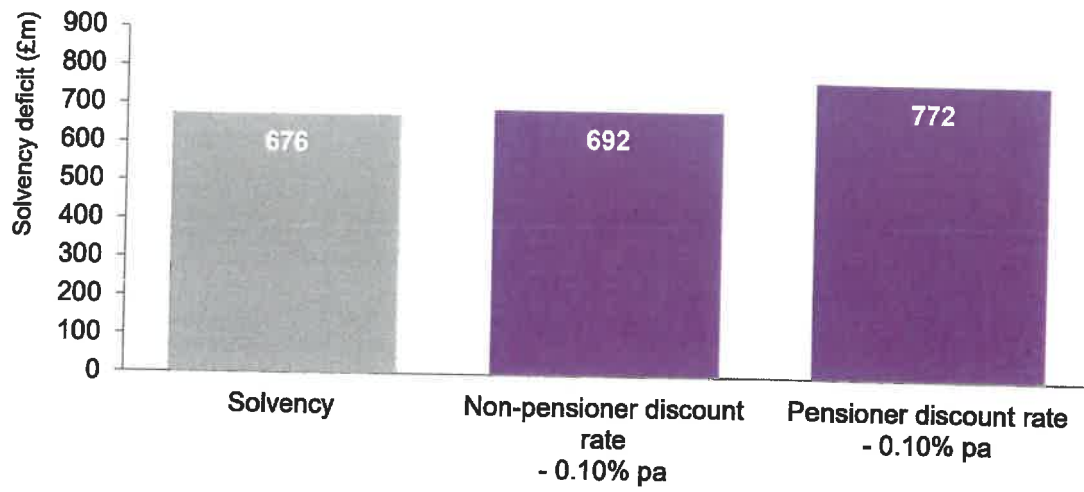
The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Company being able to support the Scheme in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Scheme without having recourse to future contributions from the Company.

If the statutory funding objective had been exactly met on 31 March 2018 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 84.7%. This compares with 86.0% at the 31 March 2015 actuarial valuation.

Projections and sensitivities

It is expected that the solvency funding level will increase over time, as the cost of surrender of the Artemis buy-in is expected to gradually reduce over the period to 2050. In addition, the solvency funding level is expected to improve further as non-pensioners retire, since solvency pricing for pensioners is typically more favourable than for non-pensioners.

The chart on the following page illustrates the sensitivity of the solvency position as at 31 March 2018 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Additional Information

Risks

The table below summarises the main risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	Following the Settlement Agreement, the contributions required from the Company and the reliance on the covenant have reduced significantly to a very low level and so this risk is considered small.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Scheme's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Company at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Scheme currently hedges most of its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Scheme currently hedges most of its exposure to inflation risk.
Falls in asset values might not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Company would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary. The buy-in contract and longevity swaps secured with Rothery Life, Partner Re and Canada Life provide partial protection against the Scheme's mortality risk and further hedging has been completed since this valuation.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Scheme's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Company, where relevant.

Economic risk

Demographic risk

Legal risk

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004 and was contracted out of the State Second Pension. The following is a summary of the benefits valued to determine the technical provisions at the valuation date:

Definitions

Normal Retirement Age (NRA)	General Staff (60), Pilots and Air Cabin Crew (55)
Pay for Pension Purposes	Remuneration designated by the Employer as pay for these purposes.
Retiring Pay	The average of members' Pay for Pension Purposes during the best two years of the last five years of Contributory Service.
Contributory Service	Service in respect of which contributions have been paid to the Scheme.

Benefits

Retirement at NRA	<p>General Staff – a pension of 1/56th of Retiring Pay for each year of Contributory Service.</p> <p>Pilots and Air Cabin Crew – a pension of 1/52nd of Retiring Pay for each year of Contributory Service.</p>
Retirement on ill health	An immediate pension calculated as for retirement at NRA but including one-half of potential future pension service as Contributory Service.
Lump sum on retirement	On retirement, part of the pension may be exchanged for a lump sum on terms decided by the Actuary from time to time.
Death after retirement	A spouse's pension of two-thirds of member's pension (accrued while Higher Rate contributions were made) which would have been in payment at the date of death assuming no pension was commuted at retirement. Children's allowances are also payable.
Death in service	<p>A lump sum of three times the member's pay is payable.</p> <p>A dependant's pension equal to two-thirds of the pension which the member would have received at NRA had they not died in service, and for a Higher Rate contributor including one-half of future potential service as Contributory Service.</p>
Leaving service	A deferred pension is payable from NRA based on Retiring Pay at date of leaving and past Contributory Service. Deferred pensions are revalued up to date of retirement in line with Pensions Increase (Review) Orders.
Pension increases in payment	Pensions in excess of any Guaranteed Minimum Pension (GMP) are increased in line with the Pensions Increase (Review) Orders.

GMPs arising from service after 5 April 1988 are increased in line with GMP Increase orders.

Members' contributions

	Higher Rate	Lower Rate*
General Staff	7.25%	5.75%
Pilots and Air Cabin Crew	8.50%	7.00%

In addition, members may elect to pay Additional Voluntary Contributions (AVCs) on the Trustees' published AVC terms.

* The Lower Rate is payable if spouses' benefits are excluded.

In addition, for those members who elect to link increases in their "Pay for Pension Purposes" to increases in their Pay, contributions are paid at 4.5% of "Pay for Contribution Purposes" from the date the election is effective

Members who participate in the Scheme's salary sacrifice arrangement pay nil member contributions. Instead the employers contribute to the Scheme an amount equal to the normal contributions that would otherwise be payable by these members.

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 are payable.

Discretionary benefits

The Rules were amended in March 2011 to make available the option to award discretionary pension increases and this Rule change has subsequently been the subject of the recently settled litigation. The technical provisions are calculated assuming that no discretionary pension increases are awarded, ie pension increases are awarded in line with Pensions Increase (Review) Orders (consistent with the approach taken in 2015). The Trustee has agreed a "Proposed Pattern" of discretionary pension increases, which are set out in the discretionary increases protocol agreed with the Company, and will consider discretionary pension increases in accordance with that protocol as required by Rule 15 of the Trust Deed and Rules.

Uncertainty about the benefits

An allowance of £10 million has been made in the calculation of the technical provisions and the statutory estimate of solvency for possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members (no allowance was made in 2015).

A further allowance of £10 million has been made in the calculation of the technical provisions and the statutory estimate of solvency to reflect uncertainties in the data supplied to me for the purposes of this valuation (no allowance was made in 2015).

Membership data

A summary of the Scheme's membership information supplied by BA Pensions is shown below.

Members in service	31 March 2018			31 March 2015		
	Number	Annual pay (£m pa)	Average age	Number	Annual pay (£m pa)	Average age
Males						
General Staff	161	6.4	57.4	336	13.5	56.2
Air Cabin Crew	8	0.3	55.1	32	1.1	53.9
Pilots and Officers	-	-	-	2	0.1	54.7
Total males	169	6.7	57.3	370	14.7	56.0
Females						
General Staff	33	1.2	56.8	58	2.1	55.6
Air Cabin Crew	7	0.2	55.5	16	0.4	53.6
Total females	40	1.4	56.6	74	2.5	55.3
Total members in service	209	8.1	57.2	444	17.2	55.8

Crystallised members	31 March 2018			31 March 2015		
	Number	Crystallised pension (£m pa)	Average age	Number	Crystallised pension (£m pa)	Average age
Crystallised pensioners	135	4.2	62.5	217	6.1	61.1

Deferred pensioners	31 March 2018			31 March 2015		
	Number	Deferred pension (£m pa)	Average age	Number	Deferred pension (£m pa)	Average age
Deferred pensioners (excluding EPBs)	875	5.8	60.5	1,459	8.5	58.6

Pensioners and dependants	31 March 2018			31 March 2015		
	Number	Annual pension (£m pa)	Average age	Number	Annual pension (£m pa)	Average age
In own right	16,734	293.2	74.3	18,315	299.8	72.7
Dependants	6,203	63.7	80.9	6,833	65.0	80.4
Total pensioners	22,937	356.9	75.5	25,148	364.8	74.1

Notes on data tables:

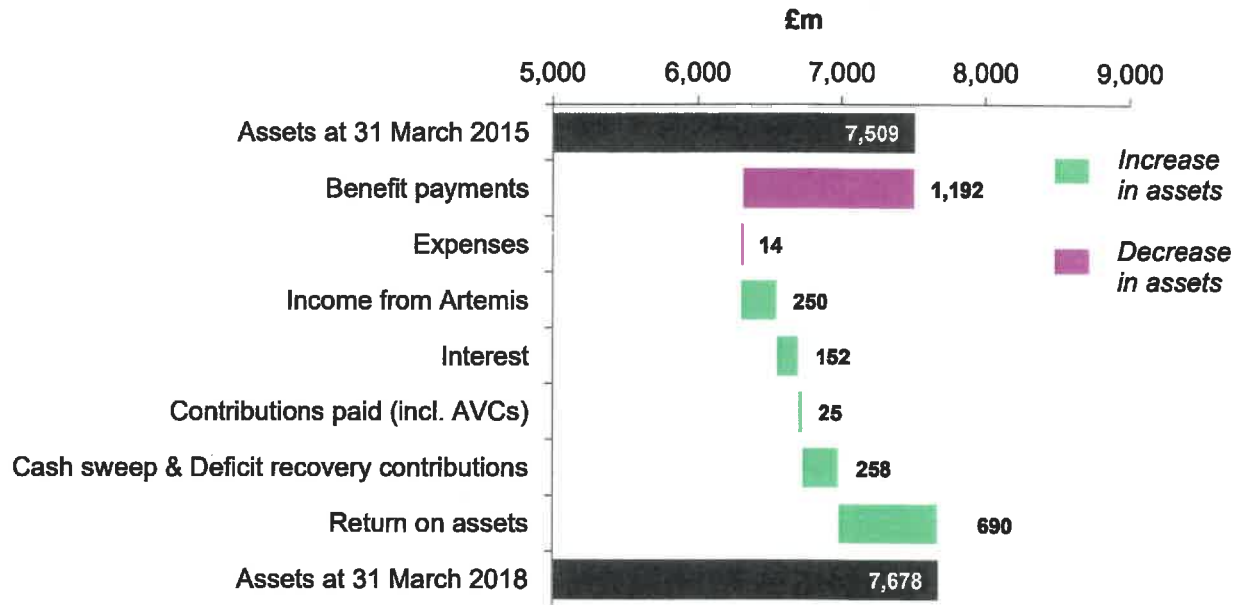
- Deferred pensions include revaluation up to the valuation date, and do not include EPB pensions.
- Deferred pensions and pensions in payment include the pension increase in the April immediately following the respective valuation dates.
- Dependant pensions and number of dependants include children, however average age is in respect of adult dependants only.
- Average ages are weighted by accrued pension at the respective valuation dates.

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 March 2018 show that the market value of the Scheme's assets was £7,678 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £46 million.

The change in the Scheme's assets (including AVCs) from £7,509 million as at 31 March 2015 to £7,678 million as at 31 March 2018 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (including AVCs):



The asset value at 31 March 2018 includes AVCs of £46 million but excludes the cash sweep payment of £40.0 million received by the Scheme in June 2018.

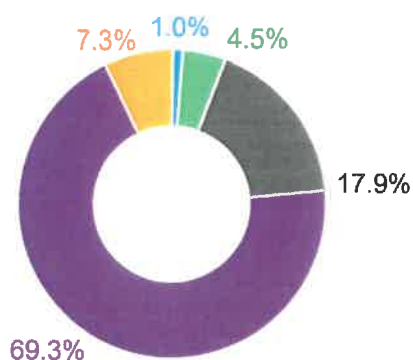
Investment strategy

The assets, including AVCs, were invested as summarised below as at 31 March 2018 and 31 March 2015:

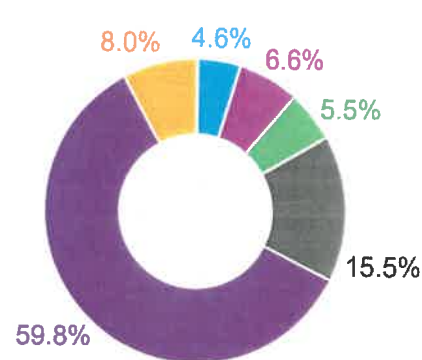
	Market value as at 31 March 2018		Market value as at 31 March 2015	
	£m	%	£m	%
Index linked securities	4,520.2	58.9	3,584.7	47.7
Fixed interest securities	1,177.5	15.3	965.8	12.9
UK equities	72.0	0.9	253.8	3.4
Overseas equities	13.1	0.2	551.0	7.3
Property	300.9	3.9	322.0	4.3
Cash and other investments	457.9	6.0	513.9	6.8
Artemis buy-in policy	1,136.8	14.8	1,318.0	17.6
Total	7,678.4	100.0	7,509.2	100.0

A summary of the Scheme's strategic investment benchmark at 31 March 2018 and 31 March 2015 is set out below:

31 March 2018 (net of Artemis)



31 March 2015 (net of Artemis)



Significant events

The Trustee secured two longevity insurance arrangements in April 2017 and in August 2017 (which together form "Bonaparte") covering the longevity risk for around 21% of the liabilities for an agreed list of members who had retired by 31 May 2016. The longevity swaps allow for future increases in pensions in line with RPI inflation, except for increases in payment on post-88 GMP and APS I-V pensions in payment, which are in line with CPI inflation.

In September 2018, the Trustee entered into an annuity policy ("Delius") with Legal and General plc which covers the pensions payable to all members of the Scheme who had retired by 31 March 2018 but excluding any benefits covered under the existing Artemis and Concerto insurance contracts and excluding EPB only pensioners and child dependants. The Bonaparte insurance policies were novated as part of this Delius annuity policy.

In April 2019, the Trustee and Company entered into a Settlement Agreement bringing an end to the litigation that commenced in 2013. Under the Settlement Agreement, the Trust Deed and Rules have been amended to allow the Trustee to award discretionary pension increases, subject to complying with and to the limits set out in the discretionary increase protocol agreed with the Company. Subject to certain affordability tests, this is expected to result in pension increases of RPI from 2021 onwards, with interim catch-up increases.

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Airways Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 28 November 2019.


Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company
28 November 2019

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Certificate for the purposes of Clause 11(b)

Certificate for the purposes of Clause 11(b) of the Trust Deed of the Airways Pension Scheme

Name of scheme: Airways Pension Scheme

Clause 11(b1) of the Trust Deed provides that: "An actuarial valuation under sub-clause (a) of this clause with an effective date on or after 31 March 2018 shall be on the Agreed Valuation Basis plus RPI for the purposes of assessing whether there is a Raw Surplus for the purposes of sub-clause (a). An actuarial valuation under sub-clause (b) of this clause with an effective date on or after 31 March 2018 shall be on the Agreed Valuation Basis for the purposes of assessing a deficit under sub-clause (b) of this clause."

As at 31 March 2018, on the Agreed Valuation Basis plus RPI, the Scheme had a deficit of around £280m. On the Agreed Valuation Basis, the surplus as at 31 March 2018 was £599m. As a result, the Raw Surplus for the purpose of Clause 11(a) is nil and there is no deficit for the purpose of Clause 11(b).


Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company
28 November 2019

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Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Artemis: The deferred premium buy-in contract entered into between Rothesay Life Limited and British Airways Pension Trustees Limited on 18 June 2010, upsized in December 2013.

Bonaparte: The longevity swaps entered into between Partner Reinsurance Europe SE and British Airways Pension Trustees Limited in April 2017, and The Canada Life Assurance Company and British Airways Pension Trustees Limited in August 2017.

Concerto: The longevity swap entered into between Rothesay Life Limited and British Airways Pension Trustees Limited on 15 December 2011.

Delius: The buy-in contract entered into between Legal and General plc and British Airways Pension Trustees Limited in September 2018.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the

sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the “recovery period”).

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Scheme.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Statement of Funding Principles (SFP): The SFP sets out the trustees’ policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees’ policy for investing the Scheme’s assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay

benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme’s technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.