Airways Pension Scheme

Trustee's Report & Financial Statements

For the Year Ended 31 March 2019

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Welcome to my first annual report since I was reappointed as Chair of the Airways Pension Scheme (APS) in October last year by British Airways (BA). I first served as Chair of APS and the New Airways Pension Scheme (NAPS) between 2005 and 2009 after a 24-year career with BA and was very pleased to have been asked to return. The previous Chair, Virginia Holmes stood down as an APS Trustee during the year and later in my report I update you on this and other changes to the Board.

This report covers issues around governance, funding, investments 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 – settlement proposed

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.

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. The Trustee was granted permission in December 2018 to appeal to the Supreme Court.

Subject to obtaining the approval of the High Court, the Trustee Directors have unanimously agreed terms for an out of court settlement with BA which will bring an end to the litigation that commenced in 2013 and which was otherwise due to proceed to appeal at the Supreme Court. Under the terms of the proposed settlement the APS Trustee will be permitted, subject to some affordability tests, to award discretionary increases so that APS pensions are increased up to the annual change in the Retail Prices Index (RPI) from 2021 with interim catch-up increases; BA will cease paying further deficit reduction contributions, including cash sweep payments; and the Trustee will withdraw its appeal to the Supreme Court.

The APS Trustee will seek the High Court's approval of this proposed settlement before it can be implemented. This will include a review of the APS Trustee's decision that the terms better serve the interests of the APS members than continuing with the appeal to the Supreme Court. The High Court application to decide whether to give approval to the proposed settlement is not expected to be heard before October 2019, but if approved, the proposed payments for 2019 will be made as soon as practicable and backdated to 8 April 2019.

The successful settlement outcome was concluded following an intense and complex period of negotiation. This could not have been achieved without the time and effort of my fellow Trustee Directors and I would like to thank them for their input. Further information about the settlement is provided to members on the 'Other news' page of the member website. We will continue to keep members updated on any developments when we can.

2015 and 2018 actuarial valuations

Due to the discretionary increase court case, the 2015 and 2018 actuarial valuations have been put on hold. The Pensions Regulator (TPR) had said that it expects the APS Trustee and BA to progress the 2015 and 2018 Valuations once the discretionary increase litigation has concluded. While the Trustee awaits approval of the proposed settlement by the High Court, the 2015 and 2018 actuarial valuations remain on hold. Updates will be provided to members on the 'Other news' page of the member website.

Funding and investment

It is a requirement that the Scheme Actuary carries out an actuarial valuation of the Scheme at least every three years. The valuation reviews the financial position of the Scheme and helps to establish the contributions payable to the Scheme in future and other actions that should be taken by the Trustee and BA. The Scheme's last formal three-yearly actuarial valuation was at 31 March 2012. Subject to the High Court's approval of the proposed settlement, the Trustee and BA will work to finalise the 31 March 2015 and 31 March 2018 actuarial valuations on a basis consistent with the settlement agreement. The Trustee's report on page 6 describes this in detail. Over the year to 31 March 2019, BA paid £41.2m in deficit reduction contributions (up to 31 December 2018) along with a cash sweep payment of £40.0m. Including employee salary sacrifice contributions, BA paid a total of £84.3m into the Scheme and the Scheme paid £389.9m to members as benefits payments. The settlement agreement, if approved by the Court, does not require BA to pay deficit reduction contributions or cash sweep payments to the Scheme after 31 December 2018.

In September 2018 we insured c.£4.4bn of liabilities through a pensioner buy-in, which was funded from the sale of Government bonds and cash. This was the result of a long-running project to identify opportunities to reduce risk and improve the security of members' benefits. This transaction 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.

Including the buy-in, the Scheme's assets have increased over the year from c.£7.7bn to c.£7.9bn. We reviewed and adjusted the investment benchmarks following the pensioner buy-in and at 31 March 2019 the liability matching portfolio represented approximately 90% of the total investment portfolio, including the insurance contracts.

You can read more about our investments on pages 14 to 17.

Governance matters

As a matter of good governance, we review each of our professional advisers on a regular basis. We reviewed the Scheme's Legal Advisers and appointed Sackers & Partners LLP as primary legal advisers in March 2019. We also reviewed the Scheme's investment advisers and appointed Mercer in October 2018. I would like to thank the Scheme's former investment advisers, Towers Watsons Limited, and former legal advisers, Eversheds Sutherland LLP, for all their work supporting the Scheme during their appointment.

GMP Equalisation

In October 2018, the High Court ruled that benefits in the Scheme should be 'equalised' for the effect of unequal Guaranteed Minimum Pension (GMP) so that equal benefits are provided for men and women in respect of any GMP earned between 17 May 1990 and 5 April 1997. At present, GMPs are inherently discriminatory because they are calculated by reference to and paid at different ages for men and women. The High Court ruling addresses this issue. Most APS members who were in pensionable service during that period are likely to have a GMP as a result of APS being contracted-out of the State Second Pension (formerly known as the State Earnings Related Pension (SERPS)). The process of ensuring equal benefits are provided to men and women is complex and the Court has suggested several methods that could be used to achieve this. It is likely it could take several years to complete a project to equalise benefits and further industry guidance on the methods is awaited. While the value of a member's pension will not reduce as a result of GMP equalisation, for some members this might result in a backdated uplift to pension. We have added some FAQs to the member website which provide further information.

Brexit
At the time of writing the UK is scheduled to depart from the European Union on 31 October 2019. It is possible this date may be delayed further. The Trustee, BA and advisers are monitoring this and the potential impact any developments may have on the Scheme.

New office premises for BA Pensions - Waterside
After 25 years at Whitelocke House, the BA Pensions team moved as a third-party tenant to a secure space within BA's headquarters, Waterside. Our new postal address details are available on the member website. Whilst the move was a significant challenge, the BA Pensions team completed this successfully without impacting the high levels of service Scheme members have come to expect. It is rare for a complicated office move to be carried out so smoothly, which reflects well on the dedication of the BA Pensions team. BA Pensions continues to support the APS Trustee as before and remains completely independent of BA.

Trustee Directors
During the Scheme year, BA made changes to the Employer Nominated Trustee Directors serving the APS Trustee Board.

Sian Davies and William Francis 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. I was appointed to replace Virginia Holmes in October 2018. Following these changes, the Boards of APS and NAPS are now each made up of 12 entirely separate Trustee Directors. In addition, Rebecca Napier ceased to serve as an APS Trustee Director on 4 February 2019 and was replaced by David Shepherd. Jude Winstanley ceased to serve as an APS Trustee Director on 8 August 2019 and was replaced by Tim Richardson.

On behalf of the APS Trustee Board I would like to thank Virginia, Sian, William, Rebecca and Jude for their valuable contribution and extend a warm welcome to Zoe, Steven, David and Tim.

Additionally, Stephen Mallett, Pensioner Trustee, reached the end of his term of office and was elected for a further term of office uncontested.

Acknowledgements
Michelle McGregor Smith retired as CEO of British Airways Pensions Investment Management Limited (BAPIML) at the end of August. Michelle has been with BAPIML for 31 years, spending the last 14 years as CEO of BAPIML. The Trustee Directors of the Airways Pension Scheme are immensely grateful to Michelle for her contribution to BAPIML, most notably her role in directing investment strategy and managing the Scheme's assets.

I would like to welcome John Harrison who joined BAPIML on 2 September 2019 as interim Chief Investment Officer (CIO). John brings a wealth of investment management experience and spent 16 years with UBS in various roles; originally as a UK Equity Portfolio Manager, more recently as a Client Portfolio Manager in the Multi-Asset Team and finally as UK CIO.

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 and we were delighted the BA Pensions team's work has been recognised by the receipt of two pension scheme industry awards.

Roger Maynard
Chair of the Trustee

1 October 2019

Appointed by British Airways Plc (BA)

Roger Maynard (Chair)
Independent Trustee
Appointed 15 October 2018

Zoe Davis
Group Chief Procurement Officer
IAG
Appointed 25 July 2018

Andrew Fleming
Head of Legal and Company Secretary
BA Plc

David Shepherd
Director Digital Ventures
IAG Cargo
Appointed 4 February 2019

Steven Showell
Finance Controller
BA Plc
Appointed 25 July 2018

Tim Richardson
Head of Property
BA Plc
Appointed 8 August 2019

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

Virginia Holmes
Ceased 15 October 2018

Sian Davies
Ceased 24 July 2018

William Francis
Ceased 24 July 2018

Rebecca Napier
Ceased 4 February 2019

Jude Winstanley
Ceased 8 August 2019

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 until 31 August 2019
John Harrison – Chief Investment Officer, BAPIML from 2 September 2019

Advisers*

Scheme Actuary	Legal Advisers	Bankers	External custodian
Michael Pardoe Towers Watson Limited	Eversheds Sutherland LLP Sacker & Partners LLP	BNY Mellon	State Street Bank and Trust Co

Investment Advisers	Auditor	Covenant Adviser
Mercer (From November 2018) Towers Watson Limited (Until October 2018) BAPIML	KPMG LLP	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, investments, Scheme governance, Scheme changes and pension administration matters.

The financial statements of the Scheme for the year ended 31 March 2019, as set out on pages 20 to 36, have been prepared and audited in accordance with Sections 41(1) and (2) of the Pensions Act 1995.

SCHEME FUNDING POSITION

It is a requirement that the Scheme actuary carries out an actuarial valuation of the Scheme at least every three years. The valuation reviews the financial position of the Scheme and helps to establish the contributions payable to the Scheme in future and other actions that should be taken by the Trustee and BA. The last formal actuarial valuation was as at 31 March 2012.

On 8 April 2019, the Trustee and BA agreed, subject to obtaining the approval of the High Court, terms of an out of court settlement. This would bring to an end the litigation that commenced in 2013 and which is otherwise due to proceed to appeal at the Supreme Court. As soon as the legal process is complete, the Trustee and BA will work to agree and finalise the 31 March 2015 and 31 March 2018 funding valuations on bases consistent with the proposed settlement.

However, the High Court application to decide whether to give approval to the proposed settlement is not expected to be heard before October 2019. As such, at the time of writing, it has not been possible to conclude the 31 March 2015 or 31 March 2018 funding valuations. The Trustee has engaged with The Pensions Regulator, who expects the 2015 valuation to be finalised once the Court approval process 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 and 31 March 2018 valuations have 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 2019. This is despite increases to inflation and decreases in Government bond yields, which have been more than offset by strong asset returns and the continued receipt of contributions from BA (up until 31 December 2018). Deficit reduction contributions of £41.2m were received over the year to 31 March 2019, along with a cash sweep payment of £40.0m. The equivalent figures for the prior year to 31 March 2018 were £55.0m and £36.0m respectively. The settlement agreement, if approved by the Court, does not require BA to pay deficit reduction contributions or cash sweep payments to the Scheme after 31 December 2018 (see further details below).

The recovery plan

The Scheme has a recovery plan in place under the 2012 valuation to address the funding deficit. Under the terms of the recovery plan the Trustee and BA have agreed to repair the deficit such that:

BA 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 £250m in January 2019.

However, if the settlement is approved by the Court after 31 December 2018, BA will not be required to make deficit and cash sweep contributions to the Scheme. Deficit contributions would restart only if funding falls below 100% on a basis that uses an assumption for future pension increases in line with those guaranteed under the Scheme Rules. However, BA will make available a contingent payment of up to £40m should it be required by the Scheme in future to fund the proposed package of discretionary increases under the settlement. If the Court approves the proposed settlement, the full £250m contingent payment will not be paid to APS.

Over the year, PricewaterhouseCoopers LLP (PwC) were engaged by the Trustee to carry out extensive and ongoing reviews of BA's financial position and future cash flows. PwC advised the Trustee that the contributions that BA had committed to pay to the Scheme and to NAPS, as agreed through the 2015 valuation process, were set at a level that BA could reasonably afford. The airline industry is volatile and the Trustee had agreed protections in the event that BA's position was to deteriorate but had also agreed a cash sweep mechanism. This meant that the Scheme would have received additional contributions in the event that BA's annual 31 March cash balance exceeded prescribed thresholds (this would be superseded if the settlement were to be approved).

Scheme investment

The broad strategic asset allocations for the Scheme as at 31 March 2019 (gross of the Rothesay Life swaps and the Legal & General buy-in) are shown below:

Investment category	Allocation
Return seeking	8.0%
Liability matching	92.0%

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. 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.

De-risking

The Trustee has put in place suitable policies to manage risk, 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, by moving 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 over 2018 to de-risk considerably by securing a partial pensioner buy-in with Legal & General. As a result, all APS pensions in payment at 31 March 2018 are fully insured against longevity risk and materially insured against financial risks.

Liability hedging

The Trustee has also established liability hedging arrangements 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 August 2019.

A copy of the SIP can be accessed on the 'Scheme documents' page of the member website or is available on request from the Scheme Secretary's office.

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 fixed interest Government bonds portion of the fund is measured relative to the performance of the FTSE Actuaries Over 15 Years Gilts 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. For the year to 31 March 2019, the Trustee set BAPIML the target of performance of 0.15% per annum above the strategic benchmark with a long-run target assessed over a rolling five-year period.

Details of the Fund performance can be found on pages 15 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 sixv 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.

The content, frequency and level of training is tailored to an 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 Trustee decided in March 2019 to appoint Sackers and Partners LLP as the Scheme's primary legal advisers. They are different to the primary legal advisers for NAPS. Prior to April 2019, the Scheme's primary legal advisers were Eversheds Sutherland LLP who were also the primary legal advisers for NAPS. To ensure that appropriate processes were in place to manage conflicts of interest, Sacker and Partners LLP acted for APS in relation to matters which required separate legal advice.

Monitoring of the employer covenant

Prior to the settlement of the discretionary increase litigation in April 2019, the Trustee considered it critical that it understood and monitored the financial strength and covenant of the employer on a continuing basis and in order to achieve this PwC acted as advisers to the Trustee on employer covenant issues. There was a reporting framework, which had been agreed with BA to ensure that the Trustee receives regular updates on the business activities and financial position of BA.

If the settlement is approved by the High Court after 31 December 2018 BA will not be required to make deficit and cash sweep contributions to the Scheme. Deficit contributions would restart only if funding falls below 100% on a basis that uses an assumption for future pension increases in line with those guaranteed under the Scheme Rules. However, BA will make available a contingent payment of up to £40m should it be required by the Scheme in future to fund the proposed package of discretionary increases under the settlement. It is therefore envisaged that the Scheme will no longer require the same detailed monitoring of the financial strength of the employer as has been undertaken previously. Nevertheless, the Trustee will keep this under review.

Trustee arrangements

The Scheme is administered by twelve Trustee Directors.

- Six of the Trustee Directors, including the independent Chair, are appointed by BA.
- 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.
- The Trustee may, at any time, use electronic communications to communicate with, give notice to, or ballot active, deferred members or pensioners.

*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. Joint meetings may be held if this is considered appropriate, although in those circumstances 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, is responsible for detailed consideration of investment initiatives and transaction-related costs, making recommendations on strategic asset allocation to the Main Board, reviewing the performance benchmarks, compliance with investment regulations and monitoring of the Statement of Investment Principles and other governance documents. The Committee has adopted a forward-looking business plan with the primary objective of ensuring the continuing suitability of investment arrangements.

The Environmental, Social and Governance (ESG) Committee, which is also supported by independent investment experts and strategic investment advisers, is responsible for supporting the Main Board in the development of its ESG policy, strategy and initiatives, ensuring it is in line with regulatory and industry standards.

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

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 2019. The attendance figures cover a transitional phase where there were changes to the Board and Committees during the summer of 2018.

Trustee	Governance Committee	Investment Committee	Operations Committee	ESG Committee	Main Board	Period of Appointment to Main Board
Roger Maynard (Chair)	2/2	2/2	-	2/2	2/2	Part Year
Frances Axford	4/4	-	-	2/2	4/4	Whole Year
Sian Davies	1/1	-	2/3	-	0/1	Part Year
Zoe Davis	-	-	1/5	-	3/3	Part Year
Paul Douglas	-	5/6	-	-	3/4	Whole Year
Andrew Fleming	2/3	-	-	2/2	4/4	Whole Year
William Francis	-	-	2/3	-	0/1	Part Year
Ian Heath	-	-	5/8	1/2	2/4	Whole Year
Phil Hogg	-	5/6	-	-	4/4	Whole Year
Virginia Holmes	2/2	4/4	-	-	2/2	Part Year
Stephen Mallett	4/4	-	-	-	3/4	Whole Year
Tom Mitchell	-	-	5/8	-	2/4	Whole Year
Rebecca Napier	-	-	4/4	-	3/3	Part Year
David Shepherd	-	-	-	-	1/1	Part Year
Steven Showell	-	-	1/1	-	3/3	Part Year
Jude Winstanley	-	5/6	-	-	3/4	Whole Year

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, 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.

General Data Protection Regulation

An important legal change that took place during the year was that the General Data Protection Regulation came into force in May 2018. This legislation gave people new rights to manage their personal data and required companies to collect and use data in line with key principles. To ensure the Scheme is compliant with the new regulation the Trustee issued a new Privacy Statement.

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

Change to the Equity Biased Fund (EBF)
A change to the bonus component was made from 1 April 2019. From that date, the rate will be calculated at the last day of the month and announced for the previous month. The bonus component will be based on a notional benchmark of investments to provide returns related to the stock market, as an alternative to being calculated based on returns from NAPS investments.

TRUST DEED AMENDMENTS

The following amendments were made during the year:

- Cessation of participation of British Airways Maintenance Cardiff Limited and British Airways Avionic Engineering Limited as participating employers from 31 May 2018 and 5 September 2018 respectively.

Copies of the Deeds implementing these changes can be viewed via the 'Scheme documents' page of the member website.

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 the annual increase for most pensions shall be the percentage specified in the Pensions Increase (Review) Orders ('the 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 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 2019 Order was 2.4% and in accordance with the Scheme Rules, qualifying pensions were increased by 2.4% on 8 April 2019.

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.

Broadly speaking, people in this latter category receive increases in payment in line with price inflation, as determined under the Pensions Act 1995 (currently CPI), 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% a year 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 (currently CPI) up to 2.5% a year in respect of pension accrued after 5 April 2009 (for pension earned before that date the cap is 5% a year). 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 as provided in the Rules.

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, where members are entitled under the Rules to increases on that basis. The Trustee undertook a review in March 2019 and decided that no discretionary increase would be awarded but that the position would be 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, subject to obtaining the approval of the High Court, an out of court settlement has now been agreed by the APS Trustee and BA. Under the terms of the proposed settlement, the Trustee will be permitted, subject to some affordability tests, to award discretionary increases so that Scheme pensions are increased up to the annual change in the Retail Prices Index from 2021 with interim catch-up increases.

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

Tax
From 6 April 2019 the standard Lifetime Allowance increased to £1,055,000.

Online communications
During the year improvements have been made to our online communications. The Trustee quarterly newsletter was replaced by a seasonal bulletin, which was designed for online viewing with the option of a printable version. An online survey was launched inviting feedback on the pension increase statements, and the responses received were generally positive and informative. A summary of the results was published in the Trustee winter bulletin 2018.

This report was approved by the Trustee Board on 1 October 2019 and was signed on its behalf by:

Fraser Smart
Scheme Secretary

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

(Forming part of the Trustee's Report)

The audited financial statements, which are to be prepared in accordance with the 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 require 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 it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it 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 to March 2019

Markets over the past year have been dominated by uncertainty over economic growth. Global growth in 2017 was stronger than most expected which caused the major central banks to discuss tightening monetary policy. Despite only tentative signs of wage growth in the US, the expectation coming into 2018 was that the Federal Reserve would continue to remove liquidity from the market. This view was underwritten by the extent of fiscal stimulus unleashed by the Trump administration's tax cuts in late 2017.

As the Federal Reserve continued to raise rates into the second half of 2018 however, the market's confidence in continued economic growth faltered. Although the US job market remained tight and consumer spending remained strong, business confidence was shaken by the prospect of steadily rising interest rates. At the same time, fears of a trade war accelerated. Strong anti-trade rhetoric from the Trump administration was targeted at the US's NAFTA partners and the EU as well as China, and the application of tariffs against blocks of US imports appeared set to escalate.

As a result, growth expectations shifted downwards. Starting in Q4 2018, the yield on US 10-year bonds dropped precipitously, with equity markets globally correcting by more than 15%. "Safe haven" assets such as core bond markets and the Japanese yen rallied materially.

In response the major central banks shifted stance. Departing from the tightening bias of the prior two years, the US Federal Reserve has stated that it will "act as appropriate to sustain expansion". The Bank of Japan has said it stands ready to act if downside risks materialise. The European Central Bank (ECB) has extended its forward guidance by committing to keep interest rates at the present level, at least through the first half of 2020.

The change in policy has restored some measure of confidence in markets. The economic picture remains mixed, but growth is positive. Unemployment is at historic lows in most major economies, inflation is muted, and consumer confidence appears robust. Even in the UK, where Brexit is causing significant uncertainty in certain sectors, real wages have risen in the context of slower business investment.

As a result, most asset classes posted positive returns over the year to March 2019. Equity markets in aggregate were positive in local currencies, led by double-digit returns in the US. Sterling weakness over the 12 months increased the contribution to total returns from the Scheme's overseas holdings. (Whilst APS no longer has an allocation to public equities, it does continue to own private equity assets which are typically biased towards overseas companies.) Government bonds posted total returns in the mid-single digits as did the Scheme's alternative assets and property holdings.

Asset allocation

The APS strategic benchmark is composed of assets which are broadly categorised as being either return seeking or liability matching. Return seeking assets are those chosen with long-term returns expected to exceed liability matching assets, which compensates for the higher risk exposure. Liability matching assets are those held to be aligned with the Scheme's future benefit payments and are intended to reduce risk.

The Trustee Directors' Investment Committee (IC) is responsible for monitoring the strategic benchmark and may, where possible and from time-to-time, recommend an update to the benchmark asset allocation with the intention of improving the risk return profile of the Fund. The Committee also undertakes an annual review of Fund liquidity.

In September 2018, the Scheme entered into an insurance policy with Legal and General where, in return for a premium payment, the Scheme receives a proportion of actual benefits due to be paid to members (on an RPI pension increase basis). The insurance policy was purchased via the transfer of c. £4.3bn of Government bonds and cash.

(Forming part of the Trustee's Report)

As a result of this transaction the value of the assets managed by BAPIML for the Scheme has declined and BAPIML's investment benchmark has been updated to take the insured liabilities into account. The default allocation between liability-matching and return-seeking assets has been adjusted, and the liability-matching benchmark has been recalibrated to be a more suitable match for the remaining, uninsured liabilities.

The Trustee Directors and their advisors set bandwidths around the strategic benchmark which allows BAPIML to make tactical asset allocation decisions to take advantage of valuation differentials between asset classes which may occur from time-to-time.

The allocation of the Fund[1] as at 31 March 2019 is shown below and was within the allowed bandwidths.

	Asset category	Actual % 31 March 2019	Benchmark % 31 March 2019	Actual % 31 March 2018	Benchmark % 31 March 2018
Return seeking	Equities	0.0	0.0	0.4	0.0
	Private equity	2.2	2.5	0.9	1.0
	Alternatives	11.9	11.6	3.7	4.0
	Property	13.9	14.3	4.6	4.5
Liability matching	Real assets	5.8	6.0	1.9	1.8
	Bonds	64.3	64.6	87.1	87.2
	UK fixed	29.8	29.8	18.0	17.9
	UK index-linked	34.5	34.8	68.2	69.3
	Overseas index-linked	0.0	0.0	0.9	0.0
	Cash	1.9	1.0	1.4	1.5
	Total	**100.0**	**100.0**	**100.0**	**100.0**

Fund performance including strategic hedging
Table 1 shows the performance of the Fund including the strategic hedging portfolio which includes derivatives held to reduce interest rate and inflation risk. Over the year to March 2019 the Fund returned 4.66%.

Table 1 – Performance including strategic hedging

Fiscal years to 31 March 2019	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	4.66	7.29	7.20	8.25

Fund performance excluding strategic hedging
Table 2 shows the performance of the Fund excluding strategic hedging which is the measure by which BAPIML is judged. The Fund's investment managers aim to achieve outperformance via a combination of tactical asset allocation and stock selection within individual portfolios. The one-year and longer-term returns are shown opposite.

Table 2 – Performance excluding strategic hedging

Fiscal years to 31 March 2019	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	4.62	7.18	7.26	8.24
Benchmark	4.41	6.84	7.26	8.14
Relative performance	0.20	0.32	0.00	0.09

In the year under review, 1 April 2018 to 31 March 2019, the Fund returned a total of 4.62% excluding strategic hedging, which means that it outperformed the benchmark by 0.20%. The Fund has also outperformed its benchmark by 0.32% per annum averaged over the last three years.

In the 12 months to March 2019, the contribution to relative outperformance was broad-based - there were positive performance contributions from bonds, property and private equity. Tactical asset allocation was a positive contributor, with gains being made relative to benchmark in a number of different areas.

1 References to the "Fund" refer to the net assets managed by BAPIML i.e. excluding the assets transferred to Legal & General as part of the 2018 buy-in and those backing the synthetic buy-in with Rothesay Life.

(Forming part of the Trustee's Report)

In the year under review, 1 April 2018 to 31 March 2019, the Fund returned a total of 4.62% excluding Strategic hedging, which means that it outperformed the benchmark by 0.20%. The Fund has also outperformed its benchmark by 0.32% per annum averaged over the last three years.

In the 12 months to March 2019, the contribution to relative outperformance was broad-based - there were positive performance contributions from bonds, property and private equity. Tactical asset allocation was a positive contributor, with gains being made relative to benchmark in a number of different areas.

Although the Fund has performed in line with its benchmark over the last five years, the Fund has not met its long-run outperformance target which is measured against a rolling 5-year performance goal. This was largely due to underperformance relative to the benchmark at the start of this period.

The Fund's outperformance goal has varied over time due to the changing mix of assets held. For the fiscal year to 31 March 2019 the target was set at 0.15% relative to the strategic benchmark.

We expect both the strategic benchmark and the Fund's outperformance target to be revised over the next 12 months.

Fund's 10 largest quoted holdings as at 31 March 2019 (excluding buy-in, longevity swaps, associated Rothesay Life assets and illiquid assets)

Stock name	Security type	£m	Portfolio %
Network Rail 1.750% Index-Linked 2027	Government Bond*	324	4.1
UK Treasury 0.125% Index-Linked 2046	Government Bond	93	1.2
UK Treasury 0.750% Index-Linked 2047	Government Bond	41	0.5
UK Treasury 0.250% Index-Linked 2052	Government Bond	36	0.5
UK Treasury 0.625% Index-Linked 2040	Government Bond	35	0.4
European Investment Bank 4.625% 2054	Corporate Fixed Interest	30	0.4
UK Treasury 0.125% Index-Linked 2044	Government Bond	28	0.4
UK Treasury 0.125% Index-Linked 2029	Government Bond	27	0.3
UK Treasury 1.875% Index-Linked 2022	Government Bond	27	0.3
UK Treasury 0.125% Index-Linked 2024	Government Bond	26	0.3

*Government guaranteed corporate bond

Additional Voluntary Contributions (AVCs)

The Mixed Portfolio Fund (MPF) returned 5.6% for the year ending 31 March 2019.

The Trustee Directors set a benchmark for each type of asset class held within the MPF and use this to monitor the MPF's performance. The benchmark returned 5.4% over the year meaning that the MPF outperformed its benchmark by 0.2%. Despite this, the MPF has not achieved its target, which is to beat its benchmark by 0.5% per annum over a five-year period, due largely to weak performance in 2016.

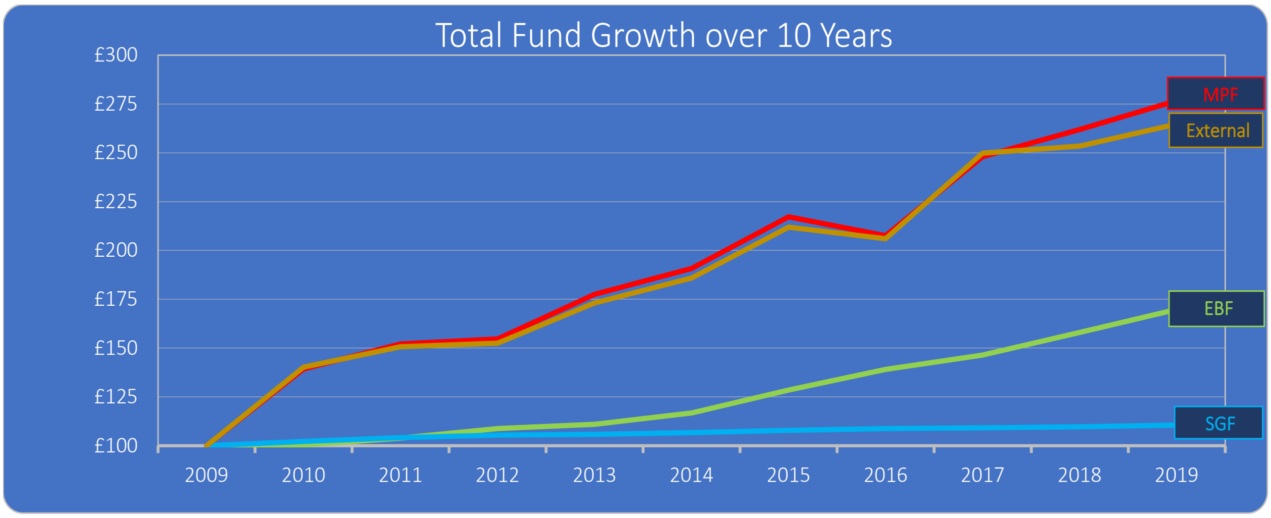
The 5.6% return on the MPF was however above the average achieved by other large AVC providers in the market place over the year, with the MPF beating average returns by 1.1%. Over longer time periods the MPF has similar performance to these other funds.

In the year to March 2019, the Short-Dated Gilts Fund (SGF) returned 0.8% and the Equity Biased Fund (EBF) returned 7.5%. Further information on the performance of the AVC funds can be found in the annual AVC Investment Commentary on the 'Scheme documents' page of the member website.

(Forming part of the Trustee's Report)

The long-term returns for the AVC funds are shown in the chart and table below. The chart shows how £100 invested in the funds in 2009 would have changed in value over time.

AVC funds total growth over 10 years



AVC funds performance returns
Annualised fiscal year return over period to 31 March 2019

	10 Years	5 Years	3 Years	1 Year (to 2019)
MPF (Actual)	10.7%	7.7%	10.0%	5.6%
MPF (Benchmark)	10.8%	7.9%	10.0%	5.4%
EBF	5.4%	7.8	6.9%	7.5%
SGF	1.0%	0.7%	0.6%	0.8%
External	10.2%	7.3%	8.7%	4.5%

Corporate governance
BAPIML's portfolio managers follow the UK Stewardship Code which aims to improve and enhance the quality of engagement between companies and institutional investors. Portfolio managers monitor and engage with companies on aspects of corporate governance and exercise voting rights in all regions through our custodian bank. Aspects of corporate social responsibility are also taken into account when assessing risks to 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 to the Trustee Directors of APSTL and BAPSTL. The voting records are held on the member website in the 'Responsible Investment' section of the 'Scheme documents' page.

Source: All performance shown is calculated independently by either State Street or British Airways Pensions Services Limited (BAPSL). External fund comparisons are sourced from Towers Watson Ltd.

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 2019 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 2019 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All pension scheme audits assess and challenge the reasonableness of estimates made by the Trustee, such as valuation of investments and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Scheme's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Scheme's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Scheme and this is particularly the case in relation to Brexit.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme and, as they have concluded that the Scheme's financial position means that this is realistic, they have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme, including the impact of Brexit, and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

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

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 13, 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 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 it 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 for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou
For and on behalf of KPMG LLP, Senior Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf
London E14 5GL

Date: 4 October 2019

	Note	31 March 2019 £'m	31 March 2018 £'m
Contributions and Benefits			
Employer contributions	3	84.6	95.1
Employee contributions	3	1.8	2.4
Total contributions		86.4	97.5
Benefits paid or payable	4	(363.9)	(361.7)
Payments to and on account of leavers	5	(26.0)	(34.4)
Administrative expenses	6	(9.8)	(4.8)
		(399.7)	(400.9)
Net withdrawals from dealings with members		(313.3)	(303.4)
Returns on Investments			
Investment income	7	46.1	82.0
Investment management expenses	8	(5.6)	(6.8)
Change in market value of investments	9	516.7	(103.7)
Net return on investments		557.2	(28.5)
Net increase/(decrease) in the fund during the year		243.9	(331.9)
Net assets of the Scheme at 1 April		7,678.4	8,010.3
Net assets of the Scheme at 31 March		**7,922.3**	**7,678.4**

The notes on pages 22 to 36 form part of the financial statments.

(available for benefits)

	Note	31 March 2019 £'m	31 March 2018 £'m
Investment assets:			
Fixed interest bonds	9	650.8	1,176.0
Index-linked bonds	9	4,911.4	8,454.9
Pooled arrangements			
Property	10	309.1	302.6
Alternative investments	10	393.7	376.5
Private equity	10	49.6	58.9
Insurance contracts	11	4,470.9	-
Derivatives	13	14.5	17.7
AVC Mixed Portfolio Fund	15	16.9	17.4
Cash		29.9	90.8
Other investment balances		24.2	47.2
		10,871.0	10,542.0
Investment liabilities:			
Insurance contracts	11	-	(0.9)
Asset and longevity swaps	12	(2,920.8)	(2,832.4)
Derivatives	13	(10.0)	(14.9)
Other investment balances		(0.1)	(0.1)
Total net investments		7,940.1	7,693.7
Current assets		0.3	1.2
Current liabilities		(18.1)	(16.5)
Net assets of the Scheme at 31 March		**7,922.3**	**7,678.4**

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 42 and 43 and these financial statements should be read in conjunction with this report.

The notes on pages 22 to 36 form part of these financial statements.

These financial statements were approved by the Trustee Board on 1 October 2019 and were signed on their behalf by:

Roger Maynard **Trustee Director**

Paul Douglas **Trustee Director**

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 July 2018).

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 Schedules 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 Schedules 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 Schedules 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.

2. Accounting policies – continued

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.

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 as at year end, depending on the convention of the stock exchange on which they are quoted, at the reporting date.
II. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
III. Insurance contracts are valued at fair value. The Legal and General buy-in is valued by the Scheme Actuary taking into account the present value of pension benefits covered by the annuity policy using relevant actuarial assumptions.
IV. Rothesay Life asset and longevity swaps are valued at fair value based on the expected future cash flows taking into account market interest rates, market data at the year end and the risk premium inherent in the contract.
V. Exchange traded derivatives are stated at market value determined using market quoted prices.
VI. Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date.
VII. 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.

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' (RICS) Valuation – Global Standards, 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.

2. Accounting policies – continued

h. 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

	2019	2018
	£'m	£'m
Employer contributions		
Normal	3.1	4.1
Deficit funding-regular	41.2	55.0
Deficit funding-cash sweep	40.0	36.0
Augmentation	0.1	-
Section 75 debt	0.2	-
Employee contributions		
Normal	0.1	0.1
Additional contributions	1.7	2.3
	86.4	**97.5**

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

Deficit funding contributions were suspended in January 2019 as agreed between the Trustee and the employer in the Schedule of Contributions on page 39-40.

Two participating employers withdrew from the Scheme during the year; British Airways Maintenance Cardiff Limited on 31 May 2018 and British Airways Avionics Engineering Limited on 5 September 2018. These debts were settled by the employer during the period.

Further details regarding contributions are included in the summary of contributions on page 38.

4. Benefits paid or payable

	2019	2018
	£'m	£'m
Pensions	351.9	349.7
Commutations of pensions and lump sum retirement benefits	11.6	11.9
Lump sum death benefits	0.2	-
Taxation where Lifetime or Annual Allowane exceeded	0.2	0.1
	363.9	**361.7**

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

5. Payments to and on account of leavers

	2019 £'m	2018 £'m
Individual transfers out to other schemes	**26.0**	**34.4**

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 an allocation of the overall costs of BAPSL except where a cost relates specifically to the Scheme, in which case the cost is met by the Scheme in full. 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 year end are as follows:

	2019 £'m	2018 £'m
BAPSL in-house administration and processing	2.7	2.3
External professional fees	7.4	2.8
Reimbursed by employer in respect of litigation	(0.3)	(0.3)
	9.8	**4.8**

7. Investment income

	2019 £'m	2018 £'m
Dividends from equities	-	11.1
Income from fixed interest bonds	30.2	33.8
Income from index-linked bonds	14.0	33.5
Interest on cash deposits	0.5	0.5
Other income	1.4	3.1
	46.1	82.0

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 an allocation of the overall costs of BAPIML except where a cost relates specifically to the Scheme, in which case the cost is met by the Scheme in full.

	2019 £'m	2018 £'m
BAPIML in-house investment management	5.2	6.4
Captive insurance	0.4	0.4
	5.6	**6.8**

9. Reconciliation of investments

	Value at 31 March 2018	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 31 March 2019
	£'m	£'m	£'m	£'m	£'m
Fixed interest bonds	1,176.0	576.8	(1,091.3)	(10.7)	650.8
Index-linked bonds					
- Rothesay Life assets	3,929.3	15.6	(13.0)	217.5	4,149.4
- Index-linked bonds	4,525.6	542.9	(4,310.4)	3.9	762.0
Pooled arrangements					
- Property	302.6	3.9	(15.5)	18.1	309.1
- Alternative Investments	376.5	23.9	(47.7)	41.0	393.7
- Private equity	58.9	2.1	(18.3)	6.9	49.6
Insurance contracts					
- Captive insurance	(0.9)	1.9	-	(0.5)	0.5
- Legal & General buy-in	-	4,335.0	(132.1)	267.5	4,470.4
Asset and longevity swaps					
- Rothesay Life swaps	(2,832.4)	2.3	(82.0)	(8.7)	(2,920.8)
Derivatives					
- Inflation-linked swaps	(7.5)	-	-	4.8	(2.7)
- Interest rate swaps	8.2	-	-	(2.4)	5.8
- Futures	(0.2)	-	(1.5)	1.7	-
Forward foreign exchange	2.3	36.6	(13.8)	(23.7)	1.4
AVC Mixed Portfolio Fund	17.4	0.7	(2.1)	0.9	16.9
	7,555.8	5,541.7	(5,727.7)	516.3	7,886.1
Cash	90.8	-	(61.3)	0.4	29.9
Other investments	47.1	-	(23.0)	-	24.1
	7,693.7	**5,541.7**	**(5,812.0)**	**516.7**	**7,940.1**

There were three (2018: five) individual investments which comprised greater than 5% of the net assets of the Scheme (in absolute terms); the Legal & General buy-in 56.6% (2018: nil), the 2050 0.5% Treasury index-linked gilt 2019: 37.2% (2018: 36.6%), the Artemis asset swap 2019: 35.4% (2018: 35.6%).

In 2018 there was also the 2029 0.125% Treasury index-linked gilt (2018: 6.5%), the 2022 1.875% Treasury index-linked gilt (2018: 6.1%) and the 2019 0.125% Treasury index-linked gilt (2018: 6.0%).

Transaction costs are included in the cost of purchases and deducted from sale proceeds, however due to MiFID II, research costs have been unbundled and are now included within investment management expenses. There were no direct transaction costs in 2019 due to APS no longer holding equities (2018: £1.1m).

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 2019 the value of these funds are as follows:

Property

	%held	2019 £'m	2018 £'m
Externally pooled indirect funds		113.7	94.2
Direct UK property fund		195.4	208.4
Total property unitised	17.80%	**309.1**	**302.6**

Alternatives

	%held	2019 £'m	2018 £'m
Alternative unitised fund	50.63%	1.6	1.5
Direct investment funds		392.1	375.0
Total		**393.7**	**376.5**

Private equity

	%held	2019 £'m	2018 £'m
Private equity unitised fund	50.63%	10.8	13.8
Direct investment funds		38.8	45.1
Total		**49.6**	**58.9**

11. Taxation

The Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income.

12. Insurance contracts

Captive insurance contracts

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 covered approximately 21% of the Scheme's longevity risk. On 13 September 2018, the reinsurance contracts were novated to Legal & General Assurance Society Limited as part of the buy-in (see below). As the Insurance companies will no longer be required they will be placed into voluntary liquidation.

Legal & General buy-in insurance contract

On 13 September 2018, the Scheme entered into a Framework Buy-in Agreement with Legal & General Assurance Society Limited to insure the cost of approximately £4.4 billion of pension benefit liabilities payable by the Scheme. The premium for the buy-in took the form of a transfer of investment assets by the Scheme to Legal & General Assurance Society Limited. The buy-in helps to protect the Scheme against risk, including inflation, interest rate, and longevity risk.

13. Asset swap and longevity swaps

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

The Scheme holds an asset swap and two 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. For each contract 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.

The total net investment of £2,920.8m shown on the net assets statement includes Artemis and Concerto swap contract assets that comprise:

Rothesay Life assets and liabilities	**2019**	**2018**
	£'m	**£'m**
United Kingdom public sector quoted		
2050 index-linked gilt 0.5%	2,961.1	2,807.7
2052 index-linked gilt 0.25%	269.3	255.1
2044 index-linked gilt 0.125%	283.6	268.8
2046 index-linked gilt 0.125%	391.0	369.6
2047 index-linked gilt 0.75%	240.7	228.1
Coupon interest receivable	3.7	-
	4,149.4	**3,929.3**
Artemis asset swap	(2,814.7)	(2,731.9)
Artemis longevity swap	(64.0)	(60.6)
Concerto longevity swap	(42.1)	(39.9)
	(2,920.8)	**(2,832.4)**

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.

13. Asset swap and longevity swaps - continued

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 £56.5m as at 31 March 2019 (2018: £57.2m). The value of the proportion for the Artemis contract was £72.0m as at 31 March 2019 (2018: £73.4m). The gilts are also used to cover the collateral requirements of the asset swap. See note 15 for the collateral values.

14. 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.

A summary of the Scheme's outstanding derivative contracts at the 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	152.7	1.9	(1.1)
Inflation-linked swaps	10-20 years	67.1	0.7	(1.6)
Inflation-linked swaps	20-30 years	46.8	1.4	(5.3)
Inflation-linked swaps	30-40 years	30.0	2.5	(1.2)
Interest rate swaps	<10 years	1,088.0	5.8	(0.0)
Total 2019		**1,384.6**	**12.3**	**(9.2)**
Total 2018		**1,437.6**	**15.1**	**(14.4)**

Futures

All the futures positions were liquidated during the year and there were no open positions as at the year end. The open futures positions as at 31 March 2018 was valued at £(0.2)m.

Collateral pledged against futures in respect of initial and variation margins arising on open futures contracts at the year end are £nil (2018: cash balances of £1.7m).

14. Derivatives - continued

Forward foreign exchange contracts

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

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

Contract	Maturity date	Nominal value m	Asset value £'m	Liability value £'m
EUR				
Forward to sell EUR	Apr 19-Jun 19	€44.0	0.7	-
USD				
Forward to sell USD	Apr 19-Jun 19	$324.5	1.5	(0.8)
Total 2019			**2.2**	**(0.8)**
Total 2018			**2.6**	**(0.3)**

15. Collateral

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

Counterparty	Collateral type	Pledge £'m	Derivative position
Rothesay Life	UK Gilt	(2,921.4)	Asset swap/longevity swap
Barclays	UK Gilt	3.6	Swaps
Goldman Sachs	UK Gilt	(2.2)	FX Forwards & Swaps
NATWEST	UK Gilt	(6.7)	FX Forwards & Swaps
UBS	Cash	(0.8)	FX Forwards & Swaps
Nomura	UK Gilt	(0.1)	FX Forwards
JP Morgan	Cash	(1.3)	FX Forwards & Swaps
		(2,928.9)	

Collateral pledged with counterparty is reflected as a negative value. However, these amounts are included in the statement of net assets as part of the Scheme assets.

The collateral balances at the 2018 year end amounted to £(2,814.5)m.

16. 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	2019 £'m	2018 £'m
Mixed Portfolio Fund			
Equities		14.1	14.3
Fixed interest		2.5	2.9
Cash		0.3	0.2
Total Mixed Portfolio Fund	9.12%	16.9	17.4
Short-Dated Gilts Fund		2.3	2.3
Equity Biased Fund		26.1	28.1
		45.3	**47.8**

17. 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 2019
	Level (1) £'m	Level (2) £'m	Level (3) £'m	Total £'m
Bonds	5,562.2	-	-	5,562.2
Pooled arrangements	-	-	752.4	752.4
Insurance contracts	-	-	4,470.9	4,470.9
Asset and longevity swaps	-	-	(2,920.8)	(2,920.8)
Derivatives	-	4.5	-	4.5
AVC Mixed Portfolio F§und	16.9	-	-	16.9
Cash	29.5	0.4	-	29.9
Other investment balances	24.1	-	-	24.1
	5,632.7	**4.9**	**2,302.5**	**7,940.1**

17. Fair value determination - continued

				As at 31 March 2018
	Level (1) £'m	Level (2) £'m	Level (3) £'m	Total £'m
Bonds	9,630.9	-	-	9,630.9
Pooled arrangements	-	-	738.0	738.0
Insurance contracts	-	-	(0.9)	(0.9)
Asset and longevity swaps	-	-	(2,832.4)	(2,832.4)
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**

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

18. 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.

18. Investment risk disclosures - continued

(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.

The Scheme maintains a substantial proportion of its assets in longevity swaps and insurance contracts, UK Government bonds and cash which closely match expected future cash outflows, in order to minimise volatility of assets relative to liabilities. Current pension outgoings are met from the longevity swaps and insurance contracts payments, bond income and contributions from the employer. At the year end the liability matching portfolio represent approximately 90% of the total investment portfolio, approximately 72% of which were the longevity swaps and insurance contracts.

The Scheme continues to allocate a relatively small proportion of its assets (around 9%) to investments exhibiting higher risk but with correspondingly higher return expectations. Based on the actuarial assumptions used in the valuation, the excess return on these investments (compared to the increase in the liabilities) together with normal and deficit reduction contributions should enable the Scheme to meet the benefits payable to members as they fall due.

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 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 15).

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

The Scheme lends certain fixed interest and equity securities under a 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 year end, the Scheme had lent £9.2 million (2018: £284.3 million) of public sector securities and £nil (2018: £nil) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 102.0% (2018: 102.1%) of stock lent.

18. Investment risk disclosures – continued

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.

The Trustee carries out due diligence checks on the appointment of a new fund and on an ongoing 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 year end was as follows:

	2019	2018
	£'m	£'m
US Dollar	15.9	35.3
Euro	12.2	9.6
Other	0.2	0.3
	28.3	**45.2**

(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 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 liability 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 expected to be lower.

(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 28.5% of investments in return seeking assets. This was the position at the year end.

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

19. Contingent liabilities and contractual commitments

The following contractual commitments existed at the year end:

	2019	2018
	£'m	£'m
Pooled arrangements		
Property	13.1	18.9
Alternatives	31.4	55.3
Private equity	13.1	16.0
	57.6	**90.2**

20. 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.

21. 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. As the reinsurance contracts were novated to Legal & General Assurance Society Limited as part of the buy-in this company will no longer be required will be placed into voluntary liquidation.

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 provides occasional services to the Scheme (e.g. recruitment, advice on contracts for the purchase of equipment) for which the Scheme is not recharged.

The Trustee Directors of the Scheme are considered to be key management personnel. Virginia Holmes and Roger Maynard were remunerated by BA Plc in respect of their services as Chair of APSTL. Pensioner elected Trustee Directors were also paid by the Employer.

Only the member nominated Trustee Directors were either a member or pensioner of APS. If a Trustee Director is a member or a pensioner, then their pension rights are on terms normally granted to members.

22. Guaranteed Minimum Pension (GMP) equalisation

As explained on page 2, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women concerning guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and have already undertaken a significant amount of work to understand the impact on the Scheme. There are a number of subsequent a hearings scheduled in relation to equalisation and the Trustee will await the outcome of these before they take any further action. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

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 2019 which is set out on page 38.

In our opinion contributions for the Scheme year ended 31 March 2019 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary on 23 March 2016, 19 February 2019 and 8 April 2019.

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 13, 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 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 for our work, for this statement, or for the opinions we have formed.

Fang Fang Zhou
For and on behalf of KPMG LLP, Senior Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf
London E14 5GL

Date: 4 October 2019

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 2019

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, 19 February 2019 and 8 April 2019 in respect of the Scheme year ended 31 March 2019. 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	3.1
Employer deficit funding – regular	41.2
Employer deficit funding – cash sweep	40.0
Employee normal contributions	0.1
Contributions payable under the Schedule (as reported on by the Scheme auditor)	**84.4**

Reconciliation of contributions

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

	£'m
Contributions payable under the schedule (as above)	**84.4**
Contributions payable in addition to those due under the schedule:	
Employer Section 75 debt	0.2
Employer augmentation	0.1
Employee Additional Voluntary Contributions	1.7
Total contributions reported in the financial statements	**86.4**

This report was approved by the Trustee Board on 1 October 2019 and was signed on their behalf by:

Fraser Smart
Scheme Secretary

The Airways Pension Scheme
Schedule of Contributions
("Transitional Schedule of Contributions")

Period covered by this schedule: **Five years from the date of certification of this Schedule by the Actuary**

Level of contributions payable:

By members:

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

% Pay for Contribution Purpose	
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 December 2018;
    - £50,416,666 for the month of November 2019;
    - £4,583,333 per month, for the period December 2019 to 31 March 2023.

As a result of the Settlement Agreement, the Trustee and BA have agreed transitional arrangements for 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. These include a contingent payment of £250m in 2019. As part of these additional previously agreed arrangements, a one-off payment of £3,750,000 was paid in June 2012 as part of the cash sweep arrangement.

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 agreements, 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): 7 August 2019

Signed on behalf of the Trustee of the Scheme

Philip Hogg
Trustee Director

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

Rebecca Napier
British Airways CFO

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
a Willis Towers Watson Company
Watson House
London Road
Reigate
Surrey
RH2 9PQ

26 September 2019

(Forming part of the Trustee's 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 Trustee's Report)

Significant actuarial assumptions - continued

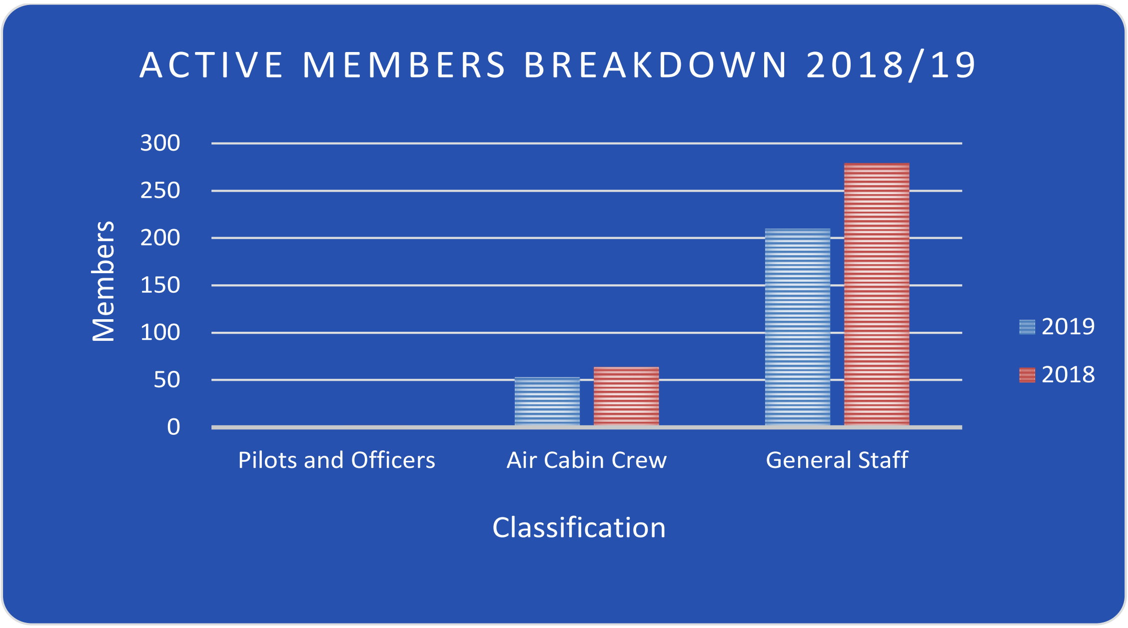
Mortality: the base table of mortality assumed at 31 March 2012 is summarised below. This is based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. The table is then calibrated, based on the results of a Generalised Linear 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).

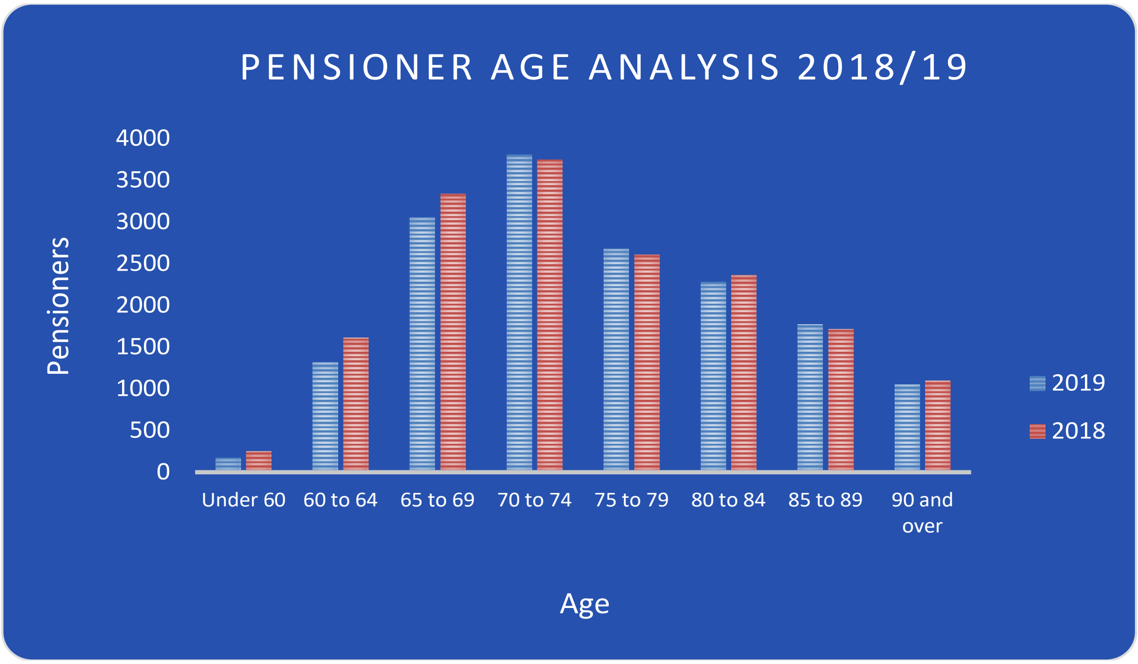
Group	
Male non-pensioners with: - Low pensions* - High pensions*	87% of S1PML 113% of S1PMA_L
Female non-pensioners	85% of S1PFA
Male dependents of non-pensioners	124% of S1PMA
Female dependents of non-pensioners	90% of S1DFL
Male pensioners with: - Low pensions* - High pensions*	88% of S1PML 91% of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

	2019	2018
Active members	264	345
Pensioners in payment	16,137	16,733
Dependant pensioners	6,101	6,237
Deferred pensioners	748	881
	23,250	**24,196**





In addition to the above, there are approximately 21,000 (2018: 22,000) 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.

British Airways Pensions Services Ltd

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