

# Annual Report and Accounts 2008

Airways Pension Scheme



**Year ended  
31 March 2008**

# Annual Report and Accounts

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# Chairman's Review

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Last year our agenda was dominated by the three-yearly actuarial and funding valuation. This year the Trustees have taken advantage of a relatively less intense workload to focus attention not only on ongoing business but also on the way that we conduct that business. The key themes have been the continued monitoring of the financial and funding positions of the Schemes, investment policy and governance. We have kept members up-to-date with developments in these and other areas by making extensive use of our In Focus publication.

## Headline Results

In a Scheme as mature as the Airways Pension Scheme (APS) it would usually be expected that there would be a gradual reduction in the value of the fund as the amount paid out in the form of pension benefits exceeds the 'in flow' of pension contributions (paid by the Company and a falling number of active members) and the investment returns. However, over the past year the net asset value of the fund has increased from £6,520.0 million at the beginning of the year to £6,673.6 million by the end of year. Although benefit outgo has reduced slightly the main reason for this is the large increase in the value of the index-linked gilt holdings of the Fund. Michelle McGregor Smith, CEO BAPIML, provides more information on investment conditions during the year in the investment report found on page 13.

## Scheme funding

A new piece of work for the Trustees in the autumn of 2007 was an update of the valuation position at 31 March 2007. The results of this update valuation were communicated to members in the Annual Funding Statement which was sent to all members in January 2008 and are summarised here on page 5. The Actuary used the membership information from the update valuation to conduct an interim analysis of mortality rates since the 2006 valuation. Although the mortality assumptions were not updated for the purposes of the annual update, the analysis of the latest data which included general mortality statistics suggested that a faster rate of improvement may need to be allowed for in the next formal valuation in 2009. Interestingly, in February 2008 the Pensions

Regulator issued a consultation document concerning its proposed approach to mortality assumptions especially in relation to the possible strengthening of allowances for future improvements.

The next annual update will be in 2008. Preparatory work for the next full three-yearly valuation (as at 31 March 2009) will begin in September 2008.

## Valuation vs Annual Report & Accounts results

It is important to distinguish between the results of the actuarial valuation and the Annual Report and Accounts. The Accounts describe the financial position i.e. net assets of the fund on a particular day, in this case 31 March 2008. The valuation process is a separate exercise and is a detailed investigation into whether, over the long term, the Scheme is likely to be able to pay the benefits that are due to be paid under the Scheme Rules.

## Investment

One of the major projects undertaken by the APS Trustees was to consider how the Scheme might better match its assets and liabilities. This work followed on from the risk reduction strategies considered as part of the 2006 valuation and investment strategy review. We have kept members up-to-date with the evolution of the investment strategy using the In Focus publication but a more detailed account on page 9.

## Governance Review

The existing governance arrangements, including the Committee structure which is now a common feature of most large UK schemes, were introduced in the wake of a major external review of the Trustee Governance arrangements in 2002. In 2007 the Trustees commissioned a further independent review to ensure that the current arrangements remain appropriate given the significant changes in the regulatory environment. As part of this review the Trustees were asked to consider the extent to which the current arrangements facilitate sound management and effective decision making. The conclusion of the review was that the current arrangements are 'fit for purpose' although some

improvements, mostly concerned with ensuring adequate Committee support and resources, could be made. The issues that have been identified will be tackled in 2008 to ensure that our arrangements continue to represent 'best practice'.

More details about the operation of Scheme's governance arrangements are on page 6 and more detail about the activities of the Governance Committee are on page 7.

## **Trustee Board Appointments and Retirements**

We welcomed Graham Tomlin, who has served previous terms as an elected Trustee, back to the APS Board. Michael Post was also re-elected as a Pensioner Trustee. These appointments were effective from 1 October 2007. This was the date that the number of Trustees serving on the APS Trustee Board was increased from 10 to 12 and the term of office for Trustees was extended to between five and five and a half years. In addition, Tom Mitchell was re-elected as a Member Nominated Trustee and Stuart Scott was re-elected unopposed as a Pensioner Trustee. These appointments were effective from 1 April 2008.

BA also appointed Raj Mehta to the APS Board from 1 October 2007. In terms of other Company appointments Paul Douglas retired on 30 September 2007 and BA appointed Jon Round as his replacement.

## **The Year Ahead**

The aim of focusing on governance issues over the past year was to ensure that the Trustees continue to have the training, skills and resources (internal and external) that are needed for future work. The key tasks will be the continued monitoring of the employer covenant, the annual valuation update, investment strategy, continuous assessment of the governance framework, and the preparatory work required for the 2009 valuation process.

Finally I would like to thank my fellow Trustees for the work they have undertaken over the past year. I would also like to acknowledge the demands that have been made on the teams at British Airways Pension Investment Management Ltd (BAPIML) and British Airways Pension Services Ltd (BAPSL) and the way in which both

organisations rose to those challenges. In 2007/08 the BAPSL team were very busy implementing the New Airways Pension Scheme (NAPS) benefits changes as well as the raft of other changes necessitated by the 'A Day' legislation. The Trustees also recognise that they have benefited from BAPIML's expertise in helping to develop and then efficiently execute the changes to the investment strategy.

**ROGER MAYNARD**  
**Chairman of Trustees**

**June 2008**

# Trustees and Advisers

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## Appointed by British Airways

**Roger Maynard**  
Director of Investments  
and Alliances

**Robert Boyle**  
Commercial Director

**Ruth Cassidy**  
Head of People  
Open Skies

**Steve Gunning**  
MD BA World Cargo

**Raj Mehta**  
GM MMCO

**Jon Round**  
GM Short Haul

## Member Elected

**Allan Bromwich**  
Technician

**Thomas Mitchell**  
Support Analyst

**Clifford Pocock**  
Retired

**Michael Post**  
Retired

**Stuart Scott**  
Retired

**Graham Tomlin**  
Retired

## Retired during the year

**Paul Douglas**  
BA appointed

## Advisers

**Scheme's Actuary**  
Michael Pardoe  
Watson Wyatt Ltd

**Legal Advisers \***  
Eversheds LLP

**Bankers**  
Bank of New York

**External Custodian**  
State Street Bank  
and Trust Co

**Auditors**  
KPMG LLP

**Independent Investment Advisers**  
Andrew Threadgold  
Geoff Lindey  
Colin Maltby Until 30 June 2007

**Financial Advisers  
& Internal Auditors**  
PricewaterhouseCoopers LLP

## Administration

**British Airways Pension Services Ltd**  
John Birch  
Managing Director & Scheme Secretary

## Investment Management

**British Airways Pension Investment  
Management Limited**  
Michelle McGregor Smith  
Chief Executive

The Airways Pension Scheme - Pension Scheme Registry Number: 10057028

\* In addition to the Scheme's principal advisers, Messrs Macfarlanes are legal advisers to the Schemes in respect of certain investment activities, Messrs Forsters LLP are legal advisers in relation to some property transactions and Mercer Human Resource Consulting Limited are advisers in respect of the management of currency transactions.

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 updated Funding Position of the Scheme, Scheme Governance, Investment, Scheme Changes and Pensions Administration Matters. The final section contains general information about the Trustees' responsibilities. The financial statements have been prepared and audited in accordance with regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

## Scheme Funding Position - Valuation Update

The last full valuation exercise established that at 31 March 2006, APS had a funding level of 100% which meant that the Scheme had just enough funds to provide benefits as they fell due to be paid over the years ahead. However, during 2006/07 the Trustees and British Airways agreed that, to further improve the underlying security of the Scheme, the Company would arrange to provide, via external financial institutions, guarantees to the value of £230m which would be provided in the event of the Company becoming insolvent. Those guarantees remain in place but the Trustees asked the Actuary to provide an update of the funding position of the Scheme as at 31 March 2007. This work was commissioned in September 2007 and the results were communicated to members in January 2008 in the form of a 'summary funding statement' as required by the new funding legislation.

This update did not involve the detailed analysis which took place as part of the formal three-yearly valuation, but some of the underlying assumptions were updated to reflect actual investment conditions as at 31 March 2007. A particularly important assumption is how long pensioners will live. The 2006 valuation assumed that pensioners' life expectancy would continue to grow. The details of this assumption have not been updated, but analysis of the latest data suggests that a faster rate of improvement may need to be allowed for in the next formal valuation in 2009.

The following table shows the approximate funding level of the Scheme to provide the level of benefits promised under the Rules of the Scheme as they fall due (known as the 'technical provisions'<sup>1</sup>). Whilst these figures show a slight increase in the funding level there is no guarantee that this will always be the case and the position will be formally reviewed each year.

Date	31 March 2006	31 March 2007
Technical provisions funding level	100%	102%

The main reason for the funding level improvement is the increase in yields on index-linked gilts over the period under review.

Member communications have not only provided funding information concerning the funding level in relation to technical provisions but have also set out the funding levels on two other measures: a) if the Company withdrew its support (e.g. in the event of insolvency) but with the Trustees continuing to run the Scheme on; and b) on the basis that the Trustees bought out the benefits with an insurance company. On these measures the funding levels have also improved from 93% to 95% and 86% to 87% respectively.

The Actuary will be asked to carry out another annual review as at 31 March 2008 and members will be notified of the outcome of that review once that work is complete.

<sup>1</sup> The term technical provisions refers to the amount needed for the Scheme to pay the liabilities as they fall due.

# Trustees' Report

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## SCHEME GOVERNANCE

### Trustee Governance

The Pensions Regulator has identified the main priorities for pension scheme governance as:

- Trustee Knowledge and Understanding
- Conflicts of Interest
- Monitoring of the Employer covenant
- Relations with advisers
- Administration
- Process for investment choice

The Trustees have governance policies in place which cover all of these areas. Over the course of 2007 the Regulator has focussed particularly on the first three of these governance priorities.

### Trustee Knowledge and Understanding (TKU)

The Trustees have a formal training policy the foundation of which is the TKU framework.

An induction programme is provided for new Trustees on appointment. Thereafter each year all Trustees are asked to complete an individual skills gap analysis which informs future training provision. The content, frequency and level of training is tailored to the outcomes of the assessment of the Trustees' particular learning needs but is also related to the Committee on which each Trustee serves. Each Committee produces an annual business plan which identifies the topics and issues that are to be discussed and determined during the year. Appropriate training sessions are then scheduled to support these activities.

Training is provided in a range of formats by a variety of providers. The Actuary and other advisers provide training to some or all of the Trustees either in routine Main Board or Committee meetings or in specially arranged events. Bespoke training is also provided by BAPIML and BAPSL. Trustees are actively encouraged to supplement this formal training plan by accessing other resources such as the Pension Regulator's Trustee Toolkit, specific industry conferences, seminars, training modules and publications.

Records of course attendance are maintained and Trustees are encouraged to undertake formal qualifications. All Trustees who were appointed before October 2007 have successfully completed the Pensions Management Institute Trustee Certificate.

### Conflicts of Interest

The Trustees recognise that they are in a position of trust and need to have policies and arrangements in place to identify, monitor and manage conflicts. The Trustees have taken legal advice to ensure that they have appropriate processes in place to manage conflicts of interest. In February 2008 the Regulator published a consultation document relating to the governance of conflicts of interest. The Trustees will benchmark the existing arrangements against the Regulator's guidance and, if necessary, take any action to ensure 'best practice' in this area.

### Monitoring of the Employer Covenant

The Trustees consider it critical that they understand and monitor the financial strength and covenant of the employer on a continuing basis. PricewaterhouseCoopers, who advised the Trustees on employer covenant issues during the 2006/07 funding valuation process, have been asked to provide six-monthly updates to the Trustees. They reported to the Trustees in June and December 2007, providing an analysis of the Company's financial results to 31 March 2007, the prospective forecasts for the year to March 2008 and a longer-term prognosis of the Company's financial position.

Under the terms of the funding agreement a reporting framework was agreed with BA to ensure that the Trustees receive regular updates on the business activities and financial position of BA. These arrangements have worked well over the past year. Mr Keith Williams, CFO BA, and other representatives from BA have made several presentations to the Trustees to provide an update on the financial activities of the Company.

## Trustee Arrangements

The last Report & Accounts itemised the changes to the Trustee structure and appointment arrangements with effect from 1 October 2007. The Trustee arrangements for APS are as follows:

- The Scheme is administered by 12 Trustees
- Six of the Trustees are appointed by BA
- Two of the Trustees are elected by active members of the Scheme. Each will come from different occupational groups unless there are insufficient nominations to avoid this. These Trustees must be active members of APS
- Four of the Trustees are elected by pensioner members of the Scheme and must be pensioner members\* of APS
- A Trustee may remain in office for a minimum of five years and a maximum of five and a half years and is eligible for re-appointment (provided that he/she still meets the eligibility criteria for the relevant vacancy). (This was adopted with effect from 1 October 2007 - previously the term was for three-three and a half years)
- Nominations for elected Trustees must be supported by at least 10 members in the relevant constituency and if there is more than one nomination for a vacancy a postal ballot of the relevant members is held. The result is decided on a simple majority of the votes cast. (This was adopted with effect from 1 October 2007 - previously nominations for all elected Trustees had to be supported by 20 members)
- An elected Trustee may be removed from office following a postal ballot in which two thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustees by 50 of the relevant members
- These changes were adopted following the review conducted to ensure that the arrangements were compliant and appropriate in the light of the Occupational Pension Schemes (Member-nominated Trustees and Directors) Regulations 2006 and were introduced by a Supplemental Deed date 25 May 2007

\* 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

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

**Governance Committee:** This Committee, which is chaired by Roger Maynard, meets quarterly and is principally concerned with legislative compliance and risk management. It monitors the management of the risks to which the Scheme is exposed and audit activity (including the work of both the external and internal auditors appointed by the Trustees). It is also responsible for the establishment of training programmes, the annual reviews of the performance of the Scheme Advisers and internal procedures such as ballot processes. Where appropriate the Committee reviews any Internal Dispute Resolution Procedure (IDRP) cases previously considered by the Operations Committee. During the year the Committee's work also included consideration of the Codes of Practice relating to Trustee Knowledge and Understanding, Notifiable Events and Reporting Breaches of the Law.

The Committee also oversaw the 2007 governance review to ensure that the current arrangements remain appropriate given the significant changes in the regulatory environment.

# Trustees' Report

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## **Governance Committee (continued)**

Whilst the conclusion was that the existing framework is 'fit for purpose' and facilitates sound management and effective decision making, the Committee will monitor the implementation of the recommended enhancements, particularly in relation to resources. The Committee met four times during the year.

The Trustees are committed to high standards of governance in all aspects of the Scheme's operations. The Trustees acknowledge their responsibility for the Scheme's system of internal controls and for reviewing its effectiveness. These internal controls, the effectiveness of which are routinely reviewed by the Governance Committee, are designed to manage risk and control the business and financial activities of the Scheme. To achieve these objectives the Trustees have adopted a robust risk control framework. The robustness of the risk control framework is validated by independent Internal Auditors, PricewaterhouseCoopers LLP, whose audit activities are directed by the Governance Committee.

**Operations Committee:** This Committee, which is chaired by Ruth Cassidy, meets monthly to consider matters requiring Trustees' discretion (e.g. payment of death-in-service benefits) and second stage applications under the Internal Dispute Resolution procedures. In addition the Committee considers any proposed Rule changes, oversees the Scheme's communication strategy, monitors levels of service, considers the annual budget and monitors expenditure. The detailed issues concerning the adoption and/or implementation of the Scheme changes itemised on pages 10 and 11 were considered in the Committee forum before review by the full board. The Committee continues to undertake the review of ill health pensions in payment to ensure that continuation of the pension is in accordance with the Rules. In addition, over the past year the Committee has conducted a detailed review of the Variable Pension Option, monitored the withdrawal of participating companies and the associated exit debts, considered the policy options in relation to the chargeable amounts arising when the Lifetime Allowance is exceeded, reviewed transfers in relation to AVC benefits and reviewed data privacy issues. The Committee also

considered the methodology for calculating the EBF (Equity Biased Fund) annual return declaration. A review of the draft regulations concerning transfer values, which are expected to come into effect on October 2008, has also been completed. In addition the Committee has spent time finalising the rule amendments required, initially implemented by an Interim Deed, by the Finance Act 2004 and age discrimination legislation. Finally, the Committee actively monitored the process to consolidate the Trust Deed and Rules in the wake of these changes. The Committee met 12 times during the year.

**Investment Committee:** The Committee is chaired by Robert Boyle and usually meets five times a year. The Committee, which is supported by independent investment advisers, deals with investment approval and reporting arrangements, the monitoring of investment performance and consideration of the various investment options available to the Scheme. Over the past year the Committee has monitored the funding position and considered potential approaches for implementing a derivatives strategy.

They have considered the options associated with currency management (hedging and active management), a liability-driven review of the bond benchmark, the performance measurement of private equity investments and the stock lending arrangements, as well as the current allocations to UK and International equities. They have also investigated investment in other 'diversifying assets' (e.g. emerging market bonds, infrastructure and leveraged loans). The Committee actually met seven times during the year.

## **Performance of Trustees**

Attendance records for Trustee and Committee meetings have been maintained and are shown opposite.

On several occasions those Trustees not able to attend a meeting appointed an alternate to speak, and if necessary, exercise their vote. In addition, some Trustees attended, as observers, meetings of Committees to which they are not formally appointed; such occurrences are not included in the attendance list.

# Trustees' Report

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of Appointment
Roger Maynard (Chairman)	4/4	-	-	3/4	Whole year
Robert Boyle	-	7/7	-	3/4	Whole year
Allan Bromwich	-	6/7	5/6 to Sept	4/4	Whole year
Ruth Cassidy	-	-	10/12	3/4	Whole year
Paul Douglas	2/2	-	5/6	1/1	To Sept 2007
Steve Gunning	-	5/7	-	4/4	Whole year
Raj Mehta	-	-	-	3/3	From Oct 2007
Tom Mitchell	-	-	12/12	4/4	Whole year
Capt Cliff Pocock	4/4	-	-	4/4	Whole year
Capt Mike Post	-	7/7	-	4/4	Whole year
Jon Round	2/2	-	6/6	3/3	From Oct 2007
Stuart Scott	2/2 to Sept	-	From Oct 6/6	4/4	Whole year
Graham Tomlin	2/2	-	-	3/3	From Oct 2007

## Investment

The 2006/07 Annual Report and Accounts provided details of the decision to reduce the equity allocation from 21% to 15%. The proceeds of the sale of equities were used to purchase matching duration bonds, as was the 5% which had been held as 'Strategic Cash'. These transactions which totalled some £700 million were executed in mid-July which was prior to the equity market falls subsequently observed.

Since that time the Investment Committee has consulted their advisers and consider that in certain market conditions it may be appropriate to implement some changes to investment strategy in relation to the index-linked portion of the fund along with some diversification of assets. This decision, taken together with the reduction in the allocation to equities, was motivated by the likelihood that this strategy will improve the funding position of the Scheme over the long term without materially increasing the level of investment risk to which the whole fund is exposed.

## Statement of Investment Principles (SIP)

A revised SIP was adopted with effect from May 2008 to reflect the amendment to the investment policy such that 1% of equity assets were allocated to the leveraged loan asset class. A copy of the SIP is available on request from the Secretary's office or can be accessed on the [www.mybapension.com](http://www.mybapension.com) website.

## Compliance with the Myners Principles

The Trustees are satisfied that the Scheme remains compliant with the Myners Principles but have continued to monitor developments in this area.

In 2007 the National Association of Pension Funds (NAPF) published its review of the 2001 Myners Principles following a year-long consultation period with the pensions industry. The report which was undertaken at the request of HM Treasury concluded that overall standards of governance of UK pension schemes had continued to improve although progress, particularly amongst smaller schemes, had been uneven. The NAPF made recommendations to bring the Myners Principles in line with current best practice and to reduce the number of Principles from the current 10 to six high level Principles. HM Treasury welcomed the report and said it would use the findings to consider future changes. In March 2008 HM Treasury, the Department for Work and Pensions and the Pensions Regulator launched a consultation for updating the Myners principles. The consultation proposes a set of refreshed and simplified, higher level principles and the development of a comprehensive suite of authoritative best practice guidance and tools which will assist trustees to improve investment decision making and governance. The period for consultation closes in June 2008.

# Trustees' Report

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## PERFORMANCE

### Measuring performance

In accordance with the Myners' Principles the Trustees have adopted a customised benchmark as this ensures that the investment performance objectives are related directly to the circumstances of the Fund and not to some other measure such as the performance of other funds whose liability profiles might be quite different to APS.

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

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

Although BAPIML has outperformed the benchmark (9.88% compared to 9.83%), as assessed over a rolling five-year period they fell short of the 0.3% performance target. A more detailed explanation of the factors which contributed to investment performance during the period under review can be found on pages 14 and 15.

### Security of Assets

The Custodian Trustee of APS, British Airways Pension Trustees Limited (BAPTL), holds the assets of the Scheme on behalf of the Trustees. However, physical custody of the Schemes' securities (i.e. stocks and shares) has been delegated to independent external custodians, State Street Bank and Trust Company.

## SCHEME CHANGES

### Pensioners with deferred AVC accounts

Occasionally pensioners draw their main Scheme benefit but leave their AVC accounts deferred within the Scheme. In the past the Rules of the Scheme have not permitted these AVC accounts to be transferred to an external pension arrangement, but the Trustees have amended the Rules to allow this facility. Each pensioner concerned has received an individual letter advising of this new arrangement.

### Transferring Benefits

It is expected that in Autumn 2008 the regulations governing transfers from one scheme to another will be amended which will have the effect of increasing the amount of cash available to be transferred between schemes. Those members and, in particular deferred pensioners, who are considering transferring their benefits from the Scheme to another pension arrangement, will want to bear this information in mind when deciding the timing of any potential transfer. The Trustees recommend that members/deferred pensioners considering transferring benefits out of the Scheme consult their independent financial adviser about the timing of the transfer.

### SmartPension

All members have been sent information from the Company concerning its new salary sacrifice scheme known as SmartPension. Scheme Rules have been amended to reflect this new arrangement, but all levels of benefits will be unaffected by the new arrangements. However, because of the way SmartPension works, members who pay maximum AVCs, i.e. 30% of pay, now pay more AVCs.

Conversely, those members who are not paying maximum AVCs, but are nevertheless paying AVCs as a percentage of pay (rather than a fixed monetary amount), will pay a slightly lower amount of AVCs. As a result, AVC contributors have been advised to bear this point in mind and, if necessary, let the staff at Whitelocke House know if they wish to make any amendments to their AVC arrangements.

## Flexible Accrual

This arrangement, the terms of which are reviewed by the Scheme's Actuary, is provided by British Airways under the discretionary provisions of the Scheme and is intended to be cost-neutral to British Airways. Following the latest review the Actuary has confirmed that, with further improvements in APS members' average life expectancy and lower long-term interest rates, the cost to the Scheme of providing Flexible Pension Build-up options has risen substantially. Consequently, the extra contributions applicable in respect of this option will be increased with effect from 1 April 2008.

Whilst the Flexible Pension Build-up option is intended to be cost-neutral, British Airways has decided not to pass on the whole of the additional cost to members at this stage, in order to minimise the impact of the change as far as possible. The Actuary has indicated that a further review of the costs of the Flexible Pension Build-up option will be necessary in 2009.

The new rates applicable from 1 April 2008 are shown in the tables below.

### Rates for Pilots & Engineering Officers (election date 1 April 2008) and Cabin Crew (election date 1 February 2009)

Build-up rate	Old contribution rate	New rates from 1 April 2008
52 (standard)	8.50%	8.50%
48	11.00%	11.75%
45	13.25%	14.50%

### Rates for Ground Staff (election date 1 October 2008)

Build-up rate	Old contribution rate	New rates from 1 April 2008
56 (standard)	7.25%	7.25%
52	9.25%	9.75%
49	10.75%	11.75%

## Internal Dispute Resolution Procedure (IDRP)

The Trustees are required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The Trustees have appointed John Birch, Managing Director of BAPSL, as the designated person to deal with the first stage adjudication.

In the event that the complainant is not satisfied with the outcome the matter is then referred to the Operations Committee or, in certain circumstances, the Governance Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House or on our website.

The Pensions Act 2007 includes provision for trustees of occupational schemes to replace the two stage IDRPs with a single stage. The Trustees decided to retain the existing two stage process as it provides complainants with a right to respond to a decision. The process will again be reviewed following the publication of the Pension Regulator's Code of Practice which was laid before Parliament in March 2008.

## PENSIONS ADMINISTRATION MATTERS

### Cash Equivalent Transfer Values

Transfer values paid during the year were calculated and verified in the manner prescribed by the regulations under Section 97 of the Pension Schemes Act 1993. Discretionary benefits are not included in the calculation of transfer values.

### Pension Increases

Scheme Rules provide that the annual increase shall be the percentage specified in the Pensions Increase (Review) Orders. Each Order reflects the rise in the Retail Prices Index over a 12-month period measured up to the end of September each year. Increases apply to all pensions payable under the Rules of APS (whether in deferment or actually in payment) except where the member remained in active service after 31 December 1973 and did not transfer to Part VI of the Scheme. People in this latter category receive increases in line with price inflation up to 5% a year in respect of any part of the pension relating to pensionable service after 31 March 1997. The Pensions Act 2004 reduced increases on pensions in payment for people in this category to inflation up to 2.5% in respect of service after 5 April 2005. Dependents in receipt of pensions derived from a deceased member in this category do receive increases at the rate shown in the Orders, but only up to 5% a year.

In accordance with the 2007 Order, pensions were increased by 3.6% on 9 April 2007 and, in accordance with the 2008 Order, by 3.9% on 7 April 2008.

All pension increases are a right under the Scheme and are not discretionary.

# Trustees' Report

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## STATEMENT OF TRUSTEES' RESPONSIBILITIES

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

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

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

The Trustees also have certain responsibilities in respect of contributions which are set out in the Statement of Trustees' Responsibilities accompanying the Trustees' Summary of Contributions.

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

This Report was approved by the Board of Trustees on 25 June 2008 and was signed on their behalf by:

**John Birch**  
Secretary

## REVIEW OF THE YEAR

Once again the Fiscal year could be split into two distinct phases, with the early part characterised by rising equity markets and weakening bond markets. Initially confidence in the economy was relatively strong and there continued to be high volumes of takeover activity, especially at the larger market capitalisation end of the market, largely due to private equity and debt driven buyers. This pushed equity markets higher and bond markets retreated. Whilst concerns over the level of economic growth in the US were justified, overall China and other developing nations exhibited healthy growth due to a mix of infrastructure investment and the growth of the domestic consumer. Europe also benefitted from export volumes to these nations as well as the gains from years of restructuring.

The resource rich countries and companies continued to perform well as demand for oil, metal and food commodities rose. These countries invested the healthy trade and budget surpluses in a mixture of domestic and overseas investments, moving further away from the safe haven of Government bonds and into corporate acquisitions, both buying stakes and outright takeovers. The emergence onto centre stage of the Sovereign Wealth Funds and the Reserve Funds led to more frenzied takeover speculation and debate over how they would invest this growing cash pile, raising market confidence. As it turned out there were many investment opportunities later in the year without paying a market premium as financial institutions needed to find corporate backers. We will return to this later in the Review. The market commentators who were concerned over potential threats from these Reserve Funds had to admit that they acted as an important stabiliser in the second part of the year.

Liquidity from these reserve funds, combined with high levels of debt in private equity funds, hedge funds and healthy corporate cash flows chased yields on 'riskier' assets.

In general, earnings and dividend growth was healthy, leading to strong levels of corporate cash flow. Whilst activity was at high levels, many central banks continued to raise interest rates and caution on the outlook for inflation, which caused yields to move higher in bond markets.

The second phase in markets began when the effects of the US sub-prime crisis rattled the markets in late summer. The extent of the write downs by financial companies and the far reaching effect on other asset structures resulted in a crisis of confidence which paralysed the financial system. The use of highly geared, inflexible structures were undermined with the withdrawal of liquidity from the system. These often off-balance sheet vehicles had to be funded by the banks or hedge funds themselves as other market participants were no longer willing or able to provide capital. This was compounded by a lack of transparency leading to difficulties in assessing counterparty risk. There were hedge fund failures and bank bailouts in various guises in the developed economies. The Sovereign Wealth Funds and Reserve Funds were present in many recapitalisations.

The central banks have injected liquidity through a variety of methods in a move designed to avert further collapse and recently financial institutions have begun raising capital from the wider stakeholder-base. Parallels have been drawn with the 1930's and indeed many of the actions of the US Federal Reserve have followed the textbooks written after the depression on how to re-liquify the financial system.

Against this backdrop equities fell heavily amid stories of forced sellers and fraud, and bonds performed well, rallying strongly. Government bonds attracted a safe haven premium as investors were unsure on the underlying risk in other financial institutions and products. The central banks got what they wished for as yield curves steepened with short term rates very low, usually the precursor to recovery in the economy.

In recent weeks confidence has returned, equities have risen and bonds have fallen back slightly. Markets appear to believe the action by the US Federal Reserve and other central banks is sufficient to avert a major crisis. There is concern over the high level of commodity prices and inflation pressures leading to worries that the world economy will enter a period of stagflation.

# Investment Report

Asset Category	Actual % 31 Mar 2008	Benchmark % 31 Mar 2008	Actual % 31 Mar 2007	Benchmark % 31 Mar 2007
<b>Equities</b>	<b>15.7</b>	<b>15.0</b>	<b>24.5</b>	<b>21.0</b>
UK	6.6	7.5	12.8	10.5
International	9.1	7.5	11.7	10.5
<b>Bonds &amp; Cash</b>	<b>77.5</b>	<b>79.0</b>	<b>62.8</b>	<b>68.0</b>
UK Fixed	12.1	14.0	10.7	14.0
Overseas Fixed	2.3	-	1.4	-
UK Index-Linked	58.8	64.0	46.5	53.0
Overseas Index-Linked	3.6	-	3.3	-
Cash	0.7	1.0	0.9	1.0
Strategic Cash	-	-	4.6	5.0
<b>Commodities</b>	<b>0.8</b>	<b>1.0</b>	<b>0.6</b>	<b>1.0</b>
<b>Property</b>	<b>6.0</b>	<b>5.0</b>	<b>7.5</b>	<b>5.0</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Asset Allocation and Benchmarks

The Fund's tactical asset allocation and associated strategic benchmark for the major asset classes are shown in the table above.

Following strong performance from equities and valuations reaching acceptable levels there was a shift from equities and strategic cash into index-linked gilts.

In July the benchmark weighting in equities was reduced by 6% and the equity protection in the form of puts on the equity indices was reduced. Strategic cash was also reduced. The proceeds of these sales were invested in index-linked gilts of an appropriate duration for the Scheme's liabilities. The Trustees have continued to pursue opportunities for improving the efficiency of risk adjusted yield on the bond portfolios.

The Trustees and their Advisers have set bandwidths around the strategic benchmarks shown above. These allow BAPIML to make tactical asset allocation decisions to take advantage of valuation differentials between asset classes which may occur from time to time. The actual allocation shown was within these bandwidths.

## Performance

Overall at a benchmark level, returns in equity markets were mixed with UK, US and Japanese Equities falling during the year, whilst European, Asia Pacific and Emerging Market equities produced positive results. Emerging Market equities produced the strongest returns, only beaten by commodities. Overall bonds beat returns on cash, with index-linked bonds producing double digit returns, fixed interest bond returns were just below cash, whilst corporate bonds produced a negative return affected by concerns over the credit crunch.

Property assets fell after many years of strong returns. This was due to concerns that the debt-driven buyers of recent years would not be able to access finance because of the credit crunch, as well as worries over illiquidity of the asset class rather than any tenant defaults.

In terms of alternative assets, private equity produced positive results, largely a lagging indicator reflecting previous equity strength. Commodities produced the best results of all asset classes driven by global activity, developing economies and the emergence of bio-fuels demand.

# Investment Report

The Fund's benchmark has a high weighting in index-linked gilts and the positive returns from this asset class helped the fund overall. The Fund also hedges a proportion of holdings in overseas assets by converting these back to Sterling. Whilst this helps to reduce volatility in the long run, it reduced returns this year.

During the period under review, the fund underperformed its target returning 7.91% versus the benchmark return of 8.04%. The longer term performance is shown in the table below.

	2008	2006	2004	1999
		/2008	/2008	/2008
	1 year	3 years	5 years	10 years
	%pa	%pa	%pa	%pa
APS	7.91	8.92	9.88	6.11
Benchmark	8.04	9.15	9.83	6.01*

\* Combination of WM50 industry peer group and a customised BA strategic benchmark adopted in 2002.

In general, equity stock selection performance was good with most Fund Managers outperforming their benchmarks as they adopted a cautious stance when selecting stocks. This reflected concern over the pricing of risk in the market and slowing economic growth. Stocks such as financials were underweighted and there was a bias towards less economically sensitive stocks. In bonds the Fund suffered in index-linked gilts as the fund is tactically underweight the low-yielding, long-duration stocks which outperformed. Selection also suffered in corporate bonds especially in the portfolio used to back the index-linked swap, which is measured against Government index-linked returns. As we expect liquidity to return to the corporate bond market, we expect this sector to improve its performance. Holdings of overseas bonds boosted performance relative to the benchmark and property once again out performed the benchmark.

Asset allocation benefitted the funds, especially within International Equities. Overall the Fund reduced the tactical weighting in equities during the year, increasing the weighting in bonds and cash, also adopting a cautious stance. The equity protection produced positive results. The Fund has reduced the tactical weighting in UK equities due to the slowing economy and concern that the budget deficit and inflation would hinder the flexibility of the UK Government and the Bank of England Monetary Policy Committee to react appropriately.

## Fund's 10 Largest Holdings as at 31 March 2008

Stock Name	Security Type	£M	% Portfolio
UK Treasury 2.5% Index-Linked 2020	Government Bond	1318.0	19.7
UK Treasury 2.5% Index-Linked 2024	Government Bond	670.4	10.0
UK Treasury 2.5% Index-Linked 2016	Government Bond	490.3	7.3
UK Treasury 1.25% Index-Linked 2027	Government Bond	400.8	6.0
UK Treasury 1.25% Index-Linked 2017	Government Bond	304.6	4.6
UK Treasury 1.875% Index-Linked 2022	Government Bond	280.6	4.2
UK Treasury 4.25% 2032	Government Bond	173.2	2.6
US Treasury 3.875% Index-Linked 2029	Overseas Government Bond	100.0	1.5
Network Rail 1% Index-Linked 2027	Corporate Bond	98.0	1.5
UK Treasury 5% 2025	Government Bond	95.9	1.4

# Investment Report

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## AVCs

The Mixed Portfolio Fund recorded a return of -1.3%, outperforming the strategic benchmark return of -3.4%. The external AVC comparators returned -5.0%. The returns were driven by similar factors to those described above with the high benchmark weighting in equity, standing at 80%, the main reason for the negative return. The relative outperformance to benchmark reflected the strong outperformance of equity stock selection within this. Over the longer term, the Fund continued to exceed the return of these external providers when measured on a three, five and 10-year basis. In the year to 31 March 2008 the Short Dated Gilt Fund returned 5.08% and the Equity Biased Fund returned 11.07%

## Outlook

In recent weeks, confidence has returned to 'riskier' asset classes such as equity and corporate bonds.

The fund is relatively close to benchmark weight in most asset classes, having reduced equities and property earlier in the year.

Whilst equity market levels in general represent good long-term value relative to bonds, we believe the slowdown in the US, continued write-downs associated with the credit crunch and high oil and food prices will restrain profit and earnings growth. We believe this will limit equity performance over the coming months, but there may be opportunities to increase exposure to equities. Overall we expect growth in Asia and Emerging Markets to continue at adequate levels. An increasing part of these economies exhibit domestically-generated economic growth and investment, which will act as a balance to the US and UK slowdown.

The Fund remains underweight in UK equities. We believe concerns over the housing market will inhibit consumer confidence and with a high budget deficit, the Government has little room for manoeuvre. UK bond markets appear expensive on long-term valuations after turmoil in the financial system pushed yields down. Over the year, we expect inflation to moderate slightly but to remain close to the high end of the range we have experienced during this decade. We continue to look for long-term opportunities in alternative asset classes.

## Corporate Governance

The Fund Managers follow the Institutional Shareholders Committee principles, monitoring and engaging with companies on aspects of corporate governance and exercising voting rights in all regions through our custodian bank. In the UK in particular, research on aspects of corporate social responsibility is also taken into account to assess impacts on shareholder value. The outcomes of these programmes are reported back to the Trustees of APS. The voting records of the fund manager are held on our website: [www.mybapensions.com/corporategovernance](http://www.mybapensions.com/corporategovernance) on the 'Corporate Governance' page. These records are updated on the website each year, usually in August.

# Independent Auditors' Report

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## Independent Auditors' Report to the Trustees, of the Airways Pension Scheme

We have audited the financial statements of the Airways Pension Scheme for the year ended 31 March 2008 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Scheme Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustees those matters we are required to state to them in an auditors' 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 Trustees, as a body for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of Trustees and Auditors

As described in the Statement of Trustees' Responsibilities on page 12, the Scheme Trustees are responsible for obtaining an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustees' report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- Show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the Scheme during the scheme year ended 31 March 2008 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); and
- Contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995

**KPMG LLP**  
**Chartered Accountants**  
**Registered Auditor**

**25 June 2008**  
**8 Salisbury Square**  
**London**  
**EC4Y 8BB**

# Fund Account

	Note	2008 £'m	2007 £'m
<b>Contributions and Benefits</b>			
Contributions Receivable	4	28.6	35.6
Transfers In	5	-	0.2
		<u>28.6</u>	<u>35.8</u>
Benefits Payable	6	(343.7)	(348.0)
Leavers	7	(29.3)	(35.9)
Administration Expenses	8	(2.4)	(3.1)
		<u>(375.4)</u>	<u>(387.0)</u>
<b>Net (withdrawals) from dealing with Members</b>		(346.8)	(351.2)
<b>Return on Investments</b>			
Investment Income	9	174.6	170.2
Change in Market Value of Investments	10	330.5	66.9
Investment Management Expenses	8	(4.7)	(4.0)
		<u>500.4</u>	<u>233.1</u>
<b>Net Increase in the Funds</b>		153.6	(118.1)
<b>Net Assets of the Scheme</b>			
At 1 April 2007		6,520.0	6,638.1
At 31 March 2008		<u>6,673.6</u>	<u>6,520.0</u>

# Net Assets Statement

	Note	2008 £'m	Reclassified (see note 2) 2007 £'m
<b>Investments</b>			
<b>Investment Assets:</b>			
Fixed Interest Securities		1,005.1	1,328.5
Index-Linked Securities		4066.8	2,947.4
Equities		942.4	1,529.2
Derivatives		62.6	50.9
Private Equity		36.8	10.1
Private Equity Unitised Fund		63.3	58.5
Property		16.7	21.1
Property Unitised Fund		379.8	465.9
AVC Mixed Portfolio Fund		17.8	22.7
Other Investments		79.8	68.0
Cash		32.7	46.5
		<u>6,703.8</u>	<u>6,548.8</u>
<b>Investment Liabilities:</b>			
Derivatives		(13.5)	(1.3)
Other Investments		(9.0)	(20.5)
		<u>(22.5)</u>	<u>(21.8)</u>
<b>Total Net Investments</b>	11,12,13,14	<u>6,681.3</u>	<u>6,527.0</u>
Current Assets		0.1	0.2
Current Liabilities		(7.8)	(7.2)
		<u>(7.7)</u>	<u>(7.0)</u>
<b>Net Assets of the Scheme at 31 March 2008</b>		<u><u>6,673.6</u></u>	<u><u>6,520.0</u></u>

These accounts were approved by the Board of Trustees on 25 June 2008 and were signed on their behalf by:

Roger Maynard                      Management Trustee

Allan Bromwich                      Management Trustee

John Birch                              Secretary

# Notes to the Accounts

## 1. Basis of Preparation

These accounts summarise the transactions of APS for the year ended 31 March 2008 and they give details of the net assets at the end of that period. The accounts do not take account of obligations to pay pensions and other benefits in the future. The Scheme funding position takes account of such obligations and an update is provided on page 5 of the Trustees' Report and should be read in conjunction with these accounts.

The accounts of APS have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes. The revised SORP was issued in May 2007 and needs to be fully implemented for the financial year end 31 March 2009. The changes relating to derivatives have been adopted early and are reported in the Scheme's financial statements. Where appropriate prior year comparatives have been amended. Further details are provided in note 2 below.

## 2. Prior Year Reclassifications

In prior years the Scheme's investment in futures contracts was presented using the economic exposure methodology. The revised SORP no longer recommends using this basis and instead recommends the use of fair value. Therefore prior year comparatives have been restated to remove the economic exposure amounts and investments have been reclassified to comply with the new requirements as follows:

	Previously stated £m	Adjustment £m	Reclassified £m
Index-Linked	2,988.6	(41.2)	2,947.4
Equities	1,523.9	5.3	1,529.2
Derivatives	-	49.6	49.6
Other Investments	47.1	0.4	47.5
Cash	60.6	(14.1)	46.5
Total	4,620.2	-	4,620.2

## 3. Accounting Policies

### a. Contributions

Members' normal and employers' normal and additional contributions are included in the accounts on an accruals basis as laid down in the Rules of the Scheme ('the Rules') and are paid according to rates recommended by the Scheme Actuary and in accordance with the Schedule of Contributions. Members' contributions are accounted for when deducted from pay.

Section 75 debts are included on an accruals basis if the liability is known.

Employer normal contributions include contributions payable to the Scheme under salary sacrifice arrangements, which commenced from 1 February 2008.

### b. Investment Income

Income from equity, fixed interest and index-linked securities including recoverable taxation, is included in the accounts on the date when securities are quoted ex-dividend and after deducting investment-handling charges. Income from cash deposits is included on a cash received basis.

### c. Scheme Benefits and Withdrawals

Scheme benefits and withdrawals are included in the accounts in respect of entitlements up to the year-end in accordance with the Rules. Transfers in and out are accounted for on a cash received basis.

# Notes to the Accounts

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## **d. Investments**

Listed securities are valued using either the mid market closing prices or last dealt prices quoted on recognised Stock Exchanges as at the year end.

Specialist unit trusts are valued by reference to the latest published prices available at the year-end.

Derivatives are stated at fair value.

Exchange traded derivatives are stated at market value determined using market quoted prices.

The SWAP agreements are valued at the anticipated net present value of all net future cash flows occurring over the duration of the contract.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

Private Equity investments are valued by reference to the net assets as disclosed in the latest available financial statements and are adjusted for any cash movements if the statement date differs from the Scheme year-end.

## **e. Unitised Funds**

The investment assets of the Property Fund, the Private Equity Fund and the Additional Voluntary Contribution Mixed Portfolio Fund are included in the accounts at the market value of units held by the Scheme at the year end.

Property investments in the unitised funds are included at year-end open market valuations and have been externally valued by Atis Real Weatherall and Cushman and Wakefield both Chartered Surveyors. Indirect property holdings are valued at the latest valuation provided by each of the external managers.

Income from property rentals in the unitised funds is included on an accruals basis and is net of outgoings including managing agents' fees.

## **f. Foreign Currencies**

The market values of overseas investments and current assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the year-end. The gains/losses arising from foreign currency transactions are included in the change in market value of investments.

Investment income denominated in foreign currencies is recorded in sterling at actual exchange rates as at the date of receipt.

# Notes to the Accounts

## 4. Contributions Receivable

	2008 £'m	2007 £'m
<b>Employer</b>		
Normal	20.4	18.2
Augmentations	0.6	9.5
Section 75 debts	-	0.2
<b>Employee</b>		
Normal	4.3	5.5
Additional Voluntary	3.3	2.2
	<u>28.6</u>	<u>35.6</u>

As advised by the Actuary additional funding was required from BA for augmentations. Further details regarding contributions are included in the Summary of Contributions on page 31.

## 5. Transfers In

	2008 £'m	2007 £'m
Individual transfers in from other schemes	-	0.2
	<u>-</u>	<u>0.2</u>

## 6. Benefits Payable

	2008 £'m	2007 £'m
<b>Pensions</b>	(319.7)	(309.7)
<b>Commutations</b>		
- Normal	(18.3)	(26.4)
- Additional Voluntary Contributions	(5.4)	(10.8)
Lump sum death benefits	(0.3)	(1.1)
	<u>(343.7)</u>	<u>(348.0)</u>

## 7. Payment to and on Account of Leavers

	2008 £'m	2007 £'m
Individual transfers to other pension schemes	(29.3)	(35.9)
	<u>(29.3)</u>	<u>(35.9)</u>

## 8. Administrative and Investment Management Expenses

Administrative and Investment Management expenses are met by the Scheme. However, the levies required by the PPF Board are payable by BA. The Airways Pension Scheme bears 30% of the costs of BAPSL and 50% of BAPIML except where a cost relates specifically to the Scheme.

# Notes to the Accounts

## 9. Investment Income

	2008	2007
	£'m	£'m
Income from Fixed Interest Securities	62.5	63.7
Income from Index-Linked Securities	72.4	58.2
Net Dividends from Equities	33.7	41.6
Income from Cash Balances	4.3	6.1
Rental Income	0.3	0.1
Other Income	1.4	0.5
	<u>174.6</u>	<u>170.2</u>

## 10. Change in Market Value of Investments

	Reclassified Opening Value 2007 £'m	Purchase Costs & Derivative Payments £'m	Sale Proceeds & Derivative Receipts £'m	Change in Market Value £'m	Closing Value 2008 £'m
Fixed Interest Securities	1,328.5	628.7	(915.4)	(36.7)	1,005.1
Index-Linked Securities	2,947.4	1,126.7	(411.3)	404.0	4,066.8
Equities	1,529.2	434.1	(1,003.0)	(17.9)	942.4
Derivatives					
Swaps	41.2	16.1	(20.4)	21.1	58.0
Options	4.7	23.4	(26.8)	2.9	4.2
Futures	(0.3)	4.7	(9.8)	5.2	(0.2)
Forward Foreign Exchange	4.0	30.6	(12.0)	(35.5)	(12.9)
Private Equity	10.1	65.2	(41.2)	2.7	36.8
Private Equity Unitised Fund	58.5	7.9	(16.4)	13.3	63.3
Property	21.1	-	-	(4.4)	16.7
Property Unitised Fund	465.9	2.7	(64.5)	(24.3)	379.8
AVC Mixed Portfolio Fund	22.7	1.2	(6.0)	(0.1)	17.8
Other Investments assets	47.5	23.2	-	0.1	70.8
Cash	46.5	-	(13.9)	0.1	32.7
<b>Total Investments</b>	<u>6,527.0</u>	<u>2,364.5</u>	<u>(2,540.7)</u>	<u>330.5</u>	<u>6,681.3</u>

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

The change in market value of the Property Fund, the Private Equity Fund and the AVC Mixed Portfolio Fund is derived from the increase in the unit price of the units held in these funds by the Scheme. This reflects both the movement in the market value of the underlying investments of each fund and the related investment income. The change in market value includes income of £24.2m (2007: £17.6m) Property Unitised Fund, £0.7m (2007: £0.3m) Private Equity Fund and £0.7m (2007: £0.8m) AVC Mixed Portfolio Fund.

# Notes to the Accounts

## 11. Investments

	2008 £'m	Reclassified (See note 2) 2007 £'m
<b>Fixed Interest Securities:</b>		
UK public sector quoted	339.7	662.4
UK other quoted	513.9	539.7
Overseas quoted	151.5	126.4
	<u>1,005.1</u>	<u>1,328.5</u>
<b>Index-Linked Securities:</b>		
UK public sector quoted	3,517.7	2,558.3
UK other quoted	308.7	174.3
Overseas quoted	240.4	214.8
	<u>4,066.8</u>	<u>2,947.4</u>
<b>Equities:</b>		
UK quoted	416.0	774.6
Overseas quoted	526.4	754.6
	<u>942.4</u>	<u>1,529.2</u>
<b>Derivatives Assets:</b>		
Swaps	58.0	41.2
Options	4.2	5.4
Futures – exchange traded	0.1	-
Forward foreign exchange	0.3	4.3
	<u>62.6</u>	<u>50.9</u>
<b>Private Equity</b>	36.8	10.1
<b>Private Equity Unitised Fund</b>	63.3	58.5
<b>Property</b>	16.7	21.1
<b>Property Unitised Fund</b>	379.8	465.9
<b>AVC Mixed Portfolio Fund</b>	17.8	22.7
<b>Other Investments</b>	79.8	68.0
<b>Cash</b>		
Cash deposits	89.5	85.3
Amount due in respect of collateral backing Index-Linked SWAP contract	(56.8)	(40.1)
Cash collateral held by counterparties for commodity SWAPS	-	1.3
	<u>32.7</u>	<u>46.5</u>
<b>Total Investment Assets</b>	<u>6,703.8</u>	<u>6,548.8</u>
<b>Derivatives Liabilities</b>		
Options	-	(0.7)
Forward foreign exchange	(13.2)	(0.3)
Futures – exchange traded	(0.3)	(0.3)
	<u>(13.5)</u>	<u>(1.3)</u>
<b>Other Investment Liabilities</b>	<u>(9.0)</u>	<u>(20.5)</u>
<b>Total Investment Liabilities</b>	<u>(22.5)</u>	<u>(21.8)</u>

# Notes to the Accounts

## 11. Investments (continued)

Individual investments which comprise greater than 5% of the Net Assets of the Scheme are the Treasury 1.25% 2027 gilt stock which represents 6% of the Net Assets of the Scheme, Treasury 2.5% I/L 2016 gilt stock which represents 7.3%, Treasury 2.5% 2024 gilt stock which represents 10.0% and Treasury 2.5% 2020 gilt stock which represents 19.7%.

Included in the investments are securities loaned as at 31 March 2008 of £909.2m (2007; £1,197.7m). The loans are covered by collateral dependent on the types of securities loaned and collateral used. If the collateral is in the same currency as the loaned securities collateral of 102% of the aggregate market value is required or if the collateral is not all denominated in the same currency as the loaned securities 105% is required. The only exception is for fixed income loans for which the principal trading market is outside the United States where the collateral requirement is 100%.

## 12. Property

The fund is invested in the Tesco Red Limited Partnership that has been established to hold a portfolio of Tesco retail units.

The Scheme's interest in the Tesco Red Limited Partnership has been accounted for as an associate using the equity method.

BAPTL holds 100% of the units in a Jersey Property Unit Trust (JPUT) of which 30% are held in the name of British Airways Pension APS Nominees Limited (BAPANL) and 70% are held in the name of British Airways Pension NAPS Nominees Limited (BAPNNL). The JPUT holds 49.95% interest in The Tesco Red Limited Partnership UK Ltd (LP).

In addition the JPUT acquired £35,435,000 of interest free loan notes issued at par, of which the scheme owns 30% and NAPS owns 70%.

BAPTL also acquired 50% of the share capital of the General partner of the LP (GP) of which APS owns 30%. The value of these investments attributable to APS is as follows:

	2008 £'m	2007 £'m
JPUT holding	16.70	21.10
General Partner	0.01	0.01
Total	<u>16.71</u>	<u>21.11</u>

The Tesco Red Limited Partnership Accounts show the following asset and liabilities:

	2008 £'m	2007 £'m
Gross Assets	507.2	536.0
Gross Liabilities	(466.6)	(466.0)
Net Investment	<u>40.6</u>	<u>70.0</u>

# Notes to the Accounts

## 13. Derivative Contracts

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.

### Foreign Currency Risk

The Scheme holds investments in a number of currencies. The Scheme's policy is to hedge a minimum of 75% of the combined international equities benchmark exposure and the overseas bond portfolio.

The Scheme enters into foreign exchange forward contracts to offset the impact of currency fluctuations on foreign currency investments measured as 75% of the exposure in USD, EUR and JPY.

Period	Maturity Date	Broker	Nominal Value m	Fair Value £'m
3 Month forward to sell EUR	15 May 08	RBS	€33.3	(1.8)
6 Months forward to sell EUR	5 Sep 08 25 Jul 08 15 Sep 08	UBS	€181.4	(5.7)
6 Months forward to sell USD	5 Sep 08 25 Jul 08 15 Sep 08	RBS	\$503.25	(0.2)
6 Months forward to sell EUR	5 Sep 08	RBS	€86.0	(2.6)
6 Months forward to sell JPY	5 Sep 08 16 Sep 08	BARC	¥10,835	(2.1)
7 Months forward to sell EUR	16 Jun 08	UBS	€5	(0.4)
7 Months forward to sell JPY	16 Jun 08	BARC	¥180	(0.1)
				<u>(12.9)</u>

### Options

Exchange traded options were held as protection against a fall in the UK equity market.

Description	Maturity Date	Broker	Fair Value £'m
Index Options (GBP)	Jun 08	UBS	4.2

# Notes to the Accounts

## Commodity SWAP contracts

The Scheme entered into the following Total Return SWAP contracts in February 2008. The contracts were rolled forward at 30 March 2008.

Nature	Duration	Collateral Value	Counterparty	Notional Value m	Fair Value
S&P GSCI Maximum Velocity Total Return D2	Sept 2008	Nil	Goldman	\$5.6	Nil
S&P GSCI Maximum Carry Total Return D5 Strategy	Sept 2008	Nil	Goldman	\$5.6	Nil
S&P GSCI Maximum Velocity Total Return D2 Strategy	Sept 2008	Nil	Goldman	\$0.7	Nil
S&P GSCI Maximum Carry Total Return D5 Strategy	Sept 2008	Nil	Goldman	\$0.7	Nil

US Treasury Bills of \$100.9m are held to cover the interest payments arising on the commodity SWAP contracts.

## Index-Linked SWAP

The Scheme had four Index-Linked SWAP contracts with a combined value of £58m at the year end relating to its Index-Linked portfolio. The details of the contracts are as follows:

Nature	Nominal Amount £'m	Duration
Index-Linked SWAP	60.2	Expires Aug 2016
Index-Linked SWAP	20.0	Expires May 2020
Index-Linked SWAP	20.0	Expires Sep 2013
Index-Linked SWAP	4.3	Expires May 2020

As at 31 March 2008 collateral of £56.8m had been received from Barclays to cover the SWAP exposure.

## Futures

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

Nature		Notional Amount	Duration	Economic exposure at year end £'m
FTSE 100 stock futures	Bought	1,210	June 2008	6.9
FTSE 250 stock futures	Sold	770	June 2008	(7.7)
<b>Total UK Futures</b>				<b>(0.8)</b>
S&P 500 CME stock futures	Sold	3,250	June 2008	(2.2)
Dow Jones stock futures	Sold	3,850	June 2008	(10.9)
Topix stock futures	Bought	570,000	June 2008	3.5
<b>Total Overseas Futures</b>				<b>(9.6)</b>

Included within cash balances are £2.0m in respect of initial and variation margins arising on open futures contracts at the year end.

# Notes to the Accounts

## 14. Unitised Funds

APS and NAPS hold units in the following funds. As at 31 March 2008 APS held 18.5% of the units in the AVC Mixed Portfolio Fund, 41.6% of the units in the Property Unitised Fund and 50.6% of units in the Private Equity Unitised Fund. The value of investments attributable to APS for each of these funds is as follows:

	2008 £'m	2007 £'m
<b>Private Equity Unitised Fund</b>		
UK Unlisted	16.0	17.9
Overseas Unlisted	47.2	40.5
Other	0.1	0.1
<b>Total</b>	<b>63.3</b>	<b>58.5</b>
<b>Property Unitised Fund</b>		
UK Property	305.6	378.8
Property Unit Trust	74.3	95.4
Other Managed Funds	9.7	12.1
Loan *	(8.7)	(20.0)
Other	(1.1)	(0.4)
<b>Total</b>	<b>379.8</b>	<b>465.9</b>

All of the Other Managed Funds and the Property Unit Trusts are established in Jersey.

\* The Trustees granted approval to gear the Property Unitised Fund to a maximum of £80m. As at the 31 March 2008 £21m of this facility had been utilised of which the Scheme's proportion was £8.7m. During the year a loan of £19m was redeemed. Interest rate risk is managed by using an interest rate SWAP.

	2008 £'m	2007 £'m
<b>AVC Mixed Portfolio Fund</b>		
Fixed Interest Securities	2.0	2.2
Index-Linked Securities	0.8	0.9
Equities	14.6	19.1
Cash	0.4	0.5
<b>Total</b>	<b>17.8</b>	<b>22.7</b>

# Notes to the Accounts

## 15. Additional Voluntary Contributions (AVCs)

### Internal AVC Schemes

In addition to the separately managed AVC Mixed Portfolio Fund there are two AVC Schemes within the investments; The Short-dated Gilts Fund and the Equity Biased Fund. The value of these funds is as follows:

	2008 £'m	2007 £'m
Short-dated Gilts Fund	4.4	4.6
Equity Biased Fund	27.7	25.8
<b>Total</b>	<b>32.1</b>	<b>30.4</b>

## 16. Contingent Liabilities and Contractual Commitments

The following contractual commitments existed at the year end.

	2008 £'m	2007 £'m
Private Equity	72.2	29.8
Private Equity Unitised Fund	21.5	28.4
Property Unitised Fund	5.2	15.2
	<b>98.9</b>	<b>73.4</b>

## 17. Self Investment

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

## 18. Related Party Transactions

The employees of the Pension Scheme are employed by BA Plc, BAPIML or BAPSL. All employee costs are borne by the Schemes.

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

The Trustees appointed by BA Plc can be members or pensioners of either APS or NAPS. If they are members or pensioners then pension rights are on terms normally granted to members.

Pensioner elected Trustees were eligible for payment by the Company during the year.

BAPTL, a Company limited by guarantee, holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the unitised funds. The Directors of BAPTL are all Trustees of APS or NAPS. The Companies described below are all wholly owned by BAPTL.

BAPSL provides administration services and BAPIML provides investment management services.

British Airways Pension Property Holdings Ltd and British Airways Property Holdings (Number 2) Ltd hold the legal title of the properties given as security on the loan facility set up to gear the Property Unitised Fund.

British Airways Pension APS Nominees Ltd holds the legal title to the units held in the JPUT for investment in the Tesco Red Limited Partnership.

# Independent Auditors' Statement About Contributions

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**Independent Auditors' Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustees of the Airways Pension Scheme.**

We have examined the summary of contributions payable under the schedules of contributions to the Airways Pension Scheme in respect of the Scheme year ended 31 March 2008 which are set out on pages 32 to 33.

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

## **Respective responsibilities of trustees and auditor**

As described on page 31, the Scheme's Trustees are responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The Trustees have a general responsibility for procuring that contributions are made to the scheme in accordance with the schedule of contributions.

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

We read the Trustees' report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

## **Basis of statement about contributions**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

## **Statement about contributions payable under the schedule**

In our opinion contributions for the Scheme year ended 31 March 2008 as reported in the summary of contributions and payable under the schedule have been paid in all material respects at least in accordance with the schedule of contributions certified by the actuary on 29 March 2007.

**KPMG LLP**  
**Chartered Accountants**

**25 June 2008**  
**8 Salisbury Square**  
**London**  
**EC4Y 8BB**

# Summary of Contributions

## Statement of Trustees' Responsibilities in respect of Contributions

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

## Trustees' Summary of Contributions payable under the schedule in respect of the scheme year ended 31 March 2008

This Summary of Contributions has been prepared on behalf of and is the responsibility of the Trustees. It sets out the employer and member contributions payable to the Scheme under the schedule of contributions certified by the actuary on 29 March 2007 in respect of the Scheme year ended 31 March 2008. The Scheme Auditor reports on contributions payable under the schedule in the Auditors' Statement about Contributions.

## Contributions payable under the schedule in respect of the scheme year

	£'m
Employer: normal contributions	20.4
Member: normal contributions	4.3
<b>Contributions payable under the Schedule (as reported on by the scheme auditors)</b>	<b>24.7</b>

## Reconciliation of contributions

Reconciliation of contributions payable under the schedule to contributions reported in the accounts in respect of the Scheme year:

	£'m
Contributions payable under the Schedule (as above)	24.7
Contributions payable in addition to those due under the Schedule:	
Member additional voluntary contributions	3.3
Employer Augmentations	0.6
<b>Total contributions reported in the accounts</b>	<b>28.6</b>

This Report was approved by the Board of Trustees on 25 June 2008 and was signed on their behalf by:

**John Birch**  
Secretary

# Schedule of Contributions

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## The Airways Pension Scheme 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: As specified in the rules of the Scheme

By the Employers:

Contributions at the following multiples of members' standard contributions until 31 March 2007:

General Staff	3.85
Air Cabin Crew	3.75
Pilots and Officers	3.55

Subject to review at future actuarial valuations, contributions from 1 April 2007 at the following percentages of Pay for Contribution Purposes:

General Staff	32.5%
Air Cabin Crew	39.4%
Pilots and Officers	39.5%

**Due date for payment of contributions:**

All contributions (from both members and the Employers) 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 payments by any Participating Employer on the cessation of participation in the Scheme, nor to the payment 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.

Agreed on behalf of the Management Trustees

Agreed on behalf of the Employers

**J Birch**

Secretary to the Management Trustees

**K Williams**

Chief Financial Officer

# 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

FSS members who are not salary sacrifice members:

	General Staff	Air Cabin Crew	Pilots & Officers
Accrual rate 56	7.25%	-	-
Accrual rate 52	9.25%*	8.5%	8.5%
Accrual rate 48	-	11.0%*	11.0%*
Accrual rate 49	10.75%*	-	-
Accrual rate 45	-	13.25%*	13.25%*

\* or at such other rates as may from time to time be specified by the Company

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

By the Employers:

Contributions at the following multiples of the members' standard contributions until 31 March 2007:

General Staff	3.85
Air Cabin Crew	3.75
Pilots and Officers	3.55

Subject to review at future actuarial valuations, contributions from 1 April 2007 at the following percentages of Pay for Contribution Purposes:

General Staff	32.5%
Air Cabin Crew	39.4%
Pilots and Officers	39.5%

plus, in respect of salary sacrifice members, an amount equal to the contributions that would be payable by the members if they were not salary sacrifice members

**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 payments by any Participating Employer on the cessation of participation in the Scheme, 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.

Agreed on behalf of the Management Trustees

**J Birch**

Secretary to the Management Trustees

Agreed on behalf of the Employers

**K Williams**

Chief Financial Officer

# Actuarial Certificate

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## Actuarial Certificate Schedule of Contributions

Name of Scheme: The 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 2006 to continue to be met for the period for which the schedule is to be in force.
- 2 I also certify that the rates of contributions shown in this schedule 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

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 7 and 9 February 2007.

Michael J Pardoe  
Fellow of the Institute of Actuaries  
Watson Wyatt Limited

11 April 2008

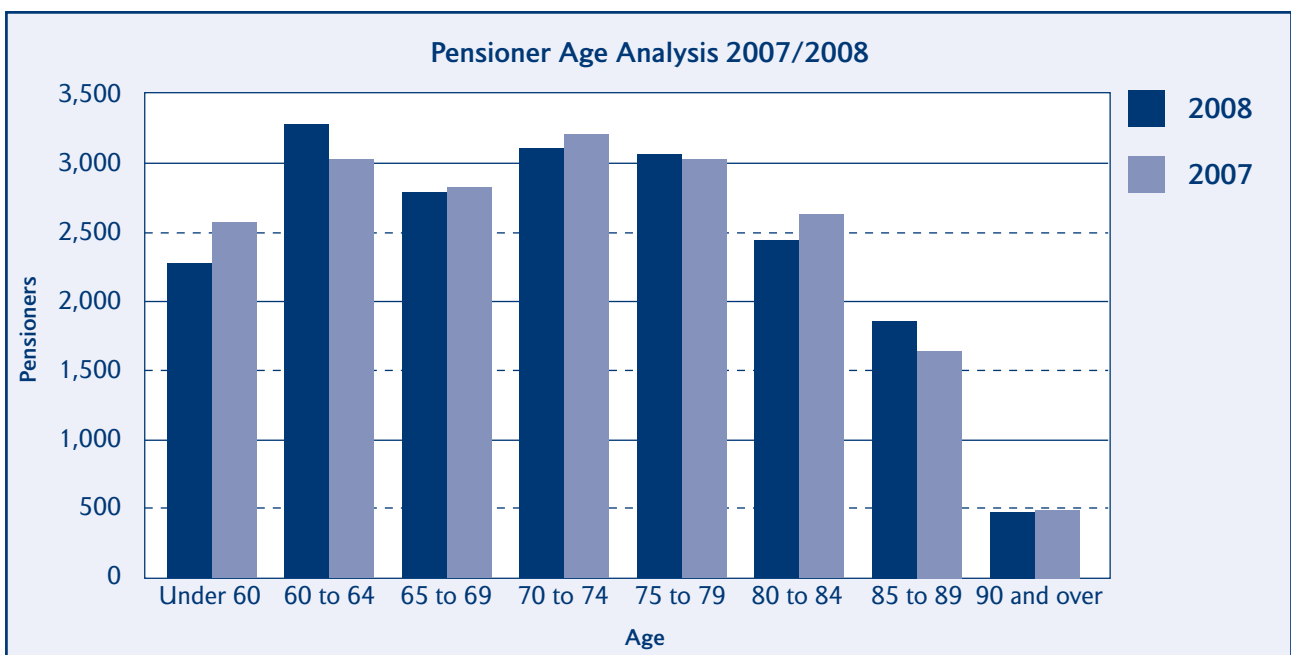
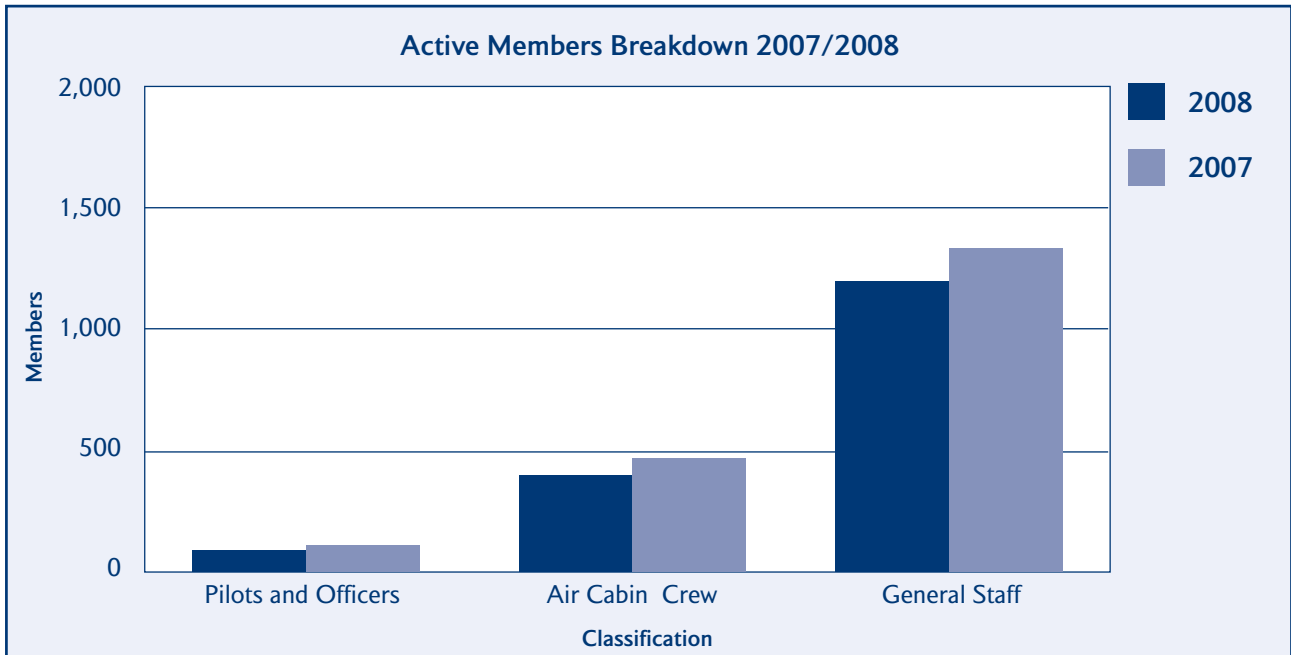
Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ

### Note:

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.

# Membership Information

	2008	2007
Active Members	1,731	1,940
Pensioners in Payment	19,430	19,521
Dependant Pensioners	7,342	7,367
Deferred Pensioners	3,421	3,850
	<u>31,924</u>	<u>32,678</u>



There are approximately 30,000 (2007: 30,000) deferred pensions under £46 a year payable in accordance with the National Insurance Acts. These benefits are known as Equivalent Pension Benefits (EBPs).

# Compliance Statement

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## The Scheme

APS 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.

APS 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 scheme under the Finance Act 2004. Parts V and VI of APS are contracted-out of the State Second Pension (formerly known as the State Earnings-Related Pension Scheme). Part IV of APS is contracted-in to the State Second Pension.

From 1 April 2007 APS members may pay up to 30% of salary in pension contributions.

## Membership

Membership of the Scheme is voluntary and members can opt out on giving one month's notice in writing to the Trustees. Members of APS who opt out cannot normally join NAPS or any other pension arrangement sponsored by BA.

## Internal Dispute Resolution Procedure (IDRP)

The Trustees are required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The Trustees have appointed John Birch, Managing Director of BAPSL, as the designated person to deal with the first stage adjudication. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House.

British Airways Pensions  
Whitelocke House  
2-4 Lampton Road  
Hounslow  
Middlesex TW3 1HU  
Tel: 020 8513 2222