

Annual Report and Accounts 2011

Airways Pension Scheme



**Year ended
31 March 2011**

Annual Report and Accounts

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Chairman's Review

Since my last report in September 2010 the Trustees' agenda has been dominated by the impact of the Government's change to the index on which the Pensions Increase (Review) Order are based from the Retail Price Index (RPI) to Consumer Price Index (CPI). Fully aware of the impact the change would have on individual members and pensioners, the Board has allocated significant time and resource to determining how they are able, in the context of their legal and fiduciary duties, to respond to this change. The Trustees have amended the Rules so that discretionary increases, in addition to those provided under the Orders, may be awarded. While three Trustees have resigned over the issue, the remaining Trustees have continued to manage the fund and as a Board have confirmed their intention to try and restore RPI increases. Work has begun on a methodology to achieve this. We have communicated with the membership about this change and we will continue to do so.

Of course RPI/CPI was not the only issue that faced the Trustee Board and challenges arose from other legislative changes and the relatively uncertain financial and economic environment. More information is provided in the Trustees' Report.

Headline Results

The net asset value of the Scheme has increased from £6.4bn as at 31 March 2010 to £6.7bn as at 31 March 2011.

APS is a mature Scheme and in general it might be expected that the net asset value of the fund would decrease as the amounts paid out in the form of pension benefits exceeds the 'in flow' of pension contributions (paid by both British Airways (BA) and a falling number of active members) and the investment returns. However, as happened last year, the net return on investments has exceeded payments from the Scheme primarily as a result of the continued recovery in the market value of the Scheme's investments over the period.

The increase in asset values is likely to have contributed to an improvement in the funding position however the latest interim valuation undertaken as at 31 March 2010 showed that the Scheme remained in deficit.

Investment

The investment strategy of the Scheme is kept under constant review and is designed to capture opportunities as they arise and to manage the risks to which the Scheme is exposed in the years ahead. This applies to the management of both the liabilities and the assets. Please turn to page 4 for more information on the Scheme's investment strategy.

Funding

I am pleased to report that under the terms of cash sweep arrangements in the Scheme Funding Agreement signed as part of the 2009 Valuation, BA will be paying an additional contribution to the Scheme. The amount payable under the arrangement has to be finalised and is in addition to the £65m paid in normal (i.e. current accrual for active members) and deficit contributions since completion of the 2009 valuation.

Work on the 2011 annual funding update is underway and we will write to all members and pensioners to notify them of the outcome of that interim funding review as at 31 March 2011 in the autumn. Once that exercise is complete work will begin in earnest for the 2012 formal valuation.

Trustee Board Appointments and Retirements

On behalf of the Trustees I would like to thank those Trustees who have left the Board since my last report: Mike Post, Cliff Pocock, Graham Tomlin, Robert Boyle, and Ian Howick all of whom made a valuable contribution. We welcomed Sandra Sellers, Alan Buchanan, Jo Boswell and Kieran Graham to the Board and at the time of writing there is an APS pensioner election underway in order to fill three vacancies for Trustees to be elected from the pensioner membership.

I would like to thank the Trustee Board for the commitment they have shown in fulfilling their Trustee duties. My gratitude also extends to BAPIML, BAPSL and all the Scheme Advisers.

PAUL SPENCER
Chairman of Trustees
June 2011

Trustees & Advisers

Appointed by British Airways

Paul Spencer Independent Trustee	Charlie Maunder GM Fleet	Steve Gunning MD Cargo	Alan Buchanan Chief of Staff
Jo Boswell Head of Revenue & Customer Analysis	Kieran Graham GM Operations Support		

Member Elected

Tom Mitchell Support Analyst	Stuart Scott Pensioner elected	Sandra Sellers Pensioner elected	
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Retired during the year

Allan Bromwich Member elected (31 July 2010)	Raj Mehta BA appointed (31 July 2010)	Robert Boyle BA appointed (31 December 2010)	Ian Howick BA appointed (23 December 2010)
Mike Post* Pensioner elected (25 March 2011)	Cliff Pocock* Pensioner elected (14 April 2011)	Graham Tomlin* Pensioner elected (15 April 2011)	

Advisers**

Scheme's Actuary Michael Pardoe Towers Watson Ltd	Legal Advisers Eversheds LLP	Bankers Bank of New York Mellon	External Custodian State Street Bank and Trust Co
Investment Advisers*** Towers Watson Ltd	Auditors KPMG LLP	Financial Advisers & Internal Auditors PricewaterhouseCoopers LLP	Independent Investment Advisers Andrew Threadgold Geoff Lindey AllenbridgeEPIC Investment Advisers

Administration

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

Investment Management

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

* Appointment of new Trustees in progress

** 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, Shepherd and Wedderburn, Nabarro and CMS Cameron Mckenna are legal advisers in relation to some property transactions and Mercer Human Resource Consulting Limited and Redington Limited are appointed as advisers in respect of specific areas of investment

*** Towers Watson were the principal investment advisers in relation to the ALM and Buy In

The Airways Pension Scheme – Pension Scheme Registry Number: 10057028

Trustees' Report

This report provides information about the management of the Scheme and provides more detail concerning the main activities undertaken during the year. There are sections on: the funding position of the Scheme, investment, Scheme governance, Scheme changes and pension administration matters. The final section contains general information about the Trustees' responsibilities.

SCHEME FUNDING POSITION

The formal valuation for 31 March 2009 was concluded in July 2010 and showed that APS was in deficit and a recovery plan was put into place. Details on the outcome of the valuation were set out in the Trustees' letter to Members and Pensioners in July 2010 a copy of which can be viewed on the member website www.mybapension.com.

Formal valuations are carried out every three years and the next is due in 2012 and preparation for this exercise is now underway.

In the years between formal valuations the Scheme Actuary provides an interim update which is reported to the membership in an annual funding statement to show how the funding position is evolving.

The interim update does not involve the detailed analysis required for a formal valuation but some of the underlying assumptions can be updated to reflect changed conditions e.g. investment return expectations. It is not necessary to agree the results of an interim update with BA and contributions do not have to be revised, unlike for a formal valuation. However, an interim update provides a useful guide as to developments between formal valuations.

A summary of the Scheme Actuary's 2010 findings is set out below. More information regarding the Scheme Actuary's findings was included in the November 2010 edition of In Focus (also available on the member website www.mybapension.com). The 2011 interim update exercise is underway and the outcome will be reported to the membership in the Autumn.

The table below compares the position as at the formal 2009 valuation with the position at 31 March 2010.

Date	31 March 2009 (nearest £m)	31 March 2010 (nearest £m)
Technical provisions*	6,955	6,996
Liabilities		
Assets	5,925	6,442
Surplus/(deficit)	(1,030)	(554)**
Funding level	85.2%	92.1%

* technical provisions refer to the value that is placed on the Scheme's liabilities (the benefits the Scheme is expecting to pay out).

** the Recovery Plan had taken into account changes in investment conditions since March 2009 and that the Recovery Plan had been based on a deficit amount of £552m. The difference between this figure and the £554m above is due to an asset value adjustment.

SCHEME INVESTMENT

During the year considerable work has been undertaken to manage the Scheme's investment risk.

In addition to the buy-in transaction undertaken in June 2010, the Trustees completed work on a governance framework designed to enable investment decisions to be taken quickly and effectively. The process was used to take advantage of improvements in the funding position ahead of expectations by reducing the allocation to return seeking assets in favour of bonds. This process remains in place and where appropriate further steps will be taken to reduce the investment risks to which the Scheme is exposed.

Statement of Investment Principles (SIP) Changes

Revised SIPs were adopted on 1 April 2009, 1 July 2009, 1 January 2010, 24 March 2010, 1 May 2010 and 29 September 2010.

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

Trustees' Report

STATEMENT OF COMPLIANCE WITH THE UPDATED MYNERS PRINCIPLES

Since the original Myners Review in 2001 established 10 principles of investment for defined benefit schemes, the Trustees have carried out a self-assessment of their position and implemented arrangements in order to comply with these principles. An external review of governance undertaken by PwC in 2007 included an assessment of compliance with the Myners Principles, and further changes were introduced to enhance compliance in line with industry-wide best practice.

In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into 6 new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

These updated Principles have been reviewed on a self-assessment basis by AllenbridgeEPIC Investment Advisers, and it was concluded that the British Airways Pension Schemes are fully compliant with the updated Principles, as summarised below for each principle:

Principle 1: Effective decision-making

The Trustees have ensured that decisions are taken by those with the skills, knowledge, advice and resources necessary to take them effectively, that their implementation is regularly monitored, and that they have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 2: Clear Objectives

The Trustees have set out an overall investment objective that takes account of the Scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the Trustees and the sponsor, and have clearly communicated these to advisers and investment managers.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, the Trustees have taken full and proper account of the form and structure of liabilities, including the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Principle 4: Performance Assessment

The Trustees have made suitable arrangements for the formal measurement of the performance of the investments, investment managers and advisers, and periodically make a formal policy assessment of their own effectiveness as a decision-making body, reporting to Scheme members each year.

Principle 5: Responsible Ownership

The Trustees have ensured that BAPIML adopt "The Financial Reporting Council UK Stewardship Code" and comply with the principles of the Code. A statement of the Scheme's policy on responsible ownership is included in the Statement of Investment Principles and the discharge of such responsibilities is reviewed each year.

Principle 6: Transparency and reporting

The Trustees act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives, and report regularly to scheme members.

While full compliance is shown with these high level principles, it is recognised that standards can continue to be improved and developed in line with emerging industry-wide practice. The Investment Committee Business Plan provides for maintaining compliance with the Principles and improving their practices and procedures accordingly.

Trustees' Report

Measuring Investment Performance

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

Details of the Fund performance can be found on page 13.

SCHEME GOVERNANCE

Trustee Governance

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. The amount of material covered in the induction programme is significant and will usually take several months to complete. This is consistent with the Code of Practice on TKU which allows 6 months for a new Trustee to be trained before they are expected to have achieved the required level of knowledge and understanding. After the initial training Trustees are encouraged to undertake a formal pensions qualification. Further requirements for training are established by asking Trustees to complete an individual skills gap analysis which informs future training provision. The content, frequency and level of training is tailored to the outcomes of the assessment of each Trustee's particular learning needs but is also related to the Committee on which the Trustee serves. The Trustee Board and each of its Committees produce an annual business plan which identifies the topics and issues that are to be discussed and determined during the year. Appropriate training sessions are then scheduled to support these activities.

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

Trustees' Report

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.

Monitoring of the Employer Covenant

The Trustees consider it critical that they understand and monitor the financial strength and covenant of the employer on a continuing basis and in order to achieve this PricewaterhouseCoopers (PwC) act as advisers to the Trustees on employer covenant issues. The employer covenant review formed an integral part of the 2009 funding valuation exercise and has continued under the terms of the funding agreement whereby a reporting framework was agreed with BA to ensure that the Trustees receive regular updates on the business activities and financial position of the Company, particularly following the formation of International Airlines Group. The Trustees will work closely with PwC as they prepare for the formal 2012 valuation.

Trustee Arrangements

- The Scheme is administered by twelve Trustees.
 - Six of the Trustees are appointed by BA.
 - One of the Trustees is elected by active members of the Scheme and must be an active member of APS.
 - Five 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).
 - Nominations for elected active Trustees must be supported by at least ten members in the relevant constituency and pensioner Trustees must be supported by ten pensioner members. 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.
- An elected Trustee may be removed from office following a postal ballot in which two thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustees by fifty of the relevant members.
- * For this purpose 'pensioner members' do not include pensioners whose benefits have not yet come into payment, contingent beneficiaries and pensioners receiving only Equivalent Pension Benefits under the National Insurance Acts.

Committees

Although the APS and the New Airways Pension Scheme have separate Trustee Boards, much of the business of the two Schemes is common, and in most cases we 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 our 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. Each Committee operates under clear Terms of Reference which govern its activities. Each Committee constructs a forward looking annual business plan which is used to allocate budgetary resources and informs the development of the Trustee training programme.

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

Trustees' Report

Committees continued

The Operations Committee considers 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 and monitors levels of service.

The Investment 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. In valuation years it also undertakes a detailed review of the Scheme's investments in the context of its liabilities which includes an asset liability modelling (ALM) study.

Performance of Trustees

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

Although the Main Board usually meets quarterly, the additional work generated by the valuation process necessitated the convening of additional meetings which were often called at short notice.

On several occasions those Trustees not able to attend a meeting appointed an alternate. 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.

On occasions sub-committees are established where a small number of Trustees are tasked with a detailed investigation into a certain issue.

Security of Assets

The Custodian Trustee of APS, British Airways Pension Trustees Limited, 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 Co.

Trustee	Governance Committee	Investment Committee	Operations Committee	Main Board	Period of Appointment
Paul Spencer (Chairman)	3/4	2/2	-	8/8	Whole year
Jo Boswell	-	-	-	3/3	From 01/01/11
Robert Boyle	-	4/6	-	5/5	To 23/12/10
Allan Bromwich	-	2/3	-	2/3	To 31/07/10
Alan Buchanan	-	-	-	4/4	From 10/12/10
Kieran Graham	-	-	1/2	2/3	From 01/01/11
Steve Gunning	-	8/8	-	7/8	Whole year
Ian Howick	-	-	2/4	4/5	To 31/12/10
Capt Charlie Maunder	4/4	-	9/10	7/8	Whole year
Raj Mehta	-	-	2/3	2/3	To 31/07/10
Tom Mitchell	-	-	9/10	6/8	Whole year
Capt Cliff Pocock	2/3	3/5	-	7/8	Whole year
Capt Mike Post	-	8/8	-	6/8	To 25/03/11
Stuart Scott	-	-	9/10	8/8	Whole year
Sandra Sellers	1/1	-	-	3/4	From 01/11/10
Graham Tomlin	4/4	-	-	6/8	Whole year

Trustees' Report

SCHEME CHANGES

AVC Contributions

The maximum level of AVC payments was increased from 30% to 50% of gross pay (less any standard employee contributions) from 1 October 2010.

Flexible Accrual Options

The flexible accrual options previously available annually were withdrawn from 1 October 2010 for all active members.

Surplus Repayments

In accordance with requirements of the Pensions Act 2004 the Trustees passed a resolution to allow payments to the Employer from the Scheme assets. Any repayment of surplus monies would only be permitted in the event of a Scheme wind up and only once all benefits built up had been secured for pensioners, deferred pensioners and active members.

Tax Changes

From 6 April 2011 the Annual Allowance for tax relief on pension savings was reduced from £255,000 to £50,000. Any increase in an individual's pension saving exceeding the Annual Allowance will incur a tax charge.

Trust Deed Amendments

An amendment was made to change the maximum member contribution limit, including AVCs, from 30% to 50% of Pay (currently the Trustees exercise their discretion to treat Pay as gross pay less employee contributions).

The Trust Deed was changed to provide the Trustees with the power to apply discretionary increases to pensions in payment and deferment.

The Rules were amended in March 2011 to give the Trustees a discretionary power to consider on at least an annual basis whether to award an additional pension increase to that provided for in the Pensions Increase (Review) Orders.

The Trust Deed was amended to enable full commutation of pension benefits, including GMP benefits from GMP Age, on the grounds of triviality in line with new regulations which took effect from 1 December 2009.

Changes to the Trust Deed were also made in respect of the Payment of Trustees, Trustee Appointments, Member Nominated Trustees and Investment of the Fund.

Trustees' Report

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. The Rules were amended during the year to give the Trustees a discretionary power to consider on at least an annual basis whether to award an additional pension increase to that provided in the Orders. The Orders currently reflect the rise in the Consumer Prices Index (CPI) over a twelve-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 currently in payment) except where the member remained in active service after 31 December 1973 and did not transfer to Part VI of the Scheme. People in this latter category receive increases in line with price inflation, as determined by the Orders annually, up to 5% a year in respect of any part of the pension relating to pensionable service after 31 March 1997. The Pensions Act 2004 reduced increases to pensions in payment for people within this category to inflation up to 2.5% in respect of

service after 5 April 2005. Dependents in receipt of pensions derived from a deceased member within this category receive increases at the rate shown in the Orders, but only up to 5% a year.

The Trustees considered the introduction of a discretionary increase for April 2011 but decided that an increase to pensions beyond the level set out in the Order could not be made this year. In accordance with the 2011 Order, pensions were increased by 3.1% on 11 April 2011.

Any increases above those provided for by the Pensions Increase (Review) Orders are granted on a discretionary basis, those increases provided in line with the Pensions Increase (Review) Orders are a right under the Scheme.

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 designated person to deal with the first stage adjudication is Kate Tollis, Head of Secretariat, BAPSL. In the event that the complainant is not satisfied with the outcome the matter is then referred to the Operations Committee. Complaints made under this procedure must be in writing and a leaflet giving full details is available from Whitelocke House or on the member website www.mybapension.com.

Trustees' Report

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 audited financial statements for each scheme year available to the Scheme's beneficiaries and certain other parties. These statements must:

- 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 as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustees have delegated the preparation of the financial statements to the Secretariat of the Scheme. The Trustees have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustees are 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 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 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 29 June 2011 and was signed on their behalf by:

Teresa Suriyae
Secretary

Investment Report

REVIEW OF THE YEAR

Returns in all major asset classes were positive, continuing the recovery in markets which began in 2009. Equities overall produced high single digit returns, exceeding the return on bonds by a margin consistent with long term averages. This was less than the high double digit returns exhibited in the 2009/10 bounce back from depressed crisis valuations. Within equities the Japanese equity market produced the only negative return amongst the major geographic regions, particularly affected by the devastating earthquake and tsunami in March 2011. European equities lagged the returns of other developed markets due to the uncertainty over government finances in the peripheral countries. In a repeat of 2009/10, Emerging Market and Asian Equities were the best two performing markets, although the gap between these two and the rest was not as significant as last year.

Within bonds, the fixed interest gilts index-linked and corporate bond indices performed broadly in line with each other, producing mid single digit returns and a greater return than cash. Index-Linked gilts performed well, reflecting the demand for inflation protection on growing expectations of higher inflation. Property outperformed the other broad asset classes with the Fund's benchmark returning 11.2%, continuing the recovery which began last year.

The Fund retained an over weighting in equities through most of the year in review, reflecting a continuation of the Fund Managers' belief that governments and central banks had done enough to support economies and markets in the near term, and would continue to do so. This allowed restructuring of highly indebted corporates, institutions and governments to occur. If economic activity continued to improve to a sustainable level we expected further growth in corporate earnings, leading to a further rise in equity markets. In addition, equities appeared attractively

valued relative to bonds. The stock selection within the portfolios echoed this view with a bias to greater exposure to economically sensitive companies. This positioning was positive for stock selection performance. Although the difficulties in peripheral Europe and a summer slowdown in the U.S. economy reignited fears of a double dip recession, the autumn witnessed higher levels of economic activity which continued to lift confidence and improved corporate earnings leading to better equity performance.

Due to the fragile nature of the recovery, the authorities delayed increasing interest rates and the withdrawal of liquidity which had been anticipated in the middle of 2010. Whilst this was positive for returns, it is likely that the authorities will revisit the case for increased interest rates and the withdrawal of liquidity later in 2011/12. This may hold back the returns from equities and corporate bonds.

More recently, tensions in the Middle East, disruptions to the global supply chain from the Japanese tsunami and high commodity prices are threatening to inhibit further recovery, giving policy makers a headache as concerns over short-term inflation data need to be balanced against ensuring adequate levels of long term sustainable growth. Against this more uncertain backdrop and after good relative equity performance the Fund has reduced the equity overweight to a more neutral position relative to the benchmark, whilst remaining underweight bonds.

Asset Allocation and Benchmarks †

The Trustees and their advisers have set bandwidths around the strategic benchmarks shown below. 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. The Fund reduces currency risk by hedging a proportion of overseas assets (shown as Inc hedging in the Fund performance table on page 13).

† The Rothesay Life buy in transaction does not form part of the benchmarks and performance returns.

Investment Report

Asset Category	Actual % 31 Mar 2011	Benchmark % 31 Mar 2011	Actual % 31 Mar 2010	Benchmark % 31 Mar 2010
Equities	11.3	10.5	15.3	12.9
UK	3.6	3.2	3.6	3.9
Overseas	7.7	7.3	11.7	9.0
Private Equity	1.9	1.9	1.3	1.3
Alternatives	4.6	4.6	2.8	2.8
Bonds & Cash	77.0	77.5	75.3	78.0
UK Fixed	10.9	15.5	8.9	14.0
Overseas Fixed	1.5	-	1.3	-
UK Index-Linked	54.4	62.0	58.4	64.0
Overseas Index-Linked	6.6	-	5.5	-
Cash	3.6	-	1.1	-
Property	5.2	5.5	5.3	5.0
Total	100.0	100.0	100.0	100.0

During 2010/11 the Investment Committee considered the benchmarks, bandwidths and the target level of performance relative to the benchmark. The Scheme adopted new benchmarks in corporate bonds, giving a wider opportunity set and also improved liability matching by updating the Scheme specific benchmark within the Index-linked gilt portfolio. In April 2011, the Scheme adopted revised bandwidths which will allow less deviation from the benchmark by the Fund Managers, to reflect the gradual de-risking of APS and also removed the requirement for currency hedging relating to the Schemes' equity holdings.

Fund Performance †

During the period under review, the Fund outperformed its strategic benchmark, returning 7.79% versus the benchmark return of 7.35%, including currency hedging, which increased the benchmark return during the current year.

The Fund Managers are set an outperformance target of 0.3% per annum relative to the strategic benchmark (excluding currency hedging). In the latest year, the Fund Managers outperformed the strategic benchmark, achieving a return of 7.70% versus 7.23% for the benchmark (excluding currency hedging) achieving the performance target. The Fund Managers have also exceeded both the benchmark and performance target over three and five years, however over ten years the outperformance of 0.23% falls short of the 0.3% target.

† The Rothesay Life buy in transaction does not form part of the benchmarks and performance returns.

The longer term returns of the Fund and the benchmark returns are described in more detail in the table below:

	2011	2009	2007	2002
		/2011	/2011	/2011
	1 year	3 years	5 years	10 years
	%pa	%pa	%pa	%pa
Inc hedging	7.79	5.70	5.73	6.16
APS	7.35	5.04	5.36	5.93*
Ex hedging				
APS	7.70	5.97	5.90	6.25
Benchmark	7.23	5.26	5.50	6.01*

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

The Funds benefited from positive equity stock selection in most regions. The property portfolio performed well, returning 14%. Private equity produced a return close to public equity returns. Alternative assets, which includes amongst other opportunities infrastructure and leveraged loans, produced returns above benchmark.

Investment Report

Fund's 10 Largest Holdings as at 31 March 2011

Stock Name	Security Type	£M	% Portfolio
UK Treasury 1.25% Index-Linked 2027	Government Bond	922.5	13.8
UK Treasury 2.5% Index-Linked 2024	Government Bond	795.9	11.9
Network Rail 1.75% Index-Linked 2027	Government Bond*	219.7	3.3
UK Treasury 1.25% Index-Linked 2032	Government Bond	197.9	3.0
UK Treasury 4.25% 2032	Government Bond	172.3	2.6
US Treasury 3.875% Index-Linked 2029	Overseas Government Bond	163.7	2.5
UK Treasury 1.875% Index-Linked 2022	Government Bond	158.3	2.4
France (Rep) 3.4% Index-Linked 2029	Overseas Government Bond	115.4	1.7
UK Treasury 4.125% Index-Linked 2030	Government Bond	91.7	1.4
UK Treasury 4.25% 2036	Government Bond	71.0	1.1

*Government Guaranteed Corporate Bond

AVCs

The Mixed Portfolio Fund returned 9.07%, outperforming the strategic benchmark return of 8.37%, (including currency hedging). The external AVC comparators returned an average of 7.45%. Over the longer term the Fund was below the returns of these external comparators when measured on a three year basis and continued to exceed their returns when measured over five and ten years.

The Fund returned 8.71% versus the benchmark return of 7.90% (excluding currency hedging) exceeding the target of 0.5% set for the Fund Managers by the Trustees. The long term numbers are shown below:

	2011	2009	2007	2002
		/2011	/2011	/2011
Inc hedging	1 year %pa	3 years %pa	5 years %pa	10 years %pa
MPF	9.11	5.49	4.36	5.96
Benchmark	8.37	5.49	4.14	5.37*
Ex hedging				
MPF	8.71	7.21	5.52	6.53
Benchmark	7.90	6.84	5.02	5.80*

* Combination of WM2000 industry peer group and a customised BA strategic benchmark adopted in 2002.

The Fund Managers are below target on three years but have met and exceeded the target over five and ten years.

In the year to March 2011, the Short Dated Gilt Fund returned 1.85% and the Equity Biased Fund returned 3.44%. Further information on the performance of the Funds can be found in the annual AVC Funds Investment commentary and at www.mybapensions.com.

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. During the year the Fund signed up to the Financial Reporting Council's Stewardship Code aimed at improving involvement by Institutional Investors. The outcomes of these programmes are reported back to the Trustees of APS and NAPS on an annual basis. The voting records of the Fund Manager are held on our website; www.mybapension.com on the 'Corporate Governance' page. These records are updated each year usually in August.

Independent Auditors' Report

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

We have audited the financial statements of Airways Pension Scheme for the year ended 31 March 2011 set out on pages 16 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 explained more fully in the Statement of trustees' responsibilities set out on page 11, the scheme trustees are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion

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 2011 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Karen Mackenzie

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

**29 June 2011
15 Canada Square
Canary Wharf
London
E14 5GL**

Fund Account

	Note	2011 £'m	2010 £'m
Contributions and Benefits			
Contributions receivable	3	73.3	19.4
		<u>73.3</u>	<u>19.4</u>
Benefits Payable	4	(355.9)	(386.0)
Leavers	5	(8.9)	(34.9)
Administration Expenses	6	(4.6)	(6.0)
		<u>(369.4)</u>	<u>(426.9)</u>
Net (withdrawals) from dealing with Members		<u>(296.1)</u>	<u>(407.5)</u>
Return on Investments			
Investment Income	7	173.6	150.1
Change in market value of investments	8	359.0	779.2
Investment management expenses	6	(6.1)	(5.0)
Net Return on Investments		<u>526.5</u>	<u>924.3</u>
Net Increase in the funds		230.4	516.8
Net Assets of the Scheme			
At 1 April 2010		6,441.8	5,925.0
At 31 March 2011		<u><u>6,672.2</u></u>	<u><u>6,441.8</u></u>

Net Assets Statement

	Note	2011 £'m	2010 £'m
Investments			
Investment Assets:			
Fixed Interest Securities		861.4	856.2
Index-Linked Securities		2,882.3	3,785.1
Rothesay Life Buy-In		1,353.8	-
Equities		646.4	1,019.9
Private Equity		101.1	84.7
Alternative Investments		244.9	183.4
Property		277.9	338.8
Derivatives		125.6	93.0
AVC Mixed Portfolio Fund		16.8	16.1
Other Investments		41.1	67.0
Cash		144.3	34.4
		<u>6,695.6</u>	<u>6,478.6</u>
Investment Liabilities:			
Derivatives			
Other Investments		(10.7)	(20.6)
		(2.3)	(5.6)
		<u> </u>	<u> </u>
Total Net Investments	8,9,10,11,12	<u>6,682.6</u>	<u>6,452.4</u>
Current Assets		0.2	0.2
Current Liabilities		(10.6)	(10.8)
		<u> </u>	<u> </u>
Net Assets of the Scheme at 31 March 2011		<u><u>6,672.2</u></u>	<u><u>6,441.8</u></u>

The financial statements summarise the transactions of the Scheme for the year ended 31 March 2011 and they give details of the net assets at the end of that period. They 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 4 of the Trustees' Report and should be read in conjunction with these accounts.

These accounts were approved by the Board of Trustees on 29 June 2011 and were signed on their behalf by:

Paul Spencer Management Trustee

Stuart Scott Management Trustee

Teresa Suriyae Secretary

Notes to the Accounts

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 and with the guidelines set out in the Statement of Recommended Practice Financial Reports of Pension Schemes (the Revised SORP).

2. 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.

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.

d. Investments

Listed securities are valued using either the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement.

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 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 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. Comparisons are also made to ensure that the valuations are in line with the latest audited financial statements.

Notes to the Accounts

e. Rothesay Life Buy-in

The Rothesay Life buy-in is structured as one contract with two components – an asset swap and longevity swap. One leg of the asset swap is set to be exactly equal to one leg of the longevity swap so in effect the Scheme pays a fixed stream of cashflows based on an underlying portfolio of assets in exchange for a floating stream of cashflows which represent 20% of the actual pension payments due to the members who are covered by the contract.

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

The assets used by the Scheme to purchase the buy-in are still held by the Scheme but, as per FRS5, have been derecognised in the accounts as the cashflows and redemption proceeds are payable to Rothesay Life.

The cash flows in from Rothesay for the 20% of actual pension payments have been valued using the same principles as the buy-in being the present value of the future monthly payments. This value is determined by Rothesay Life and independently verified. The resulting asset has been classified as a Buy-in in the accounts.

The monthly income received from the buy-in is recognised as investment income.

f. 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.

g. 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

3. Contributions Receivable

	2011 £'m	2010 £'m
Employer		
Normal	13.0	15.5
Augmentations	-	0.3
Deficit funding	57.0	-
Employee		
Normal	0.6	0.9
Additional Voluntary	2.7	2.7
	<u>73.3</u>	<u>19.4</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 30.

Normal employee contributions represent deductions which fall outside of the salary sacrifice scheme.

4. Benefits Payable

	2011 £'m	2010 £'m
Pensions	(343.4)	(343.8)
Commutations		
Normal	(10.0)	(31.7)
Addition Voluntary Contributions	(2.3)	(10.2)
Lump sum death benefits	(0.2)	(0.3)
	<u>(355.9)</u>	<u>(386.0)</u>

5. Payment to and on account of leavers

	2011 £'m	2010 £'m
Individual transfers to other pension schemes	(8.9)	(34.9)
	<u>(8.9)</u>	<u>(34.9)</u>

6. Administrative and Investment Management Expenses

Administrative and Investment Management expenses are met by the Scheme. However, the levies required by the Pension Protection Fund 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

7. Investment Income

	2011 £'m	2010 £'m
Income from Fixed Interest Securities	46.9	49.2
Income from Index-Linked Securities	51.9	73.4
Rothsay Life Buy-In	51.4	-
Net Dividends from Equities	18.8	24.6
Income from Cash Balances	0.6	0.5
Rental Income	0.8	0.3
Other Income	3.2	2.1
	<u>173.6</u>	<u>150.1</u>

8. Change in Market Value of Investments

	Opening Value 2010 £'m	Purchase Costs & Derivative Payments £'m	Sale Proceeds & Derivative Receipts £'m	Change in Market Value £'m	Closing Value 2011 £'m
Fixed Interest Securities	856.2	611.3	(613.9)	7.8	861.4
Index-Linked Securities	3,785.1	380.5	(1,420.2)	136.9	2,882.3
Rothsay Life Buy-In	-	1,270.1	-	83.7	1,353.8
Equities	1,019.9	376.8	(786.4)	36.1	646.4
Private Equity	84.7	18.5	(10.5)	8.4	101.1
Alternative Investments	183.4	68.6	(21.2)	14.1	244.9
Property	338.8	21.9	(124.5)	41.7	277.9
Derivatives					
SWAPs	86.5	30.1	(7.8)	13.9	122.7
Options	0.2	6.1	(2.0)	(4.3)	-
Futures	0.6	0.1	(4.7)	1.5	(2.5)
Forward Foreign Exchange	(14.9)	35.9	(45.9)	19.6	(5.3)
AVC Mixed Portfolio Fund	16.1	1.8	(2.5)	1.4	16.8
Other Investment	61.4	-	(22.6)	-	38.8
Cash	34.4	111.7	-	(1.8)	144.3
Total Investments	<u>6,452.4</u>	<u>2,933.4</u>	<u>(3,062.2)</u>	<u>359.0</u>	<u>6,682.6</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.

The change in market value of Property, Private Equity, Alternatives 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 £13.8m (2010: £17.1m) Property Unitised Fund, £0.3m (2010: £0.2m) Private Equity Fund and £0.4m (2010: £0.7m) AVC Mixed Portfolio Fund.

Included within the above purchase and sales figures are transaction costs of £2.2m (2010: £2.3m). Costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

Notes to the Accounts

9. Investments	2011 £'m	2010 £'m
Fixed Interest Securities		
UK public sector quoted	243.2	249.3
UK other quoted	538.8	524.6
Overseas quoted	79.4	82.3
	<u>861.4</u>	<u>856.2</u>
Index-linked securities:		
UK public sector quoted	2,166.4	3,058.2
UK other quoted	372.2	377.0
Overseas quoted	343.7	349.9
	<u>2,882.3</u>	<u>3,785.1</u>
Rothesay Life Buy-In	1,353.8	-
Equities:		
UK quoted	209.2	255.9
Overseas quoted	437.2	764.0
	<u>646.4</u>	<u>1,019.9</u>
Private Equity		
UK	11.9	9.8
Overseas	89.2	74.9
	<u>101.1</u>	<u>84.7</u>
Alternatives		
UK	45.5	52.1
Overseas	199.4	131.3
	<u>244.9</u>	<u>183.4</u>
Property	277.9	338.8
AVC Mixed Portfolio Fund	16.8	16.1
Other Investments Assets	41.1	67.0
Derivatives Assets:		
SWAPs	122.7	86.5
Options	-	0.2
Futures – exchange traded	-	0.8
Forward foreign exchange	2.9	5.5
	<u>125.6</u>	<u>93.0</u>
Cash		
Cash deposits	347.9	114.4
Net collateral due in respect of Rothesay buy-in	23.7	-
Cash due in respect of Repo arrangement	(101.7)	-
Collateral due in respect of the Index-Linked SWAP contract	(126.1)	(84.3)
Collateral paid in respect of forward foreign exchange	0.5	4.3
	<u>144.3</u>	<u>34.4</u>
Total Investment Assets	<u>6,695.6</u>	<u>6,478.6</u>

Notes to the Accounts

9. Investments (continued)

	2011 £'m	2010 £'m
Forward foreign exchange	(8.2)	(20.4)
Futures – exchange traded	(2.5)	(0.2)
	<u>(10.7)</u>	<u>(20.6)</u>
Other Investment Liabilities	(2.3)	(5.6)
Total Investment Liabilities	<u>(13.0)</u>	<u>(26.2)</u>

Rothsay Buy-In

The UK Treasury Index-Linked 0.5% 2050 gilt, which backs the Rothsay buy-in is held by the Scheme. A proportion of the position is held in a Fixed Charge Account to the order of Rothsay Life to cover their longevity risk exposure and other assets supporting the transaction. The value of the proportion was £177.7m as at 31 March 2011.

A Repo agreement to sell a proportion of this gilt for cash with a simultaneous agreement to repurchase them at a specific date has been executed. The cash raised will be used to cover the Rothsay Life asset swap collateral requirements.

Private Equity/Alternative/Property

Included within the Private Equity, Alternative and Property values are a number of investments which are held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme. As at 31 March 2010 the value of these funds are as follows:

Private Equity	% held	2011 £'m	2010 £'m
Private Equity Unitised Fund	50.63%	40.6	41.2
Direct Investments		60.5	43.5
Total Private Equity		<u>101.1</u>	<u>84.7</u>

All the Private Equity investments are managed funds.

Alternatives	% held	2011 £'m	2010 £'m
Alternative Unitised Fund	50.63%	17.5	17.0
Direct Investments		227.4	166.4
Total Private Equity		<u>244.9</u>	<u>183.4</u>

All the Alternative investments are managed funds.

Notes to the Accounts

9. Investments (continued)

Property	% held	2011 £'m	2010 £'m
Property Unitised Fund	26.04%		
UK Property		222.2	279.6
Property Unit Trusts		28.9	44.0
Other Managed Funds		9.0	3.0
Other		(0.9)	(0.2)
Total Property Unitised		<u>259.2</u>	<u>326.4</u>
Direct Investments		18.7	12.4
Total Property		<u>277.9</u>	<u>338.8</u>

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

Individual investments which comprise greater than 5% of the Net Assets of the Scheme are the Treasury 1.25% Index Linked 2027 which represents 13.8% of the Net Assets of the Scheme and the Treasury 2.5% Index Linked 2024 gilt stock which represents 11.9%.

Included in the investments are securities loaned as at 31 March 2011 of £1,959m (2010; £1,436.9m). 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%.

Notes to the Accounts

10. 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 £35,405,000 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 Tesco Red Limited Partnership Accounts show the following assets and liabilities:

	2011 £'m	2010 £'m
Gross Assets	520.7	478.6
Gross Liabilities	(461.6)	(466.3)
Net (Liability) /Asset Value	59.1	12.3
Tesco Red Unit Trust % holding 49.95%	29.5	6.1

The value of the Tesco Investment attributable to APS:

	2011	2010
Tesco Red Unit Trust		
Loan notes	32.9	35.4
Tesco Red Limited Partnership	29.5	6.1
Total	62.4	41.5
General Partner 50% Share	0.1	-
Total	62.5	41.5
Scheme holding 30%	18.8	12.4

Notes to the Accounts

11. 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.

Index-Linked SWAP

The Scheme had four Index-Linked SWAP contracts with a combined value of £86.5m 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 2011 collateral of £122.3m had been received from Barclays to cover the SWAP exposure.

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. The open FX contracts at the year-end were as follows:

Period	Maturity Date	Nominal Value m	Fair Value £'m
Euros			
Forward to sell EUR	April 11-August 11	€215.6	(6.8)
Japanese Yen			
Forward to sell JPY	May 11-June 11	¥4319.5	0.5
USD			
Forward to sell USD	April 11-August 11	\$377.75	2.4
Forward to sell USD	April 11-August 11	\$292	(1.4)
Total			(5.3)

Under the terms of a number of the forward foreign exchange contracts we have deposited collateral of £0.5m with the counterparties to cover the exposure.

Notes to the Accounts

11. Derivative Contracts (continued)

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	Fair Value £'m
FTSE 100 stock futures	Sold	3,430	June 2011	(0.8)
Total UK Futures				(0.8)
DJ STX 50 stock futures	Sold	4,120	June 2011	(0.5)
EMINI S&P stock futures	Sold	31,250	June 2011	(0.6)
Topix stock futures	Bought	1,120,000	June 2011	(0.6)
Total Overseas Futures				(1.7)

Included within cash balances are £4.8m in respect of initial and variation margins arising on open futures contracts at the year end.

12. Additional Voluntary Contributions (AVCs)

Internal AVC Schemes

There are three Additional Voluntary Contribution Funds. The Mixed Portfolio Fund which is a separately managed unitised fund, The Short-dated Gilts Fund and The Equity Biased Fund which are held within the Investments. The value of these funds is as follows:

	% held	2011 £'m	2010 £'m
Mixed Portfolio Fund	15.27%		
Fixed Interest		2.4	2.2
Equities		13.6	13.5
Cash		0.8	0.4
Total Mixed Portfolio Fund		16.8	16.1
Short-dated Gilts Fund		4.1	7.1
Equity Biased Fund		18.6	15.3
Total Value of AVC Funds		39.5	38.5

Notes to the Accounts

13. Contingent Liabilities and Contractual Commitments

The following contractual commitments existed at the year end.

	2011 £'m	2010 £'m
Private Equity	66.1	86.3
Alternative Investments	69.8	86.6
Property	7.3	8.7
	<u>143.2</u>	<u>181.6</u>

14. 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.

15. 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 are typically members or pensioners of APS or NAPS with the exception of Mr Paul Spencer who is not a member of either scheme. If they are members or pensioners then pension rights are on terms normally granted to members.

Mr Paul Spencer was remunerated by BA Plc in respect of his services as Chairman of the Trustees. Pensioner elected Trustees were also eligible for payment by the Company.

BAPTL, a Company limited by guarantee, holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the 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. BAPTL has 50% ownership of Tesco Red (GP) Ltd

Independent Auditors' Statement About Contributions

Independent Auditor's Statement about Contributions 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 2011, which is set out on page 30.

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 30, 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.

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 payment schedule. 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 payment schedule.

Statement About Contributions Payable Under the Schedule

In our opinion contributions for the Scheme year ended 31 March 2011 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 30 June 2010.

Karen Mackenzie

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

29 June 2011

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

Summary of Contributions

Statement of Trustees' Responsibilities in respect of Contributions

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

Trustees' Summary of Contributions Payable under the Schedule in respect of the Scheme year ended 31 March 2011

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 30 June 2010 in respect of the scheme year ended 31 March 2011. 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	13.0
Employer deficit funding	57.0
Member: normal contributions	0.6
Contributions payable under the Schedule (as reported on by the scheme auditors)	70.6

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)	70.6
Contributions payable in addition to those due under the Schedule: Member additional voluntary contributions	2.7
Total contributions reported in the accounts	73.3

This Report was approved by the Board of Trustees on 29 June 2011 and was signed on their behalf by:

Teresa Suriyae Secretary

Schedule of Contributions

The Airways Pension Scheme Schedule of Contributions

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

Level of contributions payable:

By members:

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

	General Staff	Air Cabin Crew	Pilots & Officers
	% Pay for contribution purposes		
Accrual rate 56	7.25%	-	-
Accrual rate 52	10.25%*	8.5%	8.5%
Accrual rate 48	-	12.5%*	12.5%*
Accrual rate 49	13.0%*	-	-
Accrual rate 45	-	16.0%*	16.0%*

* or at such other rates as may from time to time be specified by the Company. These options will be withdrawn with effect from 1 October 2010.

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

By the Employers:

Contributions at the following rates to cover the cost of accrual:

- From the date of certification of this Schedule:

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

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 to the above, contributions will be paid at the following rates to eliminate the funding shortfall:

- Nil for the period 1 April 2009 to 30 June 2010
- £6,333,333 per month, for the period 1 July 2010 to 31 March 2011
- £4,583,333 per month, for the period 1 April 2011 to 31 March 2023

The Trustees and BA have agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. These include a contingent payment of £250 million in January 2019.

In accordance with the 2010 Funding Agreement, any payment made under Section 75 of the Pensions Act 2004 may be treated as a pre-payment of amounts due under this schedule.

Schedule of Contributions

Due date for payment of contributions

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

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

Date of Schedule (for reference purposes): 30 June 2010

Agreed on behalf of the Trustees of the Scheme

Paul Spencer
Chair of the Trustees

Agreed on behalf of the Employers

Keith Williams
Chief Financial Officer

Actuarial Certificate

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 2009 to be met by the end of the period specified in the recovery plan dated 30 June 2010.
- 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 30 June 2010.

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

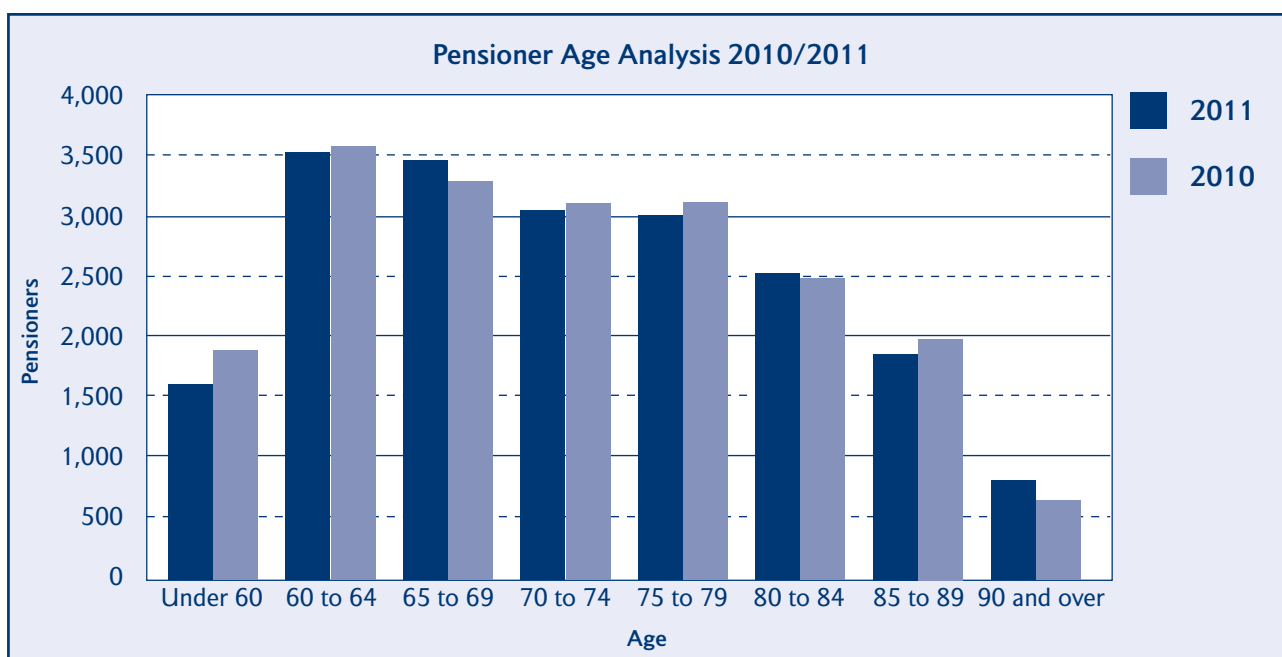
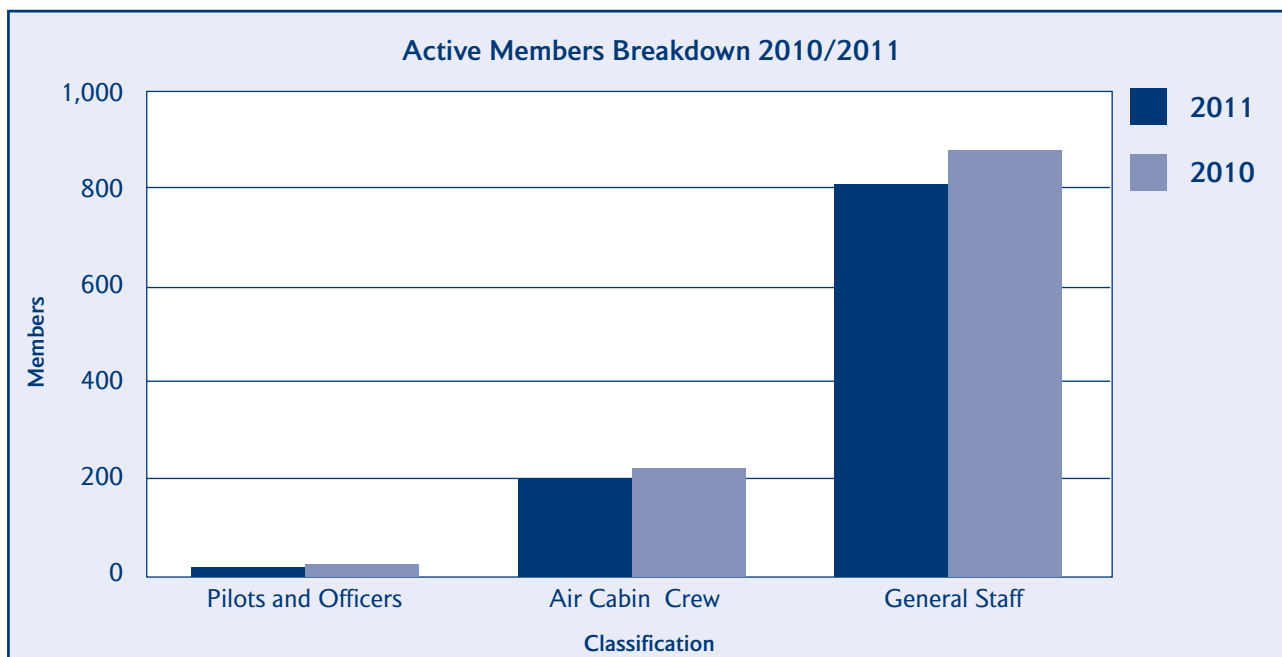
Michael J Pardoe
Fellow of the Institute of Actuaries

30 June 2010

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

Membership Information

	2011	2010
Active Members	1,016	1,106
Pensioners in Payment	19,839	20,123
Dependant Pensioners	7,206	7,235
Deferred Pensioners	2,415	2,710
	<u>30,476</u>	<u>31,174</u>



There are approximately 27,700 (2010: 28,500) 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

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 pension 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.

Membership

Membership of the Scheme is voluntary and members can opt out on giving one calendar 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.

British Airways Pensions
Whitelocke House
2-4 Lampton Road
Hounslow
Middlesex TW3 1HU