



Airways Pension Scheme

Trustee's Report & Financial Statements

For the Year Ended 31 March 2020

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This is my second annual report since my reappointment as Chair of the Airways Pension Scheme ('APS') in October 2018 and over the year there have been a number of significant events as well as regular matters to report to you.

This report covers issues around funding, investments, governance and administration during the Scheme year as well as updating you on some important events since the year-end. Throughout the year we have kept members informed about Scheme developments; with articles in both In Focus and quarterly online newsletters/bulletins as well as regular updates on the settlement of the APS discretionary increase litigation outcome, Court approval of the settlement and its implementation and more recently the impact of COVID-19.

COVID-19

The COVID-19 pandemic has meant significant disruption to the routine running of the Scheme over an extended time period. Transitioning to remote-working has been challenging and, during the UK-wide lockdown, it was necessary to prioritise essential services, but a return to our usual service standards is steadily progressing. Although the Scheme is no longer reliant on monthly contributions from British Airways ('BA') we are continuing with our monitoring of BA's financial position and the financial strength of the Scheme's insurers.

Discretionary increase – Settlement outcome

In November 2019 the High Court approved the out-of-court settlement ('the Settlement'), the terms of which the Trustee Directors had unanimously agreed with BA. This brought an end to the litigation that commenced in 2013 and which was otherwise due to proceed to appeal at the Supreme Court. Under the terms of the Settlement, the APS Trustee is permitted, subject to some affordability tests, to award discretionary increases so that APS pensions are increased up to the annual change in the Retail Prices Index ('RPI') from 2021 with interim catch-up increases; BA ceased paying further deficit reduction contributions, including cash sweep payments; and the Trustee withdrew its appeal to the Supreme Court.

Regular updates provided to members about the Settlement remain available on the '[Latest news](#)' page of the member website. As per the terms of the Settlement, eligible pensioner members received a one-off lump sum and catch-up increase payments in December 2019. Full details of the payments and individual statements were provided to all eligible members when the payment was made in December 2019. For 2020, the Settlement permitted the Trustee to award a discretionary increase of up to 75% of the gap between RPI and the rate specified in the Pensions Increase (Review) Orders. After considering all relevant circumstances, the Trustee

decided to award a discretionary increase of 0.6%, bringing the total 2020 pension increase to 2.3%. Full details of the 2020 annual pension increase are on page 8.

2015 and 2018 actuarial valuations

Due to the discretionary increase litigation, the 2015 and 2018 actuarial valuations had been on hold. Following the Settlement, the Scheme Actuary has completed both the 2015 and 2018 valuations, as well as the 2016, 2017, and 2019 interim updates. These valuations are summarised in our 2019 Summary Funding Statement published together with the full actuarial valuation reports for the 2015 and 2018 valuations on the '[Scheme documents](#)' page of the member website. The 2020 interim update is in progress.

Funding and investment

The Scheme Actuary has completed the 31 March 2015 and 31 March 2018 actuarial valuations on a basis consistent with the Settlement. The Trustee's report on page 5 describes this in detail. The headline results of the 31 March 2018 actuarial valuation show that the funding level on the Technical Provisions basis improved since the last formal valuation to 108.5% (2015: 98%). Furthermore, APS's funding shortfall of £150m in 2015 was eliminated with the Fund showing a funding surplus of £599m at 31 March 2018. As a result of the Scheme being in surplus at 31 March 2018, a Recovery Plan was not required. Since 31 March 2018 the funding level has further improved, and at 31 March 2019, the Technical Provisions funding level stood at 112.5% and the surplus at £881m. Over the years following the 2012 actuarial valuation, the Scheme's financial position has significantly strengthened. This is mainly due to good returns on the Scheme's assets, deficit reduction contributions received from BA, cash sweep contributions from BA and a change to pension increase assumptions to reflect only the guaranteed increases under the Scheme and discretionary increases that have been awarded. Looking to the future, the Scheme's Long-Term Objective ('LTO') is to reach full insurance on an RPI basis before 31 March 2027. Having insured c.£4.4bn of liabilities through a pensioner 'buy-in' with Legal & General during 2018, further progress towards the LTO is planned, for example through sales of the Scheme's illiquid assets and the purchasing of additional insurance policies.

You can read more about our investments on pages 11 to 14.

Governance matters

During the year, we started a detailed review of our risk management framework. We also revised our Conflicts of Interest Policy and arrangements for the election of member-nominated Trustee Directors ('MNDs').

Trustee Directors

Following the conclusion of the discretionary increase litigation, the Trustee Board reviewed its composition and committee structures so that it is well-placed to achieve the Scheme's LTO. In anticipation of a reduced future workload and to operate more efficiently, in June 2020 the Trustee Board size was reduced from twelve to eight Trustee Directors comprising an equal number of employer-nominated Trustee Directors ('ENDs') and MNDs. A new streamlined committee structure is also in place; more details on this are on page 6.

As part of the revised Board composition, the arrangements for MNDs were amended to reflect the reduction in MNDs from six to four and the existing MND constituencies were replaced with a single new constituency of current employee members and pensioners. Following a ballot to elect representatives to the four MND positions, Frances Axford, Paul Douglas, Ian Heath and Phil Hogg were re-elected for new terms of office which commenced on 24 June 2020. Stephen Mallett and Tom Mitchell ceased to be Trustee Directors of APS on 23 June 2020. I would like to take this opportunity to recognise their individual contributions to the Scheme. Stephen joined the Board in 2013 and brought with him a broad range of skills from his employment with BA, post-BA employment and other pension board experience. Tom joined the Board in 1998 and his long service to the Scheme is testament to his commitment to the duties of a trustee director. Tom has seen the Scheme through significant changes and challenges from which the Scheme has emerged successfully owing to the dedication and expert knowledge of Tom and his trustee colleagues. On behalf of the Board, I would like to thank Stephen and Tom for their hard work, skills and expertise, all of which have made a tremendous contribution to the Scheme.

During the Scheme year, BA made changes to the ENDs serving the APS Trustee Board. In August 2019, Jude Winstanley ceased to be an APS END, joining the New Airways Pension Scheme ('NAPS') Trustee Board and was replaced by Tim Richardson. Steven Showell and David Shepherd ceased to serve as ENDs with effect from 9 January 2020 and 1 April 2020 respectively as a result of the reduction of the Board size.

On behalf of the APS Trustee Board, I would like to thank Jude, Steven and David for their valuable contribution to the Scheme.

Acknowledgements

In September 2019, John Harrison joined British Airways Pension Investment Management Limited as interim Chief Investment Officer ('CIO'). From February 2020 John handed over the CIO role to David Stewart. David has 20 years' experience in key strategic leadership roles in sovereign wealth funds, banking, insurance, private wealth and institutional asset management organisations in Europe, North America and the Middle East. This encompasses both internal and multi-manager investment platforms across all major asset classes both public and private markets. I am grateful to John for serving as interim CIO and welcome David.

To close, I would like to thank all the Trustee Directors for the significant achievements that have been realised from their work and service to the Scheme over the year. With the litigation behind us, the Scheme can move forward with a renewed relationship with BA. The APS Trustee Directors also commend the BA Pensions team for their exceptional service and support during an extraordinarily challenging and difficult year.

**Roger Maynard
Chair of the Trustee**

28 September 2020

Appointed by British Airways Plc (BA)

**Roger Maynard
(Chair)**
Independent Trustee

Zoe Davis
Director of IAG GBS

Andrew Fleming
Head of Legal and
Company Secretary
BA Plc

Tim Richardson
Head of Property
BA Plc
Appointed 8 August 2019

Elected by pensioners/members ('MNDs')

Frances Axford
Pensioner elected
Re-elected 24 June 2020

Paul Douglas
Pensioner elected
Re-elected 24 June 2020

Ian Heath
Pensioner elected
Re-elected 24 June 2020

Phil Hogg
Pensioner elected
Re-elected 24 June 2020

Left office during the year and since year-end

Stephen Mallett
Ceased 23 June 2020

Tom Mitchell
Ceased 23 June 2020

David Shepherd
Ceased 1 April 2020

Steven Showell
Ceased 9 January 2020

Jude Winstanley
Ceased 8 August 2019

Administration & Investment Management (BA Pensions)

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

Fraser Smart- Chief Executive Officer & Scheme Secretary, BA Pensions and Chief Executive Officer, BAPIML from 2 September 2019

Michelle McGregor Smith – Chief Executive Officer and Chief Investment Officer, BAPIML until 30 August 2019

John Harrison – Chief Investment Officer, BAPIML from 2 September 2019 until 27 February 2020

David Stewart – Chief Investment Officer, BAPIML from 28 February 2020

Advisers*

Scheme Actuary
Michael Pardoe
Towers Watson Limited

Legal Advisers
Sacker & Partners LLP

Bankers **External custodian**
BNY Mellon State Street Bank and Trust Co

Investment Advisers
Mercer

Auditor
KPMG LLP

Covenant Adviser
PricewaterhouseCoopers LLP (until July 2019)

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

Airways Pension Scheme – Pension Scheme Registry Number: 10057028

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

The financial statements of the Scheme for the year ended 31 March 2020, as set out on pages 17 to 33, have been prepared and audited in accordance with Sections 41(1) and (2) of the Pensions Act 1995.

SCHEME FUNDING POSITION

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

On 8 April 2019, the Trustee and BA agreed the terms of the Settlement, which was later approved by the High Court on 11 November 2019. This brought to an end the litigation that commenced in 2013 and had put valuations since then on hold. Following the Settlement, the Trustee and BA agreed and finalised the 31 March 2015 and 31 March 2018 funding valuations. The Settlement agreement does not require BA to pay deficit reduction contributions or cash sweep payments to the Scheme after 31 December 2018 (see further details below).

In the years between formal valuations, the Scheme Actuary provides an interim update which shows how the funding position has evolved since the last valuation date. Following the Settlement and subsequent completion of the 31 March 2015 and 31 March 2018 valuations, the Scheme Actuary provided interim updates as at 31 March 2016, 31 March 2017 and 31 March 2019 and 31 March 2020. The associated 'summary funding statement' covering the updates to 2019 has been issued to members with the 2020 statement due to be issued in the coming months.

The funding positions are shown below:

| | 31 March 2020 (£m) | 31 March 2019 (£m) | 31 March 2018 (£m) |
|---------------|--------------------------|--------------------------|--------------------------|
| Liabilities* | (7,221) | (7,041) | (7,079) |
| Assets | 7,608 | 7,922 | 7,678 |
| Surplus | 387 | 881 | 599 |
| Funding level | 105.4% | 112.5% | 108.5% |

*The liabilities as at 31 March 2018 are based on the TPs agreed between the Trustee and BA as part of the Settlement, with the liabilities as at 31 March 2019 and 31 March 2020 updated by the Scheme Actuary in line with changes in market conditions. For 31 March 2020 the Scheme Actuary has also updated his assumption for the gap between the RPI and PIRO.

The 31 March 2020 update showed that the Technical Provisions ('TPs') funding level had worsened slightly since the last formal valuation to 105.4% (108.5% at 31 March 2018) and the surplus had decreased to £387m (£599m at 31 March 2018), with the reduction largely attributable to:

- The cost of the discretionary increases awarded under the Settlement Agreement in 2019 and the cost of the 2020 discretionary increase awarded by the Trustee;
- A change in the Scheme Actuary's assumption for the gap between the RPI and PIRO; and
- COVID-19 related volatility in the mark-to-market value of the corporate bond assets.

In the meantime, the Trustee continues to monitor the development of the funding position, which has improved since 31 March 2020 largely due to a recovery in asset values and gains from sales of illiquid assets.

Scheme funding

Following the Settlement agreement, BA is no longer required to make deficit or cash sweep contributions to the Scheme as it is more than fully funded on the TPs basis. However, BA will make available a contingent payment of up to £40m should it be required by the Scheme in the future to fund the proposed package of discretionary increases under the Settlement agreement.

Prior to agreeing the Settlement, the Trustee had appointed PwC to advise the Trustee on BA's ability to fund the Scheme. The advice was based on analysis of confidential financial and management data provided by BA. In July 2019, the Trustee decided that it no longer required PwC to provide detailed covenant monitoring advice. This is due to the Scheme's limited reliance on funding from BA following the Settlement and the proportionate response which the Trustee wishes to take at the current time. The Trustee continues to monitor the covenant based on publicly available information and will keep the appropriateness of these arrangements under review.

In the 2010 valuation, BA agreed that if the Scheme was not fully funded by 2019 it would make a cash payment to the Scheme of up to £250m. To the extent this payment was not required by APS, it was agreed it would be paid to NAPS. As part of the settlement, it was agreed that this amount was not required by APS and so the full £250m was paid to NAPS in December 2019.

Scheme investment

The APS Trustee decided to restructure the Scheme's investment strategy in 2019. The strategy has moved away from the previous return seeking and liability matching portfolios, to a new combination of a liquidation portfolio and a liability matching portfolio (along with a derivative overlay portfolio as required), to best meet the Scheme's investment objectives following the Settlement and the £4.4bn buy-in completed in 2018. This new structure does not set explicit allocation percentages to each portfolio, rather there are overarching objectives to run off the illiquid assets quickly and to maintain the 100% target hedge ratios for interest rates and inflation.

De-risking and liability hedging

The Trustee has put in place suitable policies to manage risk; to buy insurance against longevity and financial risks for a specified group of liabilities; and to run off the illiquid assets. In addition, the Trustee has also established liability hedging arrangements to align the Scheme's assets with the liabilities by hedging the Scheme's exposure to interest rates and inflation, which are the key drivers in relation to the value placed on the liabilities. A range of instruments can be used for this purpose including Government bonds and swaps.

Following completion of the £4.4bn buy-in in 2018, work has been undertaken to align the insured liabilities under this contract and other insurance arrangements with the benefits in payment including, for example, allowance for the impact of the Settlement. This work is ongoing and is expected to complete later this year.

Statement of Investment Principles ('SIP')

A SIP has been prepared by the Trustee of the Scheme in compliance with the requirements of Section 35 of the Pensions Act 1995. The SIP is reviewed at least annually, and updated SIPs were adopted in September 2019 and September 2020.

The latest version of the SIP can be accessed on the '[Scheme documents](#)' page of the member website or is available on request from the Scheme Secretary's office.

Measuring investment performance

The Trustee monitors the investment performance by comparing the returns achieved against relevant benchmarks. The performance of each asset category is measured against an index. For example, the index-linked Government bonds are measured relative to the performance of the FTSE Custom Liability Driven Benchmark Index.

BAPIML is the in-house investment manager to the Scheme. BAPIML's expenses are charged to the Scheme at cost and day-to-day investment decisions are delegated to them. For the year to 31 March 2020, the Trustee set BAPIML the target of performance of 0.15% per annum above a composite

strategic benchmark with a long-run target assessed over a rolling five-year period.

Details of the investment performance can be found on pages 11 to 14.

SCHEME GOVERNANCE

Trustee knowledge and understanding (TKU)
The Trustee has a formal training policy, the foundation of which is TPR's TKU regime. Since the Scheme year-end, the Trustee has reviewed and revised its approach to training.

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

The content, frequency and level of ongoing training is related to the Committee(s) on which the Trustee Director serves, and the business being undertaken by the Committees and Trustee Board. The Trustee Board and each of its Committees produce an annual Committee calendar which identifies the topics and issues that are to be discussed and determined during the year. Appropriate training sessions are then scheduled to support these activities. Additional ongoing training may be undertaken to address each Trustee Director's particular learning needs.

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

Risk management and reporting

During the Scheme year, the Trustee started a substantial review of its approach to risk management and reporting. The Trustee identified key risks which it will keep under review through the new risk reporting framework. The assessment of these risks will be supported by input from risk owners at BAPSL and BAPIML. Work to refine the new risk management framework is expected to continue throughout the next Scheme year.

Conflicts of interest

The Trustee understands that it is in a position of trust and needs to have policies and arrangements in place to identify, monitor and manage conflicts. The previous Conflicts of Interest Policy had been in place at a time when the same ENDS sat on both the APS and NAPS trustee boards and APS and NAPS shared a primary legal adviser. The Trustee conducted a review of the Conflicts of Interest during the Scheme year and adopted a new version of the policy after the Scheme year end. The new Conflicts of Interest Policy addresses the appointment by BA in 2018 of separate ENDS to the boards of APS and NAPS and the appointment of separate primary legal advisers to APS and NAPS in 2019. Since the Scheme Year end one APS END has also been appointed to NAPS and this scenario is specifically addressed in the new Policy.

Re-structure of Trustee Board and Committees

Following the Settlement, the Trustee Board reviewed its composition and committee structures so that it is well-placed to achieve the Scheme's LTO. In anticipation of a reduced future workload and to operate more efficiently, in December 2019 the Trustee Board concluded in principle that the board size should be reduced from twelve to eight Trustee Directors comprising an equal number of ENDS and MNDs. The Trustee Directors took the opportunity to discuss the change with a group representing the interests of APS members before implementing the change in June 2020.

A new streamlined committee structure was also adopted with effect from 1 April 2020. Much of the Trustee work is undertaken by committees made up of a sub-set of the Trustee Directors, who may be assisted by representatives of BAPIML and BAPSL. Committee members review matters in detail before making recommendations to the Main Board. Each committee operates under clear Terms of Reference which govern its membership, remit and activities. Each committee constructs a forward-looking annual activity calendar plan which is used to allocate budgetary resources and informs the development of the Trustee training programme.

The Trustee created two new expanded committees called the Operations Committee and Investment Committee. The new Operations Committee has within its remit: budgets; audit; risk management; oversight of service levels to members; and member communications. It also makes decisions on payment of discretionary benefits (such as benefits payable on the death of a member) and is the second stage decision-maker for most complaints under the Scheme's Internal Dispute Resolution procedure.

The new Investment Committee, which is supported by independent investment experts and investment advisers, is responsible for detailed consideration of investment initiatives. The Committee also considers Environmental, Social and Governance

(‘ESG’) matters, such as the development of the Trustee's Responsible Investment policy, strategy and initiatives, ensuring it is in line with regulatory and industry standards.

In addition to these two standing committees, the Trustee Board may establish ad hoc committees so that a small number of Trustee Directors can give detailed consideration to defined issues.

Trustee arrangements and revised MND arrangements

As part of the Trustee Board size reduction to eight Trustee Directors, the arrangements for electing MNDs were amended to reflect the reduction in MNDs from six to four and the existing MND constituencies of currently employed members and pensioners were replaced with a single new constituency comprising all current employee members and pensioners. The revised arrangements for Trustee Director appointments are summarised below:

- Four of the Trustee Directors, including the independent Chair, are appointed by BA.
- Four of the Trustee Directors are elected by active members of the Scheme, pensioner members* and adult survivor pensioners of the Scheme.
- The Trustee Directors elected by active members and pensioners must be either an active member or pensioner members* of APS.
- A Trustee Director may remain in office for a minimum of five years and a maximum of five and a half years and is eligible for re-appointment (provided that he/she still meets the eligibility criteria for the relevant vacancy).
- Nominations for elected active member Trustee Directors must be supported by at least ten currently employed members, pensioner members* or adult survivor pensioners. If there is more than one nomination for a vacancy, a ballot of the relevant members is held. The result is decided on a simple majority of the votes cast. This year due to the COVID-19 situation, the Trustee agreed to allow telephone voting to be used to ensure people could participate in the process.
- An elected Trustee Director may be removed from office following a ballot in which two-thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustee by fifty of the relevant members.
- The Trustee may, at any time, use electronic communications to communicate with, give notice to, or ballot active, deferred members or pensioners.

*For this purpose, ‘pensioner members’ do not include pensioners whose benefits have not yet come into payment, contingent beneficiaries and pensioners receiving only Equivalent Pension Benefits under the National Insurance Acts.

Performance of Trustee Directors

Attendance records for Trustee and Committee meetings have been maintained and are shown below for the Scheme year to 31 March 2020.

| Trustee | Governance Committee | Investment Committee | Operations Committee | ESG Committee | Main Board | Period of Appointment to Main Board |
|-----------------------|----------------------|----------------------|----------------------|---------------|------------|-------------------------------------|
| Roger Maynard (Chair) | 4/4 | 4/4 | - | 3/3 | 4/4 | Whole Year |
| Frances Axford | 4/4 | - | - | 3/3 | 3/4 | Whole Year |
| Zoe Davis | - | - | 7/8 | - | 3/4 | Whole Year |
| Paul Douglas | - | 4/4 | - | - | 4/4 | Whole Year |
| Andrew Fleming | 4/4 | - | - | 3/3 | 4/4 | Whole Year |
| Ian Heath | - | - | 7/8 | 3/3 | 4/4 | Whole Year |
| Phil Hogg | - | 4/4 | - | - | 4/4 | Whole Year |
| Stephen Mallett | 4/4 | - | - | - | 4/4 | Whole Year |
| Tom Mitchell | - | - | 6/8 | - | 3/4 | Whole Year |
| Tim Richardson | - | 1/1 | - | - | 3/3 | Part Year |
| David Shepherd | - | - | 3/5 | - | 3/4 | Whole Year |
| Steven Showell | - | 2/2 | 2/3 | - | 3/3 | Part Year |
| Jude Winstanley | - | 1/1 | - | - | 0/1 | Part Year |

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

On occasions that Trustee Directors are not able to attend a meeting, the Rules provide for them to appoint an alternate to attend and vote for them. During the period under review this has been standard practice. In addition, some Trustee Directors attended, as observers, meetings of Committees to which they were not formally appointed. Such occurrences are not included in the attendance list.

Security of assets

The Custodian Trustee of the Scheme, British Airways Pension Trustees Limited, holds title to the assets of the Scheme on behalf of the Trustee; however physical custody of the Scheme's securities (i.e. bonds and shares) has been delegated to independent external custodians, State Street Bank and Trust Co.

Defined Contribution governance statement

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

SCHEME CHANGES

Factor Review

The Scheme's Actuary regularly reviews the factors used to work out specific pension options. Following conclusion of the Settlement the factors were reviewed and updated with effect from 1 March 2020.

New partial transfer-out option

The Scheme has introduced a new option for deferred members to transfer part of their pension benefits to another pension arrangement and leave the rest of their benefits in APS. There are rules and conditions to this option which are explained in the [Partial Transfer Out Operating rules](#).

TRUST DEED AMENDMENTS

The following amendments were made during the year:

- Discretionary Increases ('DIs') – a number of changes were introduced relating to DIs, Actuarial Valuations, disposable surplus provisions, enhanced and fixed protections, back-payments of DIs and awarding future DIs. These changes were related to the Settlement.
- Partial Transfers – amendment to allow deferred members, subject to conditions, to transfer part of their benefits to another pension arrangement and leave the rest of their benefits in APS in line with the conditions set out in the Partial Transfer Out Operating Rules.
- Reduction in number of Management Trustees and amendments to MND arrangements – reduction in the size of the APS Trustee Board from 12 to 8 Trustee Directors and a new single constituency of current employee members and pensioners replaced the existing members' representative constituencies.

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

PENSION ADMINISTRATION MATTERS

Cash equivalent transfer values

Transfer values paid during the year were calculated and verified in the manner prescribed by the regulations under Section 97 of the Pension Schemes Act 1993. A partial allowance for discretionary pension increases was included in the calculation of transfer values prior to the change in cash equivalent transfer value factors from 1 March 2020, following which full allowance for discretionary pension increases is included.

Pension increases

The Scheme Rules provide that the annual increase for most pensions shall be the percentage specified in the Pensions Increase (Review) Orders ('the Orders'). Any increases above those provided for by the Orders are granted on a discretionary basis; those increases

provided in line with the Orders are a right under the Scheme.

The Orders currently reflect the rise in the Consumer Prices Index ('CPI') over a twelve-month period measured up to the end of the preceding September. The 2020 Order was 1.7% and in accordance with the Scheme Rules, qualifying pensions were increased by 1.7% on 6 April 2020. These increases apply to all pensions payable under the Rules of the Scheme (whether in deferment or currently in payment - excluding any guaranteed minimum pension in payment) except where the member remained in active service after 31 December 1973 and did not transfer to Part VI of the Scheme. Broadly speaking, people in this latter category receive increases in payment in line with price inflation, as determined under the Pensions Act 1995 (currently CPI), up to 5% a year in respect of any part of the pension relating to pensionable service after 5 April 1997.

The Pensions Act 2004 reduced increases to pensions in payment for people within this category to inflation up to 2.5% a year in respect of service after 5 April 2005. The Pensions Act 2008 reduced increases to deferred pensions for people within this category, who have not attained their normal pension date, to inflation (currently CPI) up to 2.5% a year in respect of pension accrued after 5 April 2009 (for pension earned before that date the cap is 5% a year). Dependants in receipt of pensions derived from a deceased member within this category receive increases at the rate shown in the Orders, but only up to 5% a year as provided in the Rules.

Discretionary increases under Settlement

Under the terms of the Settlement, the Trustee is permitted, subject to some affordability tests, to award discretionary increases so that Scheme pensions are increased up to the annual change in RPI. The maximum levels of discretionary increases between April 2020 to April 2027 are prescribed under the Settlement. For 2020 the Settlement permits a discretionary increase of 75% of the relevant gap between RPI and the Orders. After considering all relevant circumstances the Trustee decided to award a discretionary increase of 0.6% (the maximum permitted) bringing the total 2020 pension increase to 2.3%. In addition, under the Settlement a one-off lump sum and catch-up increase payments were agreed, and payments were made to eligible pensioner members in December 2019.

Consultation on reform to RPI methodology

In March 2020, HM Treasury and the UK Statistics Authority launched a consultation on the timing and methodology for proposed changes which would bring RPI in line with CPIH. The Trustee responded to the consultation in July 2020, stating that it is firmly of the view that the proposal should not be implemented or, if it does proceed, strongly supporting a refinement to redefine RPI as CPIH plus a margin to be implemented in 2030 (rather than 2025). A copy of the response is available on the member website.

Internal dispute resolution procedure ('IDRP')

The Trustee is required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The designated person to deal with the first stage adjudication is Richard Pilsworth, Head of Risk & Legal, BAPSL. In the event that the complainant is not satisfied with the outcome, the matter is then referred to the Trustee's Operations Committee for second stage adjudication. Complaints made under this procedure must be in writing and a leaflet giving full details is available from BAPSL.

Tax

From 6 April 2020 the standard lifetime allowance increased to £1,073,100.

The Government also increased the threshold income and adjusted income above which individuals are affected by the Tapered Annual Allowance. From 6 April 2020, those individuals with a threshold income of between £110,000 and £200,000 and adjusted income between £150,000 and £240,000 will no longer be impacted by the tapered annual allowance.

For individuals who continue to be affected by the tapered annual allowance, the minimum Tapered Annual Allowance is £4,000 from 6 April 2020.

Online communications

Improvements have continued to be made to our online communications. To make it easier for members to get in touch with the pensions team a new online contact form has replaced the email address. For members registered to manage their pension online the pensions team can now issue pension quotations through an encrypted email system.

This report was approved by the Trustee Board on 28 September 2020 and was signed on its behalf by:

Fraser Smart
Scheme Secretary

(Forming part of the Trustee's Report)

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

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

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

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

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

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

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

(Forming part of the Trustee's Report)

Review of the year to March 2020

The twelve months to March 2020 divides very much into two periods. Until the end of 2019, markets were focused on the ageing economic cycle and the potential for a trade war between the US and China to derail further growth. However, with the US Federal Reserve ('the Fed') having decided over the summer to expand its balance sheet and lower interest rates, the outlook was broadly benign for most asset classes. Unemployment was low or falling in most economies, and inflation appeared to be contained.

However, in February 2020, the focus of financial markets shifted. With evidence of significant domestic transmission of COVID-19 in Asian countries outside of China, in Europe and the United States, widespread economic disruption became a near-term possibility. As the scale of the required "lockdowns" became clear, markets became increasingly worried that the worst economic slowdown since the 1930s would also spark a second global financial crisis. In early March, equity markets fell sharply, bond markets dislocated, and the US dollar strengthened rapidly against most other currencies.

The policy response was, however, rapid. Central banks set up numerous programmes to ensure that markets remained liquid and that companies had access to the borrowing they needed at reasonable interest rates. Central banks, including the Bank of England, committed to buying large amounts of government and other debt to ensure that fixed income markets remained open to those needing to issue bonds. The Fed also put special measures in place to ensure that banks globally had access to the US dollars they needed.

As a result, government bonds rallied into the end of the fiscal year, with both short-term and long-term interest rates dropping significantly. Corporate bonds remained more volatile, but prices recovered materially as it became clear that most companies would have access to short-term financing and longer-term capital despite the near-term disruption.

Equity markets troughed in late March, having declined nearly 35% from their pre-COVID levels. While APS does not own listed equities, it does own private equity where returns are typically correlated with public markets and there is equity exposure in two of the AVC funds. Companies in the technology and healthcare sectors were the first to see their share prices recover, stocks exposed to energy prices and travel remained depressed.

Much now depends on what happens in the real economy over the next six months. The policy response has been robust. Interest rates are expected to remain low for the foreseeable future, and economies are slowly reopening. A second wave of infections would however be challenging for growth

and could result in a second round of unconventional policy actions. At that point, investors may need to revise their opinions on what the "new normal" looks like.

Asset allocation

The assets BAPIML now actively manages for APS are split into three categories: liability matching assets, illiquid assets and cash. BAPIML no longer makes tactical asset allocation decisions on behalf of the Scheme.

Liability matching assets are held to reduce risk and are those which are most aligned with the Scheme's future benefit payments. The illiquid assets are return seeking assets which are being sold as the Scheme looks to reduce its risk. Over the last year, the illiquid assets have been reduced from 28.1% of the assets managed by BAPIML to 8.1%, with further sales planned over the coming months.

(Forming part of the Trustee’s Report)

The Trustee Directors’ Investment Committee is responsible for monitoring the Scheme’s asset allocation. It may, where possible and from time-to-time, recommend changes with the intention of improving the risk return profile of the Fund. The Committee also undertakes an annual review of Fund¹ liquidity.

The allocation of the Fund as at 31 March 2020 is shown below. As part of the restructure of the portfolio, the benchmark was removed.

| Asset category | Assets % 31 March 2020 | Assets % 31 March 2019 |
|--------------------|---------------------------|---------------------------|
| Liability Matching | 90.3 | 70.1 |
| Index Linked Bonds | 49.5 | 34.5 |
| Nominal Bonds | 35.0 | 29.8 |
| Real Assets | 5.8 | 5.8 |
| Illiquid Assets | 8.1 | 28.0 |
| Private Equity | 1.8 | 2.2 |
| Alternatives | 5.3 | 11.9 |
| Property | 1.0 | 13.9 |
| Cash | 1.6 | 1.9 |

Fund performance including strategic hedging

Table 1 shows the performance of the Fund including the strategic hedging portfolio which includes bonds and derivatives held to reduce interest rate and inflation risk. Over the year to 31 March 2020 the Fund returned 0.55%.

| Fiscal years to 31 March 2020 | 1 year % p.a. | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. |
|----------------------------------|------------------|-------------------|-------------------|--------------------|
| Fund return | 0.55 | 2.52 | 4.59 | 6.72 |

Fund performance excluding strategic hedging

Table 2 shows the performance of the Fund, excluding strategic hedging, which is the measure by which BAPIML is judged. The portfolio managers are set an outperformance target of 0.15% per annum relative to the strategic benchmark over a five-year rolling period. The aim is to achieve this outperformance via stock selection within individual portfolios.

In the year under review, 1 April 2019 to 31 March 2020, the Fund returned a total of 2.86% excluding strategic hedging, which means that it outperformed

Table 2 – Performance excluding strategic hedging

| Fiscal years to 31 March 2019 | 1 year % p.a. | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. |
|----------------------------------|------------------|-------------------|-------------------|--------------------|
| Fund return | 2.86 | 3.27 | 5.02 | 6.95 |
| Benchmark | 2.32 | 2.83 | 4.82 | 6.84 |
| Relative Performance | 0.53 | 0.43 | 0.19 | 0.10 |

the benchmark by 0.53% for the year and has outperformed by 0.19% per annum averaged over the last five years.

The Fund has outperformed its benchmark over five years and has met its target of outperforming by 0.15% per annum over a rolling five-year period.

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

(Forming part of the Trustee's Report)

In the 12 months to March 2020, the contribution to relative outperformance was broad-based with positive performance contributions from bonds, property, private equity and real assets.

The Fund's 10 largest quoted holdings as at 31 March 2020 (excluding buy-ins, longevity swaps, associated Rothesay Life assets and illiquid assets).

| Stock name | Security type | £m | Portfolio % |
|--|------------------|-----|-------------|
| UK Treasury 0.125% Index-Linked 2029 | Government Bond | 152 | 2.0 |
| UK Treasury 0.125% Index-Linked 2024 | Government Bond | 123 | 1.6 |
| Network Rail 1.750% Index-Linked 2027 | Government Bond* | 91 | 1.2 |
| UK Treasury 0.125% Index-Linked 2046 | Government Bond | 89 | 1.2 |
| UK Treasury 1.875% Index-Linked 2022 | Government Bond | 78 | 1.0 |
| UK Treasury 1.125% Index-Linked 2037 | Government Bond | 75 | 1.0 |
| UK Treasury 1.75% Fixed Interest 2049 | Government Bond | 65 | 0.8 |
| UK Treasury 0.75% Index-Linked 2034 | Government Bond | 58 | 0.8 |
| UK Treasury 1.625% Fixed Interest 2054 | Government Bond | 55 | 0.7 |
| UK Treasury 0.250% Index-Linked 2052 | Government Bond | 55 | 0.7 |

*Government guaranteed corporate bond

Additional Voluntary Contributions (AVCs)

The Mixed Portfolio Fund ('MPF') had a negative return of (8.34)% for the year ending 31 March 2020.

The Trustee sets a benchmark for each type of asset class held within the MPF and use this to monitor the MPF's performance. The benchmark returned (8.05)% over the year, meaning that the MPF underperformed its benchmark by 0.32%. The MPF has not achieved its target, which is to beat its benchmark by 0.5% per annum over a five-year period, due largely to weak performance in 2016, but also the declining equity markets in March 2020.

The (8.34)% return on the MPF was slightly below the average achieved by other large AVC providers in the

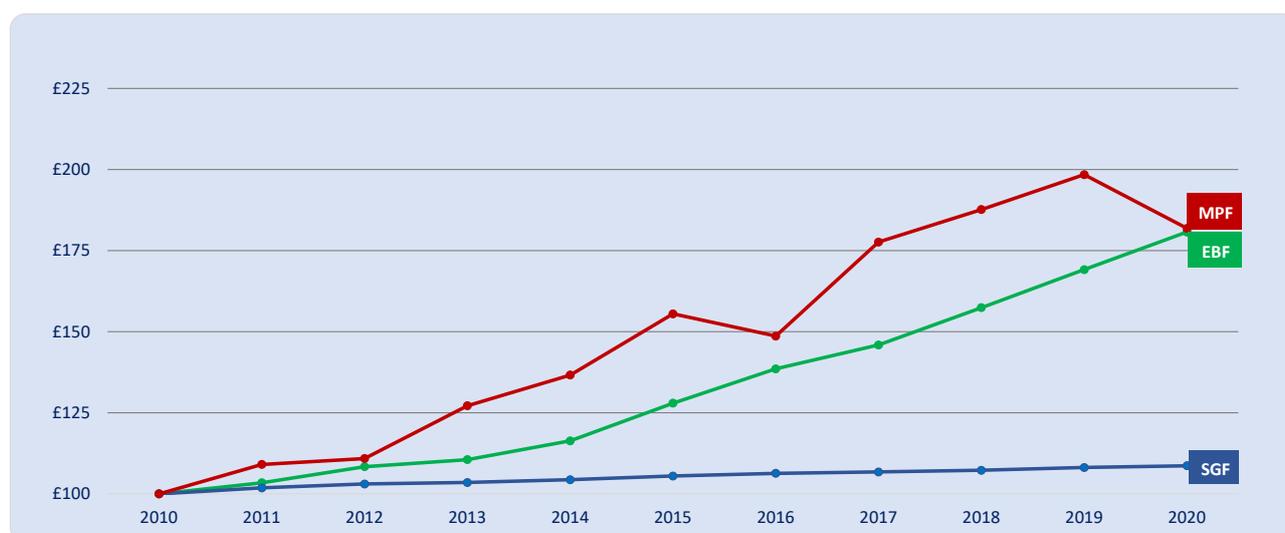
market place over the year. The MPF has however outperformed similar funds over longer time periods with higher returns over three, five and ten years.

In the year to March 2020, the Short-dated Gilts Fund (SGF) returned 0.48%, and the Equity Biased Fund (EBF) returned 6.85%. Further information on the performance of the AVC funds can be found in the annual AVC Investment Commentary on the '[Scheme documents](#)' page of the member website.

The long-term returns for the AVC funds are shown in the chart and table below. The chart shows how £100 invested in the AVC funds in 2010 would have changed in value over time.

(Forming part of the Trustee’s Report)

AVC funds total growth over 10 years



AVC funds performance returns

Annualised fiscal year return over period to 31 March 2020

| Fiscal years to 31 March 2020 | 1 year % p.a. | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. |
|---------------------------------|---------------|----------------|----------------|-----------------|
| MPF (Actual) | (8.34) | 0.78 | 3.18 | 6.16 |
| MPF (Benchmark) | (8.05) | 0.53 | 3.47 | 6.17 |
| MPF (Comparable External Funds) | (7.98) | (0.84) | 2.83 | 5.68 |
| EBF | 6.85 | 7.39 | 7.15 | 6.10 |
| SGF | 0.48 | 0.59 | 0.59 | 0.83 |

Corporate governance

In 2019 the Trustee adopted an updated Responsible Investment Policy which includes the following mission statement:

“Environmental (including climate change), social and governance (‘ESG’) issues are multifaceted and represent long-term systemic risks.”

“We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon. We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.”

“Where consistent with our fiduciary duties, and applicable to our investment strategy, we will actively engage and use our voting rights to drive up ESG standards in the organisations in which we invest.”

The Scheme’s Responsible Investment Policy and the Responsible Investment Annual Report, which details how the policy has been implemented by the Scheme investment manager, can be found in the Responsible Investment section of our website www.mybapension.com.

The Scheme’s investment manager, BAPIML, is required to adhere to the Scheme’s Responsible Investment Policy and also follows the UK Stewardship Code, which aims to improve and enhance the quality of engagement between companies and institutional investors.

In exercising the voting and other rights attached to the Scheme’s investments, the investment manager is required to consider recommendations on voting from specialist service providers but may follow an alternative course of action based on their informed view of the investee company and knowledge of the issue. Voting records are available on our website.

The investment manager is required to pro-actively monitor investments on an on-going basis to help identify a situation where long-term risk-adjusted returns may be compromised by ESG issues or could place the reputation of the Scheme at risk.

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

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

Opinion

We have audited the financial statements of the Airways Pension Scheme (the Scheme) for the year ended 31 March 2020 which comprise the fund account and the statement of net assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going concern

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

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

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

Trustee's responsibilities

As explained more fully in their statement set out on page 10, the Scheme's Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

Fang Fang Zhou
For and on behalf of KPMG LLP, Senior Statutory Auditor

Chartered Accountants
15 Canada Square, Canary Wharf
London E14 5GL

Date: 30 September 2020

| | Note | 31 March 2020 £'m | 31 March 2019 £'m |
|--|------|-------------------------|-------------------------|
| Contributions and Benefits | | | |
| Employer contributions | 3 | 3.7 | 84.6 |
| Employee contributions | 3 | 1.3 | 1.8 |
| Total contributions | | 5.0 | 86.4 |
| Benefits paid or payable | 4 | (379.2) | (363.9) |
| Payments to and on account of leavers | 5 | (16.9) | (26.0) |
| Administrative expenses | 6 | (5.6) | (9.8) |
| | | (401.7) | (399.7) |
| Net withdrawals from dealings with members | | (396.7) | (313.3) |
| Returns on Investments | | | |
| Investment income | 7 | 31.2 | 46.1 |
| Investment management expenses | 8 | (3.9) | (5.6) |
| Change in market value of investments | 9 | 54.8 | 516.7 |
| Net return on investments | | 82.1 | 557.2 |
| Net increase/(decrease) in the fund during the year | | (314.6) | 243.9 |
| Net assets of the Scheme at 1 April | | 7,922.3 | 7,678.4 |
| Net assets of the Scheme at 31 March | | 7,607.7 | 7,922.3 |

The notes on pages 19 to 33 form part of the financial statements.

(available for benefits)

| | Note | 31 March 2020 £'m | 31 March 2019 £'m |
|---|------|-------------------------|-------------------------|
| Investment assets: | | | |
| Fixed interest bonds | 9 | 752.6 | 650.8 |
| Index-linked bonds | 9 | 5,312.1 | 4,911.4 |
| Pooled arrangements | | | |
| Property | 10 | 21.7 | 309.1 |
| Alternative investments | 10 | 240.7 | 393.7 |
| Private equity | 10 | 38.4 | 49.6 |
| Insurance contracts | 12 | 4,457.1 | 4,470.9 |
| Derivatives | 14 | 5.3 | 14.5 |
| AVC Mixed Portfolio Fund | 16 | 13.1 | 16.9 |
| Cash | | 83.3 | 29.9 |
| Other investment balances | | 11.8 | 24.2 |
| | | 10,936.1 | 10,871.0 |
| Investment liabilities: | | | |
| Asset and longevity swaps | 13 | (3,210.8) | (2,920.8) |
| Derivatives | 14 | (53.7) | (10.0) |
| Other investment balances | | (45.1) | (0.1) |
| | | 7,626.5 | 7,940.1 |
| Total net investments | | | |
| | | 7,626.5 | 7,940.1 |
| Current assets | | 0.4 | 0.3 |
| Current liabilities | | (19.2) | (18.1) |
| | | 7,607.7 | 7,922.3 |
| Net assets of the Scheme at 31 March | | 7,607.7 | 7,922.3 |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the report on actuarial liabilities on pages 39 and 40 and these financial statements should be read in conjunction with this report.

The notes on pages 19 to 33 form part of these financial statements.

These financial statements were approved by the Trustee Board on 28 September 2020 and were signed on their behalf by:

Roger Maynard **Trustee Director**

Paul Douglas **Trustee Director**

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (revised July 2018). This is the first year that this revision of the SORP has been implemented.

The financial statements are prepared on a going concern basis, which the Trustee considers to be appropriate as it believes that the Scheme has adequate resources to meet its obligations as they fall due for at least the next twelve months from the approval of these financial statements. In reaching this conclusion, the Trustee has considered severe but plausible downsides which consider the impact of the COVID-19 outbreak and has taken into account the impact on investments, future income and capital growth, portfolio liquidity, cashflow requirements. In addition, the Trustee have considered the material uncertainty on the going concern basis in the half year results (six months to 30 June 2020) for International Airlines Group (IAG) (parent of British Airways Plc), the employer covenant and the most recent funding position as at 31 March 2020. The Scheme is well funded at 105% and currently does not need financial support from the employer. In the event that the principal employer were to cease trading, the Trustees consider the Scheme to have sufficient resources to continue operating. This assessment supports the Trustee's decision to prepare the financial statements on a going concern basis.

2. Accounting policies

The principal accounting policies of the Scheme are as follows:

a. Contributions

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

b. Payments to members

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

c. Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

2. Accounting policies – continued

d. Investment income

- I. Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- II. Rental income is accounted for on an accruals basis.
- III. Income from pooled arrangements is accounted for when declared by the fund manager, net of any associated management fees.

e. Investment change in market value

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year.

f. Investments

Investments are included at fair value as described below:

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

g. Pooled arrangements

The indirect property, alternative and private equity investments are invested in externally pooled funds. A proportion of the private equity and alternatives, and all of the property investments (direct and indirect) are pooled internally and held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme.

Direct and indirect investment properties have been valued in accordance with the Royal Institution of Chartered Surveyors' (RICS) Valuation – Global Standards, taking into consideration the current estimate of the rental values and market yields. The valuations for the direct properties have been carried out by Cushman & Wakefield, chartered surveyors, who have the appropriate knowledge and experience to value such assets. Indirect properties are valued by the manager of the pooled funds.

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

h. Foreign currencies

Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

3. Contributions

| | 2020 | 2018 |
|-------------------------------|-------------|-------------|
| | £'m | £'m |
| Employer contributions | | |
| Normal | 3.7 | 3.1 |
| Deficit funding-regular | - | 41.2 |
| Deficit funding-cash sweep | - | 40.0 |
| Augmentation | - | 0.1 |
| Section 75 debt | - | 0.2 |
| Employee contributions | | |
| Normal | 0.1 | 0.1 |
| Additional contributions | 1.2 | 1.7 |
| | 5.0 | 86.4 |

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

Deficit funding contributions were suspended in January 2019 as agreed between the Trustee and the employer in the Schedule of Contributions on page 36-37.

Further details regarding contributions are included in the summary of contributions on page 35.

4. Benefits paid or payable

| | 2020 | 2019 |
|---|--------------|--------------|
| | £'m | £'m |
| Pensions | 368.8 | 351.9 |
| Commutations of pensions and lump sum retirement benefits | 9.9 | 11.6 |
| Lump sum death benefits | 0.3 | 0.2 |
| Taxation where Lifetime or Annual Allowance exceeded | 0.2 | 0.2 |
| | 379.2 | 363.9 |

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

5. Payments to and on account of leavers

| | 2020 | 2019 |
|---|-------------|-------------|
| | £'m | £'m |
| Individual transfers out to other schemes | 16.9 | 26.0 |

6. Administrative expenses

The Scheme bears the cost of administration. However, the levies required by the Pension Protection Fund are payable by BA Plc. The Airways Pension Scheme bears an allocation of the overall costs of BAPSL except where a cost relates specifically to the Scheme, in which case the cost is met by the Scheme in full. The administrative expenses include the in-house costs of running the BAPSL team who provide member services, finance operations and trustee support. They also include the costs of external advisers engaged by the Trustee including the auditor, actuary, financial advisers, legal advisers and compliance costs. The split of costs at the year-end are as follows:

| | 2020 | 2019 |
|---|-------------|-------------|
| | £'m | £'m |
| BAPSL in-house administration and processing | 3.0 | 2.7 |
| External professional fees | 3.6 | 7.4 |
| Reimbursed by employer in respect of litigation | (1.0) | (0.3) |
| | 5.6 | 9.8 |

7. Investment income

| | 2020 | 2019 |
|----------------------------------|-------------|-------------|
| | £'m | £'m |
| Income from fixed interest bonds | 23.0 | 30.2 |
| Income from index-linked bonds | 14.7 | 14.0 |
| Interest on cash deposits | 0.5 | 0.5 |
| Other income | (0.7) | 1.4 |
| | 31.2 | 46.1 |

The negative other income figure relates to swap cashflows.

8. Investment management expenses

The investment management expenses include the in-house costs of running the BAPIML team as well as the costs of running the Captive insurance arrangement. The Scheme bears an allocation of the overall costs of BAPIML except where a cost relates specifically to the Scheme, in which case the cost is met by the Scheme in full.

| | 2020 | 2019 |
|---------------------------------------|-------------|-------------|
| | £'m | £'m |
| BAPIML in-house investment management | 4.1 | 5.2 |
| Captive insurance | (0.2) | 0.4 |
| | 3.9 | 5.6 |

9. Reconciliation of investments

| | Value at 31 March 2019 | Purchases at cost & derivative payments | Sales proceeds & derivative receipts | Change in market value | Value at 31 March 2020 |
|---------------------------|---------------------------|--|---|------------------------------|---------------------------|
| | £'m | £'m | £'m | £'m | £'m |
| Fixed interest bonds | 650.8 | 316.1 | (224.5) | (10.2) | 752.6 |
| Index-linked bonds | | | | | |
| - Rothesay Life assets | 4,149.4 | 9.6 | (11.5) | 91.5 | 4,239.0 |
| - Index-linked bonds | 762.0 | 778.8 | (481.8) | 14.1 | 1,073.1 |
| Pooled arrangements | | | | | |
| - Property | 309.1 | 8.7 | (290.2) | (5.9) | 21.7 |
| - Alternative Investments | 393.7 | 10.8 | (189.7) | 25.9 | 240.7 |
| - Private equity | 49.6 | 1.0 | (18.2) | 6.0 | 38.4 |
| Insurance contracts | | | | | |
| - Captive insurance | 0.5 | - | (0.5) | - | - |
| - Legal & General buy-in | 4,470.4 | - | (204.0) | 190.7 | 4,457.1 |
| Asset and longevity swaps | | | | | |
| - Rothesay Life swaps | (2,920.8) | 2.6 | (81.6) | (211.0) | (3,210.8) |
| Derivatives | | | | | |
| - Inflation-linked swaps | (2.7) | 5.4 | - | (52.6) | (49.9) |
| - Interest rate swaps | 5.8 | - | - | (2.7) | 3.1 |
| Forward foreign exchange | 1.4 | 32.5 | (24.8) | (10.7) | (1.6) |
| AVC Mixed Portfolio Fund | 16.9 | - | (2.7) | (1.1) | 13.1 |
| | 7,886.1 | 1,165.5 | (1,529.5) | 54.4 | 7,576.5 |
| Cash | 29.9 | 53.0 | - | 0.4 | 83.3 |
| Other investments | 24.1 | - | (57.4) | - | (33.3) |
| | 7,940.1 | 1,218.5 | (1,586.9) | 54.8 | 7,626.5 |

There were three (2019: three) individual investments which comprised greater than 5% of the net assets of the Scheme (in absolute terms); the Legal & General buy-in 58.5% (2019: 56.6%), the 2050 0.5% Treasury index-linked gilt 39.5% (2019: 37.2%), the Artemis asset swap 39.3% (2019: 35.4%).

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

10. Pooled arrangements

The indirect property, alternative and private equity investments are invested in externally pooled funds. A proportion of the private equity and alternatives, and all of the property investments (direct and indirect) are pooled internally and held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme. The remainder are held directly on behalf of the Scheme. As at 31 March 2019 the value of these funds are as follows:

Property

| | % held | 2020 | 2019 |
|----------------------------------|---------------|-------------|--------------|
| | | £'m | £'m |
| Externally pooled indirect funds | | 18.3 | 113.7 |
| Direct UK property fund | | 3.4 | 195.4 |
| Total property unitised | 17.80% | 21.7 | 309.1 |

Alternatives

| | % held | 2020 | 2019 |
|---------------------------|---------------|--------------|--------------|
| | | £'m | £'m |
| Alternative unitised fund | 50.63% | 0.3 | 1.6 |
| Direct investment funds | | 240.4 | 392.1 |
| Total | | 240.7 | 393.7 |

Private equity

| | % held | 2020 | 2019 |
|------------------------------|---------------|-------------|-------------|
| | | £'m | £'m |
| Private equity unitised fund | 50.63% | 10.0 | 10.8 |
| Direct investment funds | | 28.4 | 38.8 |
| Total | | 38.4 | 49.6 |

11. Taxation

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

12. Insurance contracts

Captive insurance contracts

The Scheme entered into two longevity insurance arrangements in April 2017 and in August 2017 to protect the Scheme against costs associated with potential increases in life expectancy. These arrangements were transacted through the Guernsey Insurance companies, APS No 1 IC Ltd and APS No 2 IC Ltd and covered approximately 21% of the Scheme's longevity risk. On 13 September 2018, the reinsurance contracts were novated to Legal & General Assurance Society Limited as part of the buy-in (see below). As the Insurance companies were no longer required they were liquidated on 14 January 2020.

Legal & General buy-in insurance contract

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

13. Asset swap and longevity swaps

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

The Scheme holds an asset swap and two longevity swaps with Rothesay Life. The Artemis contract covers 24% of the Scheme's liabilities for pensions already in payment by June 2010, and provides protection against the pensioners living longer, and interest and inflation rates movements. The Concerto contract covers 20% of the Scheme's longevity risk for pensions already in payment by June 2010, and provides protection against the pensioners living longer. For each contract the Scheme pays a fixed stream of cash flows, based on an underlying portfolio of assets in exchange for a floating stream of cash flows.

The total net investment of £3,210.8m shown on the net assets statement includes Artemis and Concerto swap contract assets that comprise:

| Rothesay Life assets and liabilities | 2020 | 2019 |
|---|------------------|------------------|
| | £'m | £'m |
| United Kingdom public sector quoted | | |
| 2050 index-linked gilt 0.5% | 3,017.8 | 2,961.1 |
| 2052 index-linked gilt 0.25% | 274.7 | 269.3 |
| 2044 index-linked gilt 0.125% | 294.6 | 283.6 |
| 2046 index-linked gilt 0.125% | 404.2 | 391.0 |
| 2047 index-linked gilt 0.75% | 247.2 | 240.7 |
| Coupon interest receivable | 0.5 | 3.7 |
| | 4,239.0 | 4,149.4 |
| Artemis asset swap | (2,998.6) | (2,814.7) |
| Artemis longevity swap | (124.9) | (64.0) |
| Concerto longevity swap | (87.3) | (42.1) |
| | (3,210.8) | (2,920.8) |

For collateral purposes there is a fixed charge, agreed at the outset of the Artemis contract which represents the collateral Rothesay Life, as insurer, could expect to receive if the Scheme defaulted. This reduces over the life of the contract.

13. Asset swap and longevity swaps - continued

A proportion of the Scheme's UK Treasury index-linked 1.25% 2032, 0.25% 2052 and 0.5% 2050 positions are held in fixed charge accounts to the order of Rothesay Life to cover their longevity risk exposure and the fixed charge. The value of this proportion for the Concerto contract was £55.6m as at 31 March 2020 (2019: £56.5m). The value of the proportion for the Artemis contract was £70.7m as at 31 March 2020 (2019: £72.0m). The gilts are also used to cover the collateral requirements of the asset swap. See note 15 for the collateral values.

14. Derivatives

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

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

Over the counter swaps

| Nature | Duration | Nominal amount £'m | Asset value £'m | Liability value £'m |
|------------------------|-----------------|-------------------------------|----------------------------|--------------------------------|
| Inflation-linked swaps | <10 years | 152.7 | - | (4.9) |
| Inflation-linked swaps | 10-20 years | 67.1 | - | (6.9) |
| Inflation-linked swaps | 20-30 years | 46.8 | - | (17.8) |
| Inflation-linked swaps | 30-40 years | 30.0 | - | (20.3) |
| Interest rate swaps | <10 years | 1,088.0 | - | (0.1) |
| Total 2020 | | 1,384.6 | 3.2 | (50.0) |
| Total 2019 | | 1,384.6 | 12.3 | (9.2) |

Forward foreign exchange contracts

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

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

| Contract | Maturity date | Nominal value m | Asset value £'m | Liability value £'m |
|---------------------|----------------------|----------------------------|----------------------------|--------------------------------|
| EUR | | | | |
| Forward to sell EUR | Apr 20-Jun 20 | €36.8 | 0.1 | (1.0) |
| Forward to sell EUR | Apr 20-Jun 20 | €2.6 | - | |
| USD | | | | |
| Forward to sell USD | Apr 20-Jun 20 | \$134.5 | 2.0 | (2.7) |
| Total 2020 | | | 2.1 | (3.7) |
| Total 2019 | | | 2.2 | (0.8) |

15. Collateral

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

| Counterparty | Collateral type | Pledge £'m | Derivative position |
|----------------------|-----------------|------------------|---------------------------|
| Rothsay Life | UK Gilt | (3,217.6) | Asset swap/longevity swap |
| JP Morgan | UK Gilt | (16.9) | FX Forwards & Swaps |
| Barclays | UK Gilt | (15.6) | Swaps |
| RBS | UK Gilt | (7.8) | FX Forwards & Swaps |
| UBS | UK Gilt | (4.2) | FX Forwards & Swaps |
| Morgan Stanley | UK Gilt | (1.1) | FX Forwards |
| Lloyds Banking Group | UK Gilt | (0.4) | FX Forwards |
| Goldman Sachs | UK Gilt | (0.3) | FX Forwards & Swaps |
| | | (3,263.9) | |

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

The collateral balances at the 2019 year end amounted to £(2,913.9)m.

16. Additional Voluntary Contributions (AVCs)

The Trustee holds assets to secure additional benefits on a defined contribution basis for those defined benefit section members electing to pay AVCs. Members participating in this arrangement each year receive an annual statement confirming the amounts held in their account and the movements in the year.

There are three AVC funds. The mixed portfolio fund, which is a separately managed internally pooled arrangement, the short-dated gilts fund and the equity biased fund, which are held within the investments. The values of these funds are as follows:

| | % held | 2020 £'m | 2019 £'m |
|----------------------------|--------|-------------|-------------|
| Mixed Portfolio Fund | | | |
| Equities | | 10.5 | 14.1 |
| Fixed interest | | 2.3 | 2.5 |
| Cash | | 0.3 | 0.3 |
| Total Mixed Portfolio Fund | 9.12% | 13.1 | 16.9 |
| Short-Dated Gilts Fund | | 2.0 | 2.3 |
| Equity Biased Fund | | 26.5 | 26.1 |
| | | 41.6 | 45.3 |

17. Fair value determination

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

Level (1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level (2) Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level (3) Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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

| | As at 31 March 2020 | | | |
|---------------------------|----------------------------|--------------|----------------|----------------|
| | Level | Level | Level | Total |
| | (1) | (2) | (3) | |
| | £'m | £'m | £'m | £'m |
| Bonds | 5,463.2 | 601.5 | - | 6,064.7 |
| Pooled arrangements | - | - | 300.8 | 300.8 |
| Insurance contracts | - | - | 4,457.1 | 4,457.1 |
| Asset and longevity swaps | - | - | (3,210.8) | (3,210.8) |
| Derivatives | - | (48.4) | - | (48.4) |
| AVC Mixed Portfolio Fund | 12.3 | 0.8 | - | 13.1 |
| Cash | 79.6 | 3.7 | - | 83.3 |
| Other investment balances | (33.3) | - | - | (33.3) |
| | 5,521.8 | 557.6 | 1,547.1 | 7,626.5 |

| | As at 31 March 2019 | | | |
|---------------------------|----------------------------|--------------|----------------|----------------|
| | Level | Level | Level | Total |
| | (1) | (2) | (3) | |
| | £'m | £'m | £'m | £'m |
| Bonds | 5,562.2 | - | - | 5,562.2 |
| Pooled arrangements | - | - | 752.4 | 752.4 |
| Insurance contracts | - | - | 4,470.9 | 4,470.9 |
| Asset and longevity swaps | - | - | (2,920.8) | (2,920.8) |
| Derivatives | - | 4.5 | - | 4.5 |
| AVC mixed portfolio fund | 16.9 | - | - | 16.9 |
| Cash | 29.5 | 0.4 | - | 29.9 |
| Other investment balances | 24.1 | - | - | 24.1 |
| | 5,632.7 | 4.9 | 2,302.5 | 7,940.1 |

Interest, inflation and discount rate assumptions were based on the prevailing market rates at the year end, and longevity assumptions were based on the 2018 actuarial valuation, updated for changes in demographic assumptions.

18. Investment risk disclosures

Investment risks

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

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

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

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

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

Liquidity Risk: this concerns the risk arising from holding assets that are not readily realisable and may be compounded by Volatility Risk where the price achievable is not certain until the point of sale.

Regulatory Risk: this arises from investing in a market environment where the regulatory regime may change.

Concentration Risk: this arises when a high proportion of the Scheme's assets are invested in instruments of the same or related issuers.

ESG Risk: this arises from investing in assets exposed to ESG-related matters, including climate change, which could have a material negative impact on the asset's value. **Insurance Counterparty Risk:** this is the risk that one of the insurance partners of the scheme would have financial difficulties.

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

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

(i) Investment strategy

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

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the mature liability profile of the Scheme, the well-funded position of the Scheme, and the assessed strength of covenant provided by the company relative to the size of the agreed contingent contributions from the company. The investment strategy is set out in its Statement of Investment Principles ('SIP') which can be viewed on the member website www.mybapension.com.

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

18. Investment risk disclosures - continued

The Scheme continues to allocate a relatively small proportion of its assets (around 8.1%) to investments exhibiting higher risk but with correspondingly higher return expectations. 2.1% of these investments are in overseas currencies. To minimise the currency risk the fund manager is permitted to engage in currency hedging on a discretionary basis using forward foreign exchange contracts.

Based on the Technical Provisions assumptions used in the valuation, there is a surplus in the Scheme, meaning it is well-placed to meet the benefits payable to members as they fall due.

(ii) Credit risk

The Scheme is subject to credit risk because the Scheme invests in bonds, OTC derivatives, holds cash balances and undertakes stock lending activities.

Credit risk arising on bonds is mitigated by investing predominantly in UK Government bonds where the credit risk is minimal, or investment grade corporate bonds which are rated BBB or above. The Trustee manages the associated credit risk by requesting that the Investment Manager diversifies the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to have predominantly investment grade credit quality.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. Exchange traded derivatives are guaranteed by a regulated exchange whereas OTC is not; therefore, the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements (see note 15).

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

The Scheme lends certain fixed interest and equity securities under a Trustee-approved stock lending program which is managed at the discretion of, and is fully indemnified by, the custodian State Street Bank and Trust Company. The Trustee manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the year end, the Scheme had lent £17.0 million (2019: £9.2 million) of public sector securities and held collateral in the form of cash and fixed interest securities with a value of 100.8% (2019: 102.0%) of stock lent.

The Scheme invests in private equity, alternatives, real assets, and indirect property funds through pooled arrangements and some of these investments are exposed to credit risk and leverage. This risk is mitigated through active management of the funds, the regulatory environments in which the pooled arrangements operate, and diversification of investments amongst a number of funds.

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

18. Investment risk disclosures – continued**(iii) Currency risk**

Currency risk

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

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

| | 2020 | 2019 |
|-----------|-------------|-------------|
| | £'m | £'m |
| US Dollar | 9.2 | 15.9 |
| Euro | 13.6 | 12.2 |
| Other | 0.2 | 0.2 |
| | 23.0 | 28.3 |

(iv) Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and interest rate swaps. The Trustee has set an interest rate target hedge ratio of 100% to decrease the impact of adverse interest rate movements against liability as part of their liability matching investment strategy.

Under this strategy, if interest rates fall, the value of liability matching investments will rise to help match the expected increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability matching investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

(v) Inflation risk

The Scheme is subject to inflation risk on the liability matching investments comprising index-linked bonds and inflation-linked swaps. The Trustee has set an inflation target hedge ratio of 100% to decrease the impact of adverse movements in inflation against liability as part of their liability matching investment strategy. Under this strategy, if inflation rates rise, the liability matching investments will rise to help match the increase in actuarial liabilities arising from future pension increases. Similarly, if inflation rates fall, the value of liability matching investments will fall in value, as will the actuarial liabilities because the future pension increases will be expected to be lower.

(vi) Other price risk

Other price risk arises principally in relation to the Scheme's liquidation portfolio which includes investments held in pooled arrangements including private equity, alternatives, real assets, investment properties. The Scheme has asked the investment manager to liquidate these assets and convert all the investments to liability matching assets.

19. Contingent liabilities and contractual commitments

The following contractual commitments existed at the year end:

| | 2020 | 2019 |
|---------------------|-------------|-------------|
| | £'m | £'m |
| Pooled arrangements | | |
| Property | - | 13.1 |
| Alternatives | 24.6 | 31.4 |
| Private equity | 15.3 | 13.1 |
| | 39.9 | 57.6 |

20. Self-investment

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

21. Related party transactions

The Corporate Trustee of APS is Airways Pension Scheme Trustee Limited ('APSTL'). This company is dormant.

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

APS Insurance ICC Limited, a company incorporated in Guernsey, was used to facilitate longevity insurance for the Scheme. This company was a subsidiary of BAPTL. The operational costs were paid by the Scheme. As the reinsurance contracts were novated to Legal & General Assurance Society Limited as part of the 2018 buy-in, this company was no longer required and was liquidated on 14 January 2020.

BAPSL provides administration services and BAPIML provides investment management services to the Scheme. The Scheme is recharged for these services, as shown in the fund account, and in notes 6 and 8. BA Plc provide occasional services to the Scheme (e.g. recruitment, procurement advice on contracts for the purchase of equipment) for which the Scheme is not recharged.

On 29 November 2019 the Scheme sold £259.4m of property assets to NAPS. The assets were independently valued at fair value, less transaction costs of £8.1m. The transaction was fully settled before the year end.

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

The Chair is a pensioner of NAPS. Two of the ENDS are deferred members of NAPS. The MNDs are pensioners of APS and their pension rights are on terms normally granted to members.

22. Guaranteed Minimum Pension (GMP) equalisation

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should equalise pension benefits for the effect of unequal GMP so that equal benefits are provided for men and women in respect of GMP earned between 17 May 1990 and 5 April 1997. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and has already received advice from its Scheme Actuary to understand the impact on the Scheme. The Trustee is awaiting the outcome of one subsequent Court hearing before it takes any further action. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and may need to provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

23. Post Balance Sheet Events

COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of Fund's assets. However, the Scheme's NAV has not suffered as a result of a decline in stock market values. The Trustee has designed and implemented the Fund's investment strategy taking a long term view and have built in resilience to withstand short term fluctuations and will work closely with Fund investment advisors and managers to assess the potential impact and adjust the Fund's investment strategy if necessary.

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

Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions to the Airways Pension Scheme in respect of the Scheme year ended 31 March 2020 which is set out on page 36-37.

In our opinion contributions for the Scheme year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary on 19 February 2019, 8 April 2019, 26 September 2019 and 28 November 2019.

Scope of work on statement about contributions

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

Respective responsibilities of the Trustee and the auditor

As explained more fully in the statement of Trustee's responsibilities set out on page 10, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

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

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

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

Fang Fang Zhou

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, Canary Wharf

London E14 5GL

Date: 30 September 2020

Statement of Trustee's responsibilities in respect of contributions

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

Trustee's summary of contributions payable under the schedule in respect of the Scheme year ended 31 March 2020

This summary of contributions has been prepared on behalf of and is the responsibility of the Trustee. It sets out the employer and employee contributions payable to the Scheme under the Schedule of Contributions certified by the actuary on 19 February 2019, 8 April 2019, 26 September 2019 and November 2019 in respect of the Scheme year ended 31 March 2020. The Scheme auditor reports on contributions payable under the schedule in the auditor's statement about contributions.

| Contributions payable under the schedule in respect of the Scheme year | £'m |
|--|------------|
| Employer normal contributions | 3.7 |
| Employer deficit funding – regular | - |
| Employer deficit funding – cash sweep | - |
| Employee normal contributions | 0.1 |
| Contributions payable under the Schedule (as reported on by the Scheme auditor) | 3.8 |

Reconciliation of contributions

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

| | |
|--|------------|
| Contributions payable under the schedule (as above) | 3.8 |
| Contributions payable in addition to those due under the schedule: | |
| Employer augmentation | - |
| Employee Additional Voluntary Contributions | 1.2 |
| Total contributions reported in the financial statements | 5.0 |

This report was approved by the Trustee Board on 28 September 2020 and was signed on their behalf by:

Fraser Smart
Scheme Secretary

Airways Pension Scheme
Schedule of Contributions (31 March 2018 actuarial valuation)

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

Previous Schedule being replaced by this Schedule:

For the avoidance of doubt, the Schedule of Contributions replaces the Schedule of Contributions pursuant to the 31 March 2015 actuarial valuation that was signed the same day with a reference date of 28 November 2019.

Level of contributions payable:

By members:

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

| % Pay for Contribution Purposes | |
|---------------------------------|-------|
| General Staff | 7.25% |
| Air Cabin Crew | 8.50% |
| Pilots and Officers | 8.50% |

In addition, for members under State Pension Age and who are not 2016 Lower Accrual Members, additional contributions of 3.1% of Band Earnings.

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

By the Employers:

- From 1 April 2018 until 31 December 2018, contributions at the following rate to cover the cost of accrual:

| % Pay for Contribution Purposes | |
|---------------------------------|-------|
| All categories of Staff | 34.7% |

- From 1 January 2019, contributions at the following rate to cover the cost of accrual (for the avoidance of doubt as the Schedule of Contributions has come into force after 1 January 2019, arrears will also be due reflecting the difference between the higher rate specified below and the lower rate paid under previous schedules of contributions from 1 January 2019, such arrears falling due to payment by the 19th of the month following this Schedule of Contributions being certified by the Scheme Actuary):

| % Pay for Contribution Purposes | |
|---------------------------------|-------|
| All categories of staff | 53.4% |

- In addition, for salary sacrifice members, an amount equal to the contributions that would be payable by the members if they were not salary sacrifice members.
- In addition, for those members who elect to link increases in their "Pay for Pension Purposes" to increases in their Pay, contributions will be paid at 4.5% of "Pay for Contribution Purposes" from the date the election is effective.

- In addition to the above, contributions of £4,583,333 per month, for the period 1 April 2018 to 31 December 2018.
- BA has agreed to pay a contingent payment of up to £40 million to the Scheme in July 2028 under Clauses 5.9.2 and 5.9.3 of an agreement between British Airways Plc and Airways Pension Scheme Trustee Limited dated 8 April 2019 (the "Settlement Agreement") only if the various conditions described in the Settlement Agreement for the relevant amount to become payable have previously been satisfied (including the resolution of any dispute as to whether they have been satisfied in accordance with the terms of the Settlement Agreement).

As a result of the Settlement Agreement, the Trustee and BA have agreed a package of additional measures, which are documented in separate legal agreements. As part of previous arrangements, a payment of £40.0m was paid in June 2018 as part of a cash sweep arrangement.

Due date for payment of contributions:

All contributions (from both members and the Employers except for the Contingent Payment and 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 any 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 levies are to be paid directly by BA Plc in addition to the amounts specified in this Schedule.

Date of Schedule (for reference purposes): 28 November 2019

Signed on behalf of the Trustee of the Scheme

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

**R. P. Maynard
Chairman**

**Rebecca Napier
British Airways CFO**

**Actuarial Certificate
Schedule of Contributions****Name of Scheme: Airways Pension Scheme****Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 March 2018 to continue to be met for by the period of which the Schedule is to be in force.
2. I also certify that any rates of contributions forming part of this Schedule which the Scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the Schedule, the Statement of Funding Principles and any Recovery Plan.

Adherence to Statement of Funding Principles

3. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 28 November 2019.

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

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries

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

28 November 2019

(Forming part of the Trustee's Report)

Airways Pension Scheme Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2018. This showed that on that date:

The value of the technical provisions was: **£7,079 million**

The value of the assets at that date was: **£7,678 million**

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

| Assumption | Value |
|--|--|
| Discount rate (past and future service) | Term-dependent rates equivalent to the full nominal gilt yield curve |
| Retail Prices Index (RPI) inflation | Term-dependent rates derived from the difference between the full index-linked and nominal gilt yield curves |
| Salary increases (in addition to promotional scale) for members who have elected to link their Pay for Pension Purposes to increases in their Pay ¹ | RPI |
| Deferred pension revaluation ² | Deferred pension revaluation RPI-1.1% p.a. |
| Pension increases in payment ² - PIRO - APS I-V (cap of 2.5% p.a.) ³ - Post 88 GMP (cap of 3.0% p.a.) ³ | RPI-1.1% p..a. RPI-1.1% p..a. RPI-1.1% p..a. |
| GMP increases before GMP Payment Age | RPI+1.5% p.a. |

¹Pay increases for members who have not elected to link their Pay for Pension Purposes to increases in their pay are assumed to be in line with PIRO.

²With relevant annual caps and floors applied to the forward rates.

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

(Forming part of the Trustee's Report)

Mortality: the base table of mortality assumed at 31 March 2018 is summarised below. This is based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. The table is then calibrated, based on the results of a Generalised Linear Model (GLM) mortality analysis, to reflect the demographic profile of the Scheme (by reference to age, gender, category of membership, category of occupation, pension amount and postcode).

| Group | |
|--|---------------------------------|
| Male non-pensioners with: - Low pensions* - High pensions* | 102% of S2PMA 64% of S2PMA_L |
| Female non-pensioners | 101% of S2PFA_L |
| Male dependents of non-pensioners | 82% of S2PMA_H |
| Female dependents of non-pensioners | 99% of S2DFA |
| Male pensioners with: - Low pensions* - High pensions* | 105% of S2PMA 69% of S2PMA_L |
| Female pensioners | 106% of S2PFA_L |
| Male dependents of pensioners | 84% of S2PMA_H |
| Female dependents of pensioners | 98% of S2DFA |

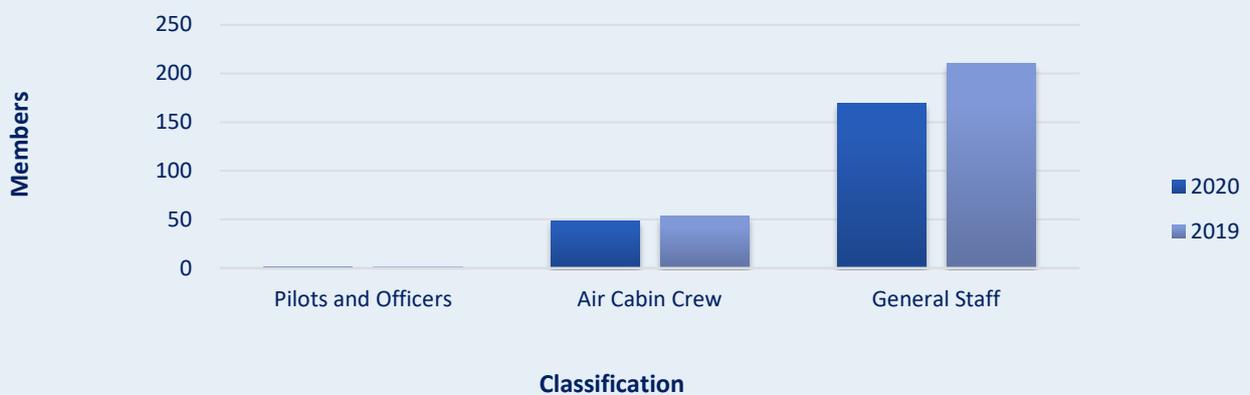
*Low pensions are classed as being lower than £26,100 p.a. at 31 March 2018. High pensions are higher than the specified limit.

At 31 March 2018 an allowance for future reductions in mortality rates has been included based on the CMI's 2017 core projection model, with an explicit allowance for long-term trend reductions in mortality rates of 1.5% per annum.

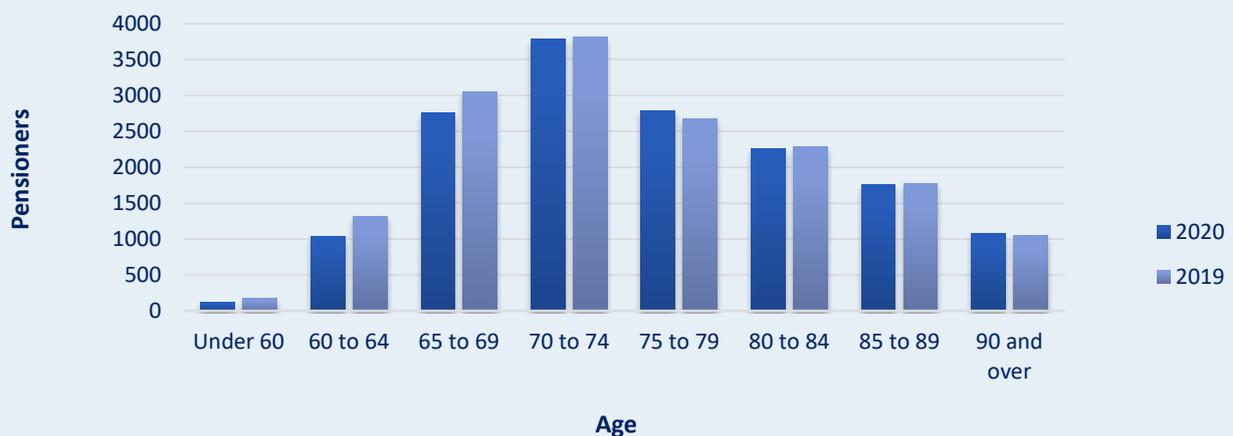
Members are assumed to exchange 15% of their pension at retirement for a lump sum on terms 5% higher than rates based on a 2.5% per annum real (relative to RPI) discount rate.

| | 2020 | 2019 |
|-----------------------|---------------|---------------|
| Active members | 219 | 264 |
| Pensioners in payment | 15,583 | 16,137 |
| Dependant pensioners | 5,918 | 6,101 |
| Deferred pensioners | 617 | 748 |
| | 22,337 | 23,250 |

Active Members Breakdown 2019/20



Pensioner Age Analysis 2019/20



In addition to the above, there are approximately 20,500 (2019: 21,000) deferred pensioners with Equivalent Pension Benefits.

The Scheme

The Scheme provides retirement benefits for employees of BA and some of its subsidiary and associated companies and benefits for dependants of members and pensioners who die.

The Scheme was established under a Trust Deed dated 8 October 1948 in accordance with Regulations made under Section 20 of the Civil Aviation Act 1946 and was closed to new members at 31 March 1984.

The Scheme was “exempt approved” by the Inland Revenue and is now a registered pension scheme under the Finance Act 2004. Parts V and VI of the Scheme were contracted-out of the State Second Pension (formerly known as the State Earnings-Related Pension Scheme) until contracting-out ceased with effect from 6 April 2016. Part IV of the Scheme was contracted-in to the State Second Pension.

Membership

Membership of the Scheme is voluntary, and members can opt-out by giving one calendar months’ notice in writing to the Trustee. Members of the Scheme who opt-out cannot re-join APS and may be auto enrolled into the British Airways Pension Plan, a defined contribution pension scheme offered by BA Plc.



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