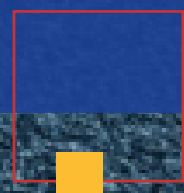




Airways Pension Scheme

Revised Trustee's Report & Revised Financial Statements

For the Year Ended 31 March 2021



These revised financial statements for the year ended 31 March 2021 replace the original financial statements for that year which had been approved on 28 September 2021.

The financial statements have been revised to include £69.6m of other investment liabilities in respect of the true-up value for the buy-in insurance contract.

Please refer to accounting policy note 1. Basis of preparation on [page 30](#) for further details.

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CHAIR'S REVIEW

I last reported to you in September 2020 and, since then, your Trustee Directors have continued to apply themselves to a range of complex issues and challenging projects.

This report provides information on your Scheme's 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 through our [2020 Summary Funding Statement](#), [In Focus](#) and [online bulletins](#). We also provided regular updates throughout the COVID-19 pandemic to keep our members informed about the availability of our services.

COVID-19

As we reported in our Spring edition of [In Focus](#), the COVID-19 pandemic disrupted the efficient running of the Scheme over much of 2020. Transitioning the BA Pensions team to remote working at the start of the financial year was challenging. During the first UK-wide lockdown, the team needed to prioritise essential services and rapidly adapt to remote working. I am pleased to report that the team was able to return to providing its usual service standards earlier this year. Although the Scheme no longer relies on deficit funding contributions from BA, we are continuing with our monitoring of BA's financial position and the financial strength of the Scheme's insurers. On behalf of all the APS Trustee Directors, I want to commend the BA Pensions team for their dedication and commitment to maintaining our critical member services during the COVID-19 crisis.

Discretionary increase award

Most pension increases are determined by the Pensions Increase (Review) Orders (PIRO), which are currently based on the Consumer Prices Index (CPI), and the standard Scheme increase for eligible pensions in April 2021 was 0.5%. For 2021, the out-of-court settlement with BA permitted the Trustee to award a discretionary increase of up to the full gap between RPI and the rate specified in the Pensions Increase (Review) Orders. The relevant rise in RPI was 1.1%. After considering all relevant circumstances, we awarded a discretionary increase to eligible pensions of 0.6%, representing the full difference between RPI and PIRO.

Funding

The headline results of the 31 March 2018 actuarial valuation showed that the funding level on the Technical Provisions basis improved since the last formal valuation to 108.5% (2015: 98%), with APS's funding shortfall of £150m in 2015 being eliminated and instead there was a surplus of £599m at 31 March 2018. As a result of the Scheme being in surplus as of 31 March 2018, a Recovery Plan was not required.

Since 31 March 2018, the Technical Provisions funding level improved to 112.5% at the 31 March 2019 interim update, with a surplus of £881m, then dropped to 105.4% at the 31 March 2020 interim update with a surplus of £387m. The downturn in the Scheme's funding position over the year to 31 March 2020 was mainly due to the cost of historical pension increases awarded under the Settlement Agreement, the cost of the 2020 discretionary increase awarded to pensioners, and updated expectations of future inflation combined with lower returns over the year in some of the Scheme's assets compared to the increase in liabilities as a result of changes in yields available on Government bonds.

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. It helps to establish whether BA is required to make any contributions to the Scheme in future and other actions that should be taken by the Trustee and BA. The latest valuation, as of 31 March 2021, is in progress and is due to be completed by the statutory deadline of 30 June 2022.

The revised Trustee's report on page 4 shows how the funding position has evolved since the previous formal valuation as of 31 March 2018 by reference to the annual interim updates carried out by the Scheme Actuary. The 31 March 2020 interim update is summarised in our [2020 Summary Funding Statement](#). It is available, together with the full actuarial valuation report for the 31 March 2018 valuation, on the [Scheme Documents](#) page of the member website.

Investment

The Scheme's Long-Term Objective (LTO) at 31 March 2021, 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 was made over the year, primarily through reducing risk within the investments held and closely reviewing insurance markets. The LTO is currently under review.

You can read more about our investments on pages 12 to 25.

Appointment of BlackRock as the outsourced chief investment officer (OCIO)

In June 2021, following an in-depth review of our investment management business, we announced the appointment of BlackRock as the OCIO for the assets directly under management for the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS). The assets were previously managed by our in-house team at British Airways Pension Investment Management Ltd (BAPIML). The agreement encompassed c.£2.1 billion assets directly under management for APS.

CHAIR'S REVIEW

Approximately £5.3 billion of APS's assets are insured through insurance 'buy-ins' with Legal & General Assurance Society and Rothesay.

In recent years, regulation has intensified, operational costs have risen, and investment complexity has increased. Consequently, many UK pension schemes are looking externally for investment management capabilities with the scale and resources to take on the challenges. Alongside these external drivers, the Scheme has continued to mature, and its investment needs have changed considerably, requiring an increased focus on managing investments to provide an income that matches members' pension benefits. The Trustee also remains committed to ensuring continuity and stability for Scheme members.

For these reasons, we entered into a partnership with an external investment manager to better position the Scheme for the future. Following a rigorous and competitive tender process, BlackRock was selected based on its deep knowledge and commitment to the UK pensions industry, its scale and investment expertise and its market-leading risk management technology. All of these characteristics are set to bring cost benefits, investment excellence and operational efficiencies, maximising value for Scheme members.

The BlackRock-designed investment model has the ability and agility to adapt as the Scheme's investment needs continue to evolve. The Scheme's assets are managed by a team of highly experienced BlackRock and former BA Pensions investment professionals, ensuring the continuity of key institutional knowledge and the Scheme's strong operational and reporting culture. Importantly, the team can also leverage BlackRock's wider expertise and technology resources to provide unique and exclusive insights for the Scheme.

This agreement is the necessary next step in the evolution of the Scheme as it looks to enhance its investment strategy, working toward its funding goal.

Governance matters

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

The Government's consultation on RPI/CPI

In 2020, the Government consulted on its proposal to more closely align the Retail Prices Index (RPI) with the Consumer Prices Index, including housing costs (CPIH). We responded to the consultation independently in our [letter to HM](#)

[Treasury](#) in July 2020, and we also joined with many other UK pension schemes to provide a joint response. In November 2020, the Chancellor of the Exchequer announced that he would not be able to offer his consent to the implementation of such a proposal before February 2030. In practice, this means that the change could be applied in February 2030. Our news article '[The outcome of the Government's RPI reform Consultation](#)' explains the potential impact of this change for APS.

Appointment of Vinny Ehzuva as CEO, British Airways Pension Services Limited (BAPSL)

On 1 June 2021, Fraser Smart stepped down as CEO, British Airways Pensions. Fraser was hired in 2016 with a remit to modernise British Airways Pensions and its support for the Trustees of APS and NAPS. With Fraser's support, the Schemes today operate more efficiently and are supported by a stronger internal team and roster of advisers. On behalf of the APS Trustee Directors, I would like to thank Fraser for his significant contribution to BA Pensions. He has been a key part of the team that has delivered several strategic changes for the Schemes, and I wish him success in his future endeavours.

As part of regular succession planning and a robust talent management strategy, Vinny Ehzuva was identified as the outstanding candidate to takeover following Fraser Smart's departure. Vinny brings a wealth of senior leadership experience spanning strategic, commercial and financial operations and a track record for delivering positive change through successful programmes to improve efficiency and quality. Vinny joined BAPSL in April 2018 as Chief Operating Officer and brings continuity to the CEO role, having already played a significant role in transforming the company.

Trustee Directors

BA appointed Sarah Hunt as an Employee Nominated Trustee Director (END) on 1 October 2020. Sarah replaces Andrew Fleming, who left on 30 September 2020.

On behalf of the APS Trustee Board, I would like to welcome Sarah and thank Andrew for his valuable contribution to the APS Trustee Board.

To close, I would like to thank my fellow Trustee Directors for the work they have undertaken over the past year. I would also like to acknowledge the demands that have been made on the teams at BAPIML and BAPSL and the way in which both organisations rose to the challenges relating to the COVID-19 pandemic and laying the foundation for our OCIO partnership with BlackRock.

Roger Maynard Chair of the Trustee

29 October 2021

TRUSTEE DIRECTORS AND ADVISERS

Appointed by British Airways Plc (BA) (ENDs)

**Roger Maynard
(Chair)**
Independent Trustee

Zoe Davis
Director of IAG GBS

Sarah Hunt
Head of Audit UK &
Ireland, BA Plc
Appointed
1 October 2020

Tim Richardson
Head of Property
BA Plc

Elected by pensioners/members ('MNDs')

Frances Axford
Pensioner elected

Paul Douglas
Pensioner elected

Ian Heath
Pensioner elected

Phil Hogg
Pensioner elected

Left office during the year and since year-end

Andrew Fleming
Ceased 30 September
2020

Stephen Mallett
Ceased 23 June 2020

Thomas Mitchell
Ceased 23 June 2020

Administration & investment management

British Airways Pension Services Ltd ('BAPSL') – Trustee support and member services
British Airways Pension Investment Management Ltd ('BAPIML') – Investment management until 1 June 2021)

BlackRock Investment Management (UK) Ltd – Investment management (from 1 June 2021)

Fraser Smart - Chief Executive Officer & Scheme Secretary, BA Pensions and Chief Executive Officer, BAPIML (until 1 June 2021)

David Stewart - Chief Investment Officer, BAPIML (until 31 May 2021)

Vinny Ehzuvan - Chief Executive Officer, BAPSL (from 1 July 2021)

Monica Gupta - Scheme Secretary (from 1 July 2021)

Advisers*

Scheme Actuary
Michael Pardoe
Towers Watson Limited

Legal Advisers
Sacker & Partners LLP

Bankers
BNY Mellon

External custodian
State Street Bank and
Trust Co

Investment Advisers
Mercer Limited

Auditor
KPMG LLP

* 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

For enquiries about the Scheme, members who are registered to manage their pension can enquire via the website by secure email. Alternatively they can write to British Airways Pensions, PO Box 2074, Liverpool L69 2YL.

REVISED TRUSTEE'S REPORT

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

The financial statements of the Scheme for the year ended 31 March 2021, as set out on pages 28 to 43, have been prepared and audited in accordance with Sections 41(1) and (2) of the Pensions Act 1995.

The financial statements have been revised to include £69.6m of other investment liabilities in respect of the true-up value for the buy-in insurance contract. The revision has no impact on the summary of contributions as approved on 28 September 2021. Please refer to accounting policy note 1 for further detail.

SCHEME FUNDING POSITION

On 8 April 2019, the Trustee and BA agreed the terms of a Settlement Agreement (later approved by the High Court on 11 November 2019), which brought to an end the litigation that commenced in 2013 in relation to pension increases. Following the Settlement, the Trustee and BA agreed and finalised the 31 March 2015 and 31 March 2018 funding valuations, which had been on hold through the litigation. The Settlement Agreement does not require BA to pay cash sweep payments to the Scheme after 31 December 2018 and sets out a framework, known as the Agreed Valuation Basis, through which the assumptions for each actuarial valuation are set. APS was fully funded on the Agreed Valuation Basis for the 31 March 2018 valuation so deficit reduction contributions ceased from 31 December 2018 in accordance with the Settlement Agreement.

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.

In the years between formal valuations, the Scheme Actuary provides an interim update that shows how the funding position has evolved since the last valuation date. Following the Settlement and subsequent completion of the 31 March 2018 valuation, the Scheme Actuary provided interim updates as of 31 March 2019, and 31 March 2020 and the associated Summary Funding Statements have been issued to members.

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 of 31 March 2018 are based on the Technical Provisions assumptions agreed between the Trustee and BA as part of the Settlement, with the liabilities as of 31 March 2019 and 2020 updated by the Scheme Actuary in line with changes in market conditions.

The 31 March 2020 update showed that the Technical Provisions (TPs) funding level had decreased to 105.4% (2019: 112.5%), and the surplus had decreased to £387m (2019: £881m). This was largely due to the cost of historical pension increases awarded under the Settlement Agreement, the cost of the 2020 discretionary increase awarded to pensioners, and updated expectations of future inflation combined with lower returns over the year in some of the Scheme's assets compared to the increase in liabilities as a result of changes in yields available on Government bonds. Although there was significant market volatility from February 2020 in the wake of COVID-19, the Scheme does not hold publicly listed equities and was largely protected by the hedging of interest rates and inflation within the Scheme's investment strategy.

Scheme funding

Following the Settlement Agreement, BA is no longer required to make cash sweep contributions and no deficit funding contributions to the Scheme are needed as APS is more than fully funded on the Technical Provisions basis. However, BA will make available a contingent payment of up to £40m on the terms of the Settlement Agreement, should it be required by the Scheme in the future to fund the proposed package of discretionary increases.

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 an 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 contributions 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 keep

REVISED TRUSTEE'S REPORT

the appropriateness of these arrangements under review.

The 2021 valuation is underway and is due to be completed by the statutory deadline of 30 June 2022. As part of the valuation work as at 31 March 2021 and after taking advice from the Scheme Actuary and the legal advisers, the Trustee has concluded that it would not be valuable or proportionate for the Trustee to seek formal external advice on the sponsor covenant. This is due to the unusual position APS finds itself in, whereby it has a significant surplus on the TPs basis, very low reliance on contributions from BA, a very low-risk approach to investment strategy with substantial insurance and 100% target hedging of remaining interest rate and inflation risks.

SCHEME INVESTMENT

Asset Allocation

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; instead, there are overarching objectives to run off the illiquid assets quickly and to maintain the 100% target hedge ratios for interest rates and inflation.

The Trustee monitors investment risks on an ongoing basis and identified that the Corporate Credit risk could be reduced with only a modest reduction on overall asset return expectations. Accordingly, the Corporate Credit allocation was reduced by c.£150m by 31 March 2021 and the duration of the bonds held was reduced. Following the appointment of BlackRock as investment manager from 1 June 2021, the Corporate Credit portfolio was further restructured to continue the reduction in risk.

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 which meant that the insurance cover was increased to reflect the catch-up Discretionary Increases granted in 2019. This work was completed in July 2021 and resulted in a payment of £69.6m to Legal & General.

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, September 2020 and June 2021. A copy of the latest version of the SIP can be accessed on the [Scheme documents](#) page of the member website. In relation to the SIP:

- The CIO of BAPIML (or other BAPIML representative) will regularly attend IC meetings to discuss BAPIML's performance, portfolio activity and wider issues. The Investment Advisor will be asked to assist the Trustee's Executive, BAPSL, in monitoring BAPIML. The Trustee will monitor BAPIML's performance over different time horizons against performance objectives but will focus on the long term.
- The Trustee expects BAPIML to, where possible, integrate financially material ESG considerations into the investment decision-making processes at a portfolio level, at asset level, across all asset classes and at all stages throughout the entire investment life-cycle including in the selection, retention and realisation of investments.
- The Trustee does not currently take into account the views of members and beneficiaries in respect of non-financial matters, including environmental and social issues.
- In exercising the voting and other rights attached to the Scheme's investments, BAPIML 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.
- The Trustee monitors portfolio turnover and turnover costs on an annual basis through reporting from BAPIML. This includes looking at the level of turnover and the associated costs in absolute terms and relative to various comparators.
- BAPIML is owned in equal shares by the Trustee and New Airways Pension Scheme Trustee Limited (NAPSTL). The Chair of the APS Trustee sits on the BAPIML Board

REVISED TRUSTEE'S REPORT

and participates in remuneration decisions (as does the Chair of the NAPS Trustee). Remuneration of BAPIML's employees is derived as a result of both quantitative and qualitative factors that reflect the LTO of the Scheme and the objectives of New Airways Pension Scheme (NAPS) and is partially deferred to reflect the long-term time horizon of these objectives. The factors include asset performance (including over the medium to long term), contribution to progress towards the LTO and implementation of the Trustee's Responsible Investment (RI) policy as set out in Section 7. Ultimately the budget of BAPIML has to be approved by both the Trustee and NAPSTL each year.

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.

At the close of the Scheme year, BAPIML was the in-house investment manager to the Scheme. BAPIML's expenses were charged to the Scheme at cost, and day-to-day investment decisions were delegated to them. For the year to 31 March 2021, the Trustee set BAPIML a target performance in line with a composite strategic benchmark assessed over a rolling five-year period.

Details of the investment performance can be found on pages 12 to 14.

SCHEME GOVERNANCE

Trustee knowledge and understanding (TKU)

The Trustee has a formal training policy, the foundation of which is the TKU regime developed by The Pensions Regulator (TPR). Last year the Trustee 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 (an online learning programme designed to help trustees of occupational pension schemes meet the minimum level of knowledge and understanding required by law) or the Award in Pension Trusteeship (a formal pensions qualification).

The content, frequency, and level of ongoing training are related to the Committee(s) on which the Trustee Director serves and the business being undertaken by the relevant Committees and Trustee Board. The Trustee Board and each of its Committees produce an annual Committee calendar that 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. Standalone training updates cover any important developments in the pensions industry which are relevant to the Scheme. Additional ongoing training may be undertaken to address each Trustee Director's particular learning needs and interests.

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. BAPSL also provides bespoke training, and Trustee Directors are actively encouraged to supplement this formal training plan by accessing other resources, including pensions related publications and, where appropriate, industry conferences, seminars and webinars. Records of all training undertaken are maintained in respect of each Trustee Director.

Risk management and reporting

During the Scheme year, the Trustee completed a substantial review of its approach to risk management and reporting. The Trustee identified key risks, which it keeps under review through the new risk reporting framework. The assessment of these risks will be supported by input from risk and control owners at BAPSL. Work to refine the new risk management framework has continued throughout this 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 Trustee conducted a review of the Conflicts of Interest policy during the Scheme year and adopted a new version of the policy. 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. The revised policy also specifically addresses the scenario of dual appointments where a Trustee Director, including the Chair, serves on both APS and NAPS boards.

REVISED TRUSTEE'S REPORT

Trustee arrangements

As part of the Trustee Board size reduction to eight Trustee Directors in June 2020, 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 (voting members).
- The Trustee Directors elected by voting members must either be active members or pensioner members* (excluding adult survivors) 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 member Trustee Directors must be supported by at least ten voting members. If there is more than one nomination for a vacancy, a ballot of the voting 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 are in favour of removal. A ballot may be held on written request to the Trustee by one hundred of the voting members. The other Trustee Directors must also agree to that Director's removal.
- The Trustee may, at any time, use electronic communications to communicate with, give notice to, or ballot members involved in the process.

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

Committees

Much of the Trustee work is undertaken by committees made up of a sub-set of the Trustee Directors. 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.

There are two committees; the Operations Committee and the Investment Committee. The 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. Scheme governance is managed directly at the Main Board level.

The 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 main committees, the Trustee Board may establish sub-committees or ad hoc committees so that a small number of Trustee Directors can give detailed consideration to defined issues.

REVISED TRUSTEE'S REPORT

Attendance by Trustee Directors

Attendance records for Trustee and Committee meetings have been maintained and are shown below for the Scheme year to 31 March 2021.

Trustee	Investment Committee	Operations Committee	Main Board	Period of Appointment to Main Board
Roger Maynard (Chair)	8/8	4/4	4/4	Whole Year
Frances Axford	8/8	-	4/4	Whole Year
Zoe Davis	-	-	3/4	Whole Year
Paul Douglas	8/8	-	4/4	Whole Year
Andrew Fleming	-	1/2	2/2	Part Year
Ian Heath	-	4/4	4/4	Whole Year
Phil Hogg	-	4/4	4/4	Whole Year
Sarah Hunt	-	2/2	2/2	Part Year
Tim Richardson	7/8	-	3/4	Whole Year

Committee and Main Board meetings have been convened throughout the Scheme year using a mix of video-conferencing and in-person attendance.

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) in the Scheme are considered in some respects to be Defined Contribution (DC) Benefits. 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.

REVISED TRUSTEE'S REPORT

SCHEME CHANGES

There were no changes to the Scheme during the Scheme year.

TRUST DEED AMENDMENTS

A consolidated copy of the Trust Deed and Rules was signed in September 2020. The consolidated trust deed and rules and the deed implementing the consolidation 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 was 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 2021 Order was 0.5% and in accordance with the Scheme Rules, qualifying pensions were increased by 0.5% on 12 April 2021. 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 2021 the Settlement permits a discretionary increase of 100% of the relevant gap between RPI and the Orders. After considering all relevant circumstances, the Trustee decided to award a discretionary increase to qualifying pensions of 0.6% (the maximum permitted), bringing the total 2021 pension increase to 1.1%.

Reform to RPI methodology

In 2020 the Government ran a consultation on more closely aligning the RPI with CPI and CPIH. The yearly rise in the RPI has generally been nearly 1% higher than the yearly rise in CPIH historically. The Trustee responded to the consultation urging the Government to consider an alternative approach, strongly supporting a refinement to redefine RPI as CPIH plus a margin to be implemented in 2030 (rather than 2025). The Government decided that its proposed change will apply from 2030. This decision is being challenged, and the outcome of that challenge is awaited.

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 Pilsforth, General Counsel, BAPSL. In the event that the complainant is not satisfied with the outcome, the matter is then referred to the Trustee's Operations Committee Discretions Sub-Group for second stage adjudication. Complaints made under this procedure must be in writing and a leaflet giving full details is available from BAPSL.

Tax

The standard lifetime allowance, annual allowance and minimum tapered annual allowance are unchanged from the previous tax year. The allowances for 2021/22 are:

- Standard lifetime allowance: £1,073,100
- Annual allowance: £40,000
- Minimum tapered annual allowance: £4,000

REVISED TRUSTEE'S REPORT

Online communications

Improvements have continued to be made to our online communications. The team can now respond to members registered to manage their pension via the website by secure email. Email responses are issued via Mimecast, which is a secure, cloud-based email messaging service. This is a convenient, quicker way for members to receive information securely.

This report was approved by the Trustee Board on 29 October 2021 and was signed on its behalf by:

Monica Gupta
Scheme Secretary

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

(Forming part of the revised Trustee's Report)

The audited revised financial statements, which are required 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 revised financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- 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 fair and impartial.

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 revised 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.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Review of the year to March 2021

The Scheme year ending in March 2021 was dominated by COVID-19. The pandemic started to impact financial markets in early March 2020, when it became clear that widespread lockdowns were likely and that companies would face forced closures. Equity markets fell sharply, bond markets dislocated, and liquidity contracted. Policy makers were rapidly faced with a real risk that economic and financial markets problems would compound to spiral out of control.

The key was to provide individuals, companies, banks and other market participants with access to money. Governments in major economies announced fiscal policies providing direct support to wage earners and those made unemployed. Corporate guarantee programmes were set up to ensure that companies could borrow cheaply. Central banks, including the Bank of England, started buying government and other debt to lower interest rates. The US Federal Reserve Bank (the 'Fed') put special measures in place to ensure that banks globally could source the US dollars they needed.

This range of policy measures meant that the start of the Scheme year in April 2020 coincided almost exactly with the lows in global financial markets. Although markets have not been easy to predict, the combination of plentiful funding and low interest rates has been highly supportive to most asset classes. As vaccination programmes moved from being hope to reality in late 2020, confidence in a return to normal added further momentum to the move in markets. Indeed, global equity markets closed the year up 50% (in pounds sterling) from their lowest point. Corporate bonds recovered steadily and finished the year at multi-year highs.

The government bond market started to price in a return to normal towards the end of the Scheme year. The UK yield curve rose and steepened. Short term interest rates moved from being negative to being just above zero. The interest rates on longer dated UK government bonds (which are used to value pension liabilities) moved materially upwards, with the yield on the 20-year bond rising 0.60% to end the Scheme year at 1.35% p.a.

Commodities markets were volatile throughout the year, with both demand and supply being erratic. Oil for delivery in some specific locations in the USA traded at negative prices in May 2020. Many companies, however, ended the year facing a shortage of raw materials and high-technology components.

The focus of the market moving forwards will be on central bank policy and inflation. Forecasts of near-term inflation have risen and then stabilised. Central banks to date have been clear that they have no intention of tightening monetary policy until labour markets have fully recovered from the pandemic. It is likely, however, that markets will see some volatility as growth returns and the policies that have supported the global economy for the past year are withdrawn.

Asset allocation

The assets of APS fall into two categories: liability matching assets and the liquidation portfolio. The Trustee no longer requires nor mandates its investment manager to make 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 liquidation portfolio consists of illiquid return seeking assets that are being sold as the Scheme looks to reduce its risk and improve its liquidity. Over the last year, these illiquid assets have been reduced from 8.1% of the assets managed by BAPIML to 5.3%, with the whole of the Scheme's real asset portfolio and most of the Scheme's property portfolio having been sold.

The Trustee's Investment Committee (IC) is responsible for monitoring the Scheme's asset allocation. The IC undertakes an annual review of the liquidity of the Fund¹ and may, where possible and from time to time, recommend changes to the investment strategy with the intention of improving the risk return profile of the Scheme's assets.

The allocation of the Fund as of 31 March 2021 is shown below.

Asset category	Assets % 31 March 2021	Assets % 31 March 2020
Liability Matching	89.7	90.3
Index Linked Bonds	53.1	49.5
Nominal Bonds	36.6	35.0
Real Assets	0.0	5.8
Illiquid Assets	5.3	8.1
Private Equity	1.9	1.8
Alternatives	3.2	5.3
Property	0.2	1.0
Cash	5.0	1.6

¹ References to the Fund refer to the net assets managed by BAPIML (and from 1 June 2021, BlackRock) 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.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Fund performance, including strategic hedging and the overlay portfolio

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 2021, the Fund returned 5.21%.

Table 1 – Performance including strategic hedging

Fiscal years to 31 March 2021	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	5.21	3.50	5.52	6.46

Fund performance excluding strategic hedging and the overlay portfolio

Table 2 shows the performance of the Fund, excluding strategic hedging, which is the measure by which BAPIML as the Scheme's investment manager was judged. BAPIML was set an outperformance target equal to the strategic benchmark over a five-year rolling period (reduced from 0.15% per annum relative to the strategic benchmark from June 2020). BAPIML aimed to achieve this outperformance through stock selection within individual portfolios.

In the year under review, 1 April 2020 to 31 March 2021, the Fund returned a total of 4.31% excluding strategic hedging and the overlay portfolio, which means that BAPIML outperformed the strategic benchmark by 0.12% for the year and outperformed by 0.32% per annum averaged over the last five years, meeting its performance target over both timeframes.

In the 12 months to March 2021, the Scheme's corporate bond, real assets and alternatives portfolios contributed meaningfully to performance. This was largely offset, however, by Private Equity, where the Scheme's holdings are revalued more slowly than the benchmarks they are measured against and have lagged the sharp rise in equity markets from April 2020. Over longer time periods, however, Private Equity still shows material outperformance versus its benchmark.

Table 2 – Performance excluding strategic hedging

Fiscal years to 31 March 2021	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	4.31	3.93	5.72	6.61
Benchmark	4.19	3.64	5.38	6.53
Relative Performance	0.12	0.28	0.32	0.07

The Fund's 10 largest quoted holdings as of 31 March 2021 (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	112.1	1.5
UK Treasury 0.75% Index-Linked 2034	Government Bond	111.5	1.5
UK Treasury 1.875% Index-Linked 2022	Government Bond	88.6	1.2
UK Treasury 0.125% Index-Linked 2024	Government Bond	87.5	1.2
UK Treasury 0.125% Index-Linked 2046	Government Bond	76.5	1.0
UK Treasury 1.125% Index-Linked 2037	Government Bond	61.8	0.8
UK Treasury 0.250% Index-Linked 2040	Government Bond	52.2	0.7
UK Treasury 0.125% Fixed Interest 2036	Government Bond	50.6	0.7
UK Treasury 0.125% Fixed Interest 2041	Government Bond	47.0	0.6
UK Treasury 1.25% Index-Linked 2027	Government Bond	43.2	0.6

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Additional Voluntary Contributions (AVCs)

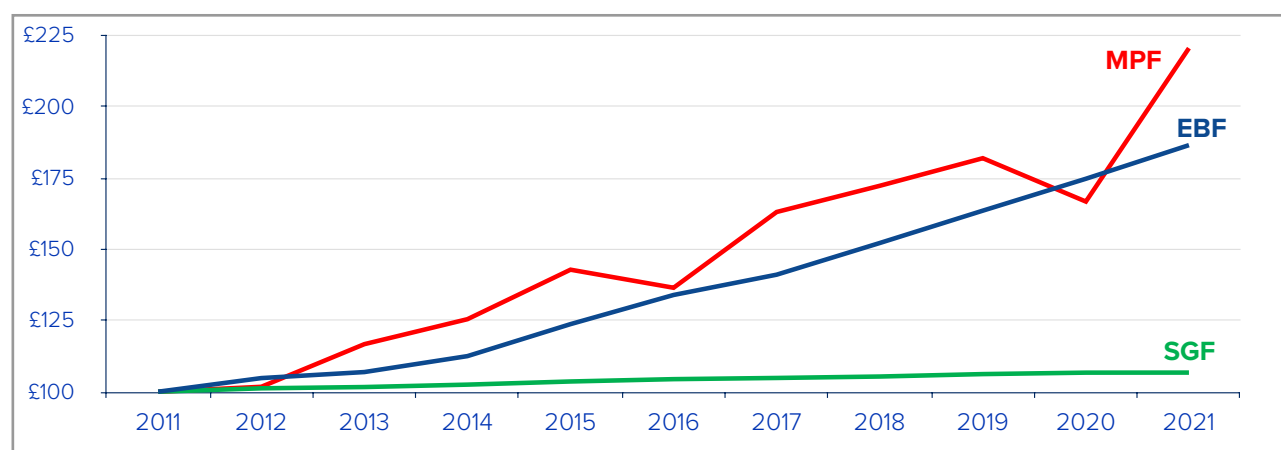
The Mixed Portfolio Fund (MPF) had a positive return of 32.10% for the year ending 31 March 2021. The Trustee sets a benchmark for each type of asset class held within the MPF and uses this to monitor the MPF's performance. The benchmark returned 30.72% over the year, meaning that the MPF outperformed its benchmark by 1.06%.

The MPF's long-run performance target is to beat its benchmark by 0.5% per annum over a five-year period. Over the last five years, the MPF hasn't achieved its target but has outperformed by 0.18% per year on average.

In the year to 31 March 2021, the Short-dated Gilts Fund (SGF) returned 0.02%, and the Equity Biased Fund (EBF) returned 6.75%. 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 2011 would have changed in value over time.

AVC funds total growth over 10 years



Performance returns of the AVC funds

Annualised fiscal year return over the period to 31 March 2021

Fiscal years to 31 March 2021	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
MPF (Actual)	32.10	8.54	10.04	8.27
MPF (Benchmark)	30.72	8.21	9.85	8.24
EBF	6.75	7.02	6.85	6.43
SGF	0.02	0.44	0.44	0.65

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Corporate governance

The Trustee's Responsible Investment Policy 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 is also a signatory to the Financial Reporting Council's updated UK Stewardship Code, which aims to improve and enhance the quality of engagement between companies and institutional investors.

The Scheme's investment manager is required to adhere to the Scheme's Responsible Investment Policy. The investment manager is required to pro-actively monitor investments on an ongoing basis to help identify situations where long-term risk-adjusted returns might be compromised by ESG issues or could place the reputation of the Scheme at risk.

In exercising the voting and other rights attached to the Scheme's investments, the investment manager must 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.

The Scheme's Responsible Investment Policy is made available to members and the public in the Responsible Investment section of the Scheme's website and is reviewed regularly, with the most recent updates being in July 2020 and June 2021. The Scheme's most recent [Responsible Investment](#) and [Stewardship Code](#) Reports are published alongside the Policy and detail how the Scheme's policies have been implemented during the year ending in March 2021. A full voting record for the period is also provided.

Source: All performance shown is calculated independently by either State Street or BAPSL. External Fund comparisons are sourced from Willis Towers Watson.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

STATEMENT OF INVESTMENT PRINCIPLES (SIP) - IMPLEMENTATION STATEMENT

1. Introduction

Under the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee is required to produce an annual implementation statement, setting out how the policies described in the Scheme's Statement of Investment Principles (SIP) have been followed. This is the first such statement prepared by the Trustee. The statement is based on the SIP in force at the year end, and covers the period 1 April 2020 to 31 March 2021, the Scheme's reporting year.

This statement sets out how the Trustee's policies under the terms of the SIP have been implemented.

The Scheme's SIP was updated in July 2019² to include an explicit statement of its approach to stewardship and responsible investing. This approach was further detailed in the Scheme's Responsible Investment (RI) Policy, with implementation delegated to the Scheme's in-house investment manager, BAPIML, throughout the Scheme year. BAPIML was replaced as investment manager from 1 June 2021, with BlackRock taking on this responsibility.

The RI sections of the Scheme's SIP and the Scheme's RI Policy were reviewed and updated in July 2020². The Scheme's investment approach in so far as it relates to stewardship and the integration of Environmental, Social and Governance (ESG)-related risks, including climate change, was felt to be fit for purpose and was left substantially unchanged. Changes made were aimed at ensuring updated regulatory requirements were reflected in the specifics of the documents.

Until May 2020, when a decision was taken to simplify APS's committee structure, RI policy and implementation were reviewed and monitored by the Scheme's dedicated ESG Committee (ESGC). Since June 2020, that responsibility has moved back to the Scheme's quarterly Investment Committee (IC).

2. Assets held and managed

APS is a defined benefit scheme that is closed to future accruals since 1984. As of March 2021, APS had a total of 21,319 members, nearly all of which are pensioners in payment, dependents or deferred pensioners.

Airways Pension Scheme

APS's main objective is to deliver the benefits that members are due without taking significant risks. In a major step towards reaching this goal, APS insured c.£4.4 billion of liabilities through a pensioner buy-in with Legal & General in 2018, which resulted in a large reduction in the assets managed by BAPIML on behalf of the Scheme.

As of March 2021, BAPIML managed over £3 billion in assets for the Scheme. The Scheme's investment strategy consists of a liquidation portfolio and a liability matching portfolio, along with a derivative overlay portfolio as required. The assets managed are predominantly invested in inflation linked government bonds and corporate bonds, with a small allocation to illiquid return-seeking assets (mainly private equity and alternatives).

APS members are also able to invest their Additional Voluntary Contributions (AVCs) in a money purchase arrangement called the Mixed Portfolio Fund (MPF), which owns government bonds, corporate bonds, listed equities and cash.

British Airways Pension Investment Management Limited (BAPIML)

Up until 31 May 2021, BAPIML was the Scheme's in-house investment manager, providing services exclusively to APS and to NAPS³. BAPIML is a limited company that is wholly owned by the Custodian Trustee of the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS) Management Trustees⁴.

² The Scheme's SIP and RI Policy were further updated from June 2021 to reflect the change in investment manager from BAPIML to BlackRock.

³ NAPS is a defined benefit scheme which is closed to new entrants and future accrual. NAPS is a less mature scheme than APS with c.60% of its assets in liability matching portfolios and c.40% in return seeking portfolios.

⁴ The Custodian Trustee is known as British Airways Pension Trustees Limited (BAPTL). The APS Management Trustee is known as Airways Pension Scheme Trustee Limited (APSTL), the NAPS Management Trustee is the New Airways Pension Scheme Trustee Limited (NAPSTL).

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

BAPIML directly managed active mandates for APS in corporate bonds, gilts and inflation-linked bonds, and direct property. Its fund managers selected and oversaw APS's third-party managers in private equity and alternatives. BAPIML also managed a number of active equity and bond portfolios for the MPF.

From 1 June 2021, the Scheme's investment manager was changed to BlackRock.

British Airways Pension Services Limited (BAPSL) and BA Pensions

BAPSL is the Scheme's in-house administrator, providing administrative services to APS and NAPS Trustee Directors and members. BAPSL also acts as the Schemes' executive, coordinating the interaction between the Schemes' Trustee Boards, their investment and actuarial advisors, and the Schemes' sponsor. BAPSL and BAPIML together comprise BA Pensions.

3. Policies and practices

The Trustee adopted a substantially updated RI Policy in July 2019, with the key aspects of the Policy being subsequently described in the Scheme's SIP². The Scheme's RI Policy should be expected to develop over time as regulation and best practices evolve. It was most recently reviewed and updated in June 2021. The latest versions of the Scheme's SIP and RI Policy can be found on the APS website.

The APS SIP describes the Trustee's position on ESG issues by means of the following Mission Statement (APS SIP 7.1):

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 SIP further describes BAPIML's responsibilities with respect to voting and engagement activities as follows:

- The Trustee requires BAPIML, where consistent with the Trustee's fiduciary duties and applicable to the Scheme's investment strategies, to actively engage and use voting and other rights attached to the Scheme's investments to drive up ESG standards in the organisations in which the Scheme is invested (APS SIP 7.7)
- The Trustee requires BAPIML to engage with investee companies and other relevant stakeholders, using a variety of means including collaboration with other investors, to protect or enhance the value of the Scheme's assets, including over the medium to long term. Engagement can be in relation to a number of matters, including but not limited to performance, strategy, risks, capital structure and management of actual or potential conflicts of interest. BAPIML is required to keep records of each engagement and outcome (APS SIP 7.8)
- In exercising the voting and other rights attached to the Scheme's investments, BAPIML 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 (APS SIP 7.10)
- The Scheme's RI activities, annual voting and engagement reports will be made available on a publicly accessible website (APS SIP 7.12).

² The Scheme's SIP and RI Policy were further update from June 2021 to reflect the change in investment manager from BAPIML to BlackRock.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

4. Monitoring and communication

In 2018 the APS Trustee established the ESGC to review its approach to RI and devise an updated RI policy. The ESGC remained in place until May 2020, charged with ensuring that the Scheme's revised policy was fully aligned in practice with regulatory and industry standards.

In May 2020, APS made the decision to simplify its committee structure, with responsibility for the Scheme's RI policy moving back to the Scheme's IC. The IC now monitors RI policy and implementation, the Scheme's independent investment experts and strategic investment advisers also being present. Implementation of the Scheme's RI Policy was delegated to BAPIML as the Scheme's in-house investment manager until 31 May 2021, at which point BlackRock assumed responsibility. BAPIML's, and subsequently BlackRock's, investment managers were charged with integrating ESG considerations where possible and appropriate to the Scheme's investment strategy. They were also responsible for conducting voting and engagement activities on behalf of the Scheme.

BAPIML's investment managers were supported by RI specialists (the ESG team). The ESG team provided subject matter expertise, analytical resource and advice on RI implementation. The team managed and tracked BAPIML's voting activity and helped fund managers coordinate engagement opportunities where appropriate. They were also responsible for producing internal and Trustee facing ESG reporting.

BAPIML and subsequently BlackRock representatives attend regular Trustee committee meetings to report on integration and stewardship activities. The relevant committees will, from time to time, also call on individual asset-class fund managers to present their views and activities for review by the Trustee Directors and their advisors.

In addition, the Trustee also receives written reports detailing stewardship activities and outcomes. These include the following.

- Proxy voting report (quarterly)
- Engagement report (quarterly)
- Responsible Investment Policy Implementation Report (annually)
- Annual Responsible Investment Report (annually)
- Stewardship Code Report (annually)

The Trustee Directors do not currently take the views of members and beneficiaries into account in respect of non-financial matters, including environmental and social issues, when setting the investment strategy of the Scheme.

The Scheme's SIP, RI Policy, Annual RI Report and its Stewardship Code Report are, however, made available on the Scheme's website alongside a complete record of the most recent year's voting activities.

5. Voting

BAPIML's policy was to exercise its clients' voting rights in all geographies, for all relevant asset classes, wherever possible. BAPIML's voting was predominantly associated with the Scheme's listed equity holdings (held in the MPF), although its credit managers were from time to time asked to vote on proposals relating to corporate bonds.

APS participates in a securities lending programme which is reviewed annually. Practices vary by market, but BAPIML worked with BAPSL and the Scheme's custodian to restrict lending and/or recall securities in advance of shareholder meetings wherever this was possible and practical. In some geographies, BAPIML was able to directly monitor meeting schedules and manually requested the custodian restricted and/or recalled lent securities to ensure the Scheme's holdings were voted.

In exercising voting rights associated with the Scheme's holdings, BAPIML's overriding priority was, to the extent possible, to ensure that the value of the Scheme's assets was enhanced over the long run. BAPIML also used the voting rights associated with the Scheme's holdings to drive up ESG standards in the organisations in which the Scheme was invested, where BAPIML believed this was consistent with the Scheme's fiduciary duties and applicable to the investment strategy.

BAPIML was required to consider recommendations on voting from a specialist service provider, Institutional Shareholder Services (ISS). The relevant asset class fund manager was ultimately responsible for deciding how to vote. Managers were encouraged to vote for each corporate event

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

on a case by case basis, with reference to a common but non-binding set of priorities and their specific knowledge of the company.

BAPIML would abstain on a specific proposal only if it believed withholding support was more appropriate than voting for or against. This might have been the case if BAPIML was in the process of engaging with management on the matter or because a FOR or AGAINST vote would have specific negative consequences. There are also individual markets where an abstention may be required or justified for technical reasons⁵.

Over the 12 months to the end of March 2021, BAPIML voted on behalf of APS and/or the MPF at 949 meetings on a total of 12,583 proposals. There were 20 individual occasions on which BA Pensions failed to recall 100% of the Scheme's stock prior to voting. 10 of these were during the extreme market volatility seen in Q2 2020.

Investment teams saw a higher proportion of Extraordinary General Meetings (EGMs) to Annual General Meetings (AGMs) this year compared to last in certain regions, particularly in the UK, Europe and Asia Pacific. This was driven partially by the need to take exceptional dividend and capital allocation decisions as a result of the pandemic, and partially by some one-off governance changes required of UK-cleared Irish companies to accommodate Brexit.

Otherwise the impact of COVID-19 related lockdowns on voting activity was relatively modest. Most countries updated their rule books to allow decisions to be made at virtual (rather than in-person) shareholder meetings. Not all companies have permitted shareholders to question management effectively in virtual-only forums, but the issue is being addressed in the upcoming AGM season via targeted shareholder proposals.

Number of meetings voted by geography

United Kingdom	155
North America	76
Developed Europe ex-UK	124
Developed and Emerging Asia Pacific ex-Japan	112
Japan	482

BAPIML voted against management's recommendation on at least one proposal at 32% of meetings. In all, BAPIML voted against management's recommendation on just under 6% of proposals.

Number of meetings voted by outcome

Meetings where BAPIML voted in line with management on all proposals	653
Meetings where BAPIML voted against management on at least one proposal	296

Number of proposals voted by outcome

Proposals where BAPIML voted in line with management	11,861
Proposals where BAPIML voted against management	722

Where BAPIML voted against management's recommendation, the decision was informed by research from the Scheme's proxy voting advisor, the ESG team's subject matter expertise, and the fund manager's understanding of the company's specific situation.

⁵ BAPIML abstained on 22 proposals in the 12 months to March 2021. 16 of these related to the approval of dividends during Q2 2020. Due to the high levels of uncertainty caused by COVID-19 related lockdowns, many companies withdrew their dividend proposals at short notice, making an abstention the most appropriate response on the part of the fund manager.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Votes against management were most typically related to director elections, shareholder proposals or remuneration. Shareholder proposals were by far the most contentious category, with BAPIML voting against management's recommendation on 38% of all shareholder proposals. In contrast, BAPIML voted against management's recommendation with respect to just 4% of directors proposed.

Proposals where BAPIML voted against management by proposal category	Number of proposals	Proportion of category
Director Election	226	4%
Shareholder Proposals	129	38%
Remuneration	118	11%
Capital Structure and Dividends	103	6%
Audit, Report and Accounts	74	6%
Amend Articles	26	5%
Board Structure and Responsibilities	11	4%
Other Business	5	9%

Where BAPIML considered a vote against to be particularly contentious or important BAPIML escalated matters by writing a letter to either management or the company's board explaining BAPIML's position. BAPIML wrote 12 such letters during the 12 months to March 2021, an example of which is given below.

Vodafone Group

At Vodafone Group's AGM on 28 July 2020, Mr David Thodey was put forward to be re-elected as an independent director of the company's board.

BAPIML was typically not supportive of directors who held a lot of directorships, believing it could impact the time and focus they have available. At that time, Mr Thodey held board positions at three other publicly listed companies, including two as chair, which raised significant concerns about over-boarding.

On 20 July, BAPIML submitted a vote against Mr Thodey's re-election and wrote a letter to the chair of Vodafone, Mr Gerard Kleisterlee, explaining BAPIML's decision. BAPIML received an immediate response from the chair, who noted that Vodafone's Nominations Committee was comfortable with Mr Thodey's commitment to Vodafone and his capacity to fulfil his role as a NED.

However, the day before the AGM, on 27 July 2020, Vodafone announced that Mr Thodey had decided that he would not seek re-election. BAPIML believed Mr Thodey's decision to withdraw his candidacy was most likely due to feedback similar to BAPIML's from multiple institutional shareholders ahead of the meeting.

6. Engagement

BAPIML defined engagement as any two-way conversation between BAPIML as an investor and the management of investee or potential investee companies. The engagement was conducted through calls, emails, letters, virtual or face to face meetings with management or through collaborative initiatives.

Global equities

BAPIML managed active equity mandates for the MPF in which APS members can be invested. Fund managers recognised that industry conditions, management teams and the regulatory environment could change over their typical holding period, which made effective engagement an integral component of their investment process. BAPIML also encouraged timely and open two-way dialogue with companies on capital allocation, governance and culture, environmental and social issues and corporate accountability with a consistent focus on shareholder returns.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Corporate Bonds

BAPIML managed a range of active corporate bond mandates for APS and the MPF, analysing the economy, fiscal and monetary policy, sectors and issuers with the aim of outperforming a designated benchmark. Engagement formed a key part of the team's investment process and offered the fund manager an opportunity to fully understand a company's prospects, challenge a company's strategy, and assess management's competence. Although corporate bondholders do not vote at company meetings, their importance in determining a company's access to capital markets and their cost of capital ensures that bondholders are considered key stakeholders.

Over the 12 months to the end of March 2021, BAPIML's equity and corporate bond investment managers conducted 200 engagements with company management. While the total number of engagements fell year on year due to restrictions on physical meetings and travel, fund managers remained close to the companies and industries they research through calls, virtual meetings and online conferences.

Meeting type	Number of engagements in the 12 months to the end of March 2021	Number of engagements in the 12 months to the end of March 2020
Small group meeting	81	233
1-on-1 meeting	26	65
Call	69	25
Letter/email	17	20
Investor site visit	0	17
Capital markets day	5	12
Annual meeting	2	5
Total	200	377

Fund managers engaged across a wide range of topics. Although conversations about corporate strategy drove most meetings, investment managers were increasingly asking questions about environmental and social issues more often.

In the twelve months to March 2021, environmental topics were discussed in 35% of company engagements, up from 28% in the prior year. Broader awareness of environmental (including climate-change related) risks is leading to increased interest in companies' risk management strategies and disclosures. Social issues were also raised more often, being discussed in 34% of meetings, up from 23%. This was largely driven by fund managers exploring the impact of COVID-19 on companies' customer, employee and supply chain relations.

The table below shows the number of times different issues were raised or addressed in speaking with company management.

Topics	Number of times addressed in the 12 months to the end of March 2021	Number of times addressed in the 12 months to the end of March 2020
Strategy	184	375
Environmental	70	106
Social	68	85
Governance	46	96
ESG process	13	-

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

External capabilities⁶

BAPIML engaged with the Scheme's external fund managers for monitoring and due diligence purposes. The main purpose of these engagements was to ensure that investee funds were managed in line with the agreed investment process and to monitor portfolio exposures on a more granular basis than otherwise possible.

BAPIML also systematically engaged with its third-party managers to ensure appropriate stewardship and other ESG-related policies and/or procedures were in place. In doing so, BAPIML used a questionnaire based on the Principles for Responsible Investment (PRI) best practice. BAPIML recognised that different managers in different asset classes would reasonably take different approaches. BAPIML aimed to understand the rationale behind each investment manager's approach to stewardship and any ambitions they might have to strengthen their procedures over time.

7. Stewardship examples from the year to the end of March 2021

AGL Energy Ltd is an example where what looked to be a straight-forward question about remuneration needed to be considered in the broader context of a company's strategic priorities. This case was unusual in that BAPIML voted with management but against the advice of the Scheme's proxy voting advisor⁶. It demonstrates the benefit of a fund manager having an in-depth understanding of the long-run drivers of shareholder value.

AGL Energy Ltd

AGL Energy Ltd (AGL) is an energy company that generates and sells electricity to customers in Australia. In recent years, the company has been actively shifting away from coal-fired generation and has made significant investments in renewable energy.

At AGL's AGM in October 2020, BAPIML was asked to vote to approve a performance-based bonus scheme (a Long-Term Incentive Plan or LTIP) for the CEO, Brett Redman. Long-term incentive plans are meant to reward employees for reaching specific goals linked to increased shareholder value.

AGL wanted to update the CEO's LTIP to make reducing the company's carbon emissions a more important driver of the CEO's compensation. It also wanted to cut the profit target included in the CEO's LTIP given the impact of COVID-19 on the company and in light of the company's plans to move to a low-carbon platform.

ISS recommended voting against the LTIP, believing that the weight given to the carbon emissions was too high and that the CEO's bonus potential should be made smaller given the lower profit target.

BAPIML's fund manager believed that moving towards owning low-carbon assets was an important strategic priority for AGL. The fund manager also believed that it would cause the company's profits to be lower in the short term, as AGL makes new investments in renewable energy and writes off the value of its coal-fired power stations. In lowering the CEO's profit target, AGL was simply making the LTIP consistent with the company's new goals.

BAPIML voted in favour of the LTIP against ISS' recommendations, believing the changes were proportionate and designed to incentivise the CEO to act in shareholders' best interest. In total, 70.7% of AGL's shareholders voted in favour, and the LTIP was approved.

⁶ BAPIML selected and provided oversight of external managers in private equity, alternatives, real assets, illiquid income and property.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

In other cases, a fund manager needed to engage with a company directly to understand the specifics of a certain situation. An example from this reporting period is the discussion BAPIML had with The Trade Desk Inc about their dual class share structure ahead of their AGM.

The Trade Desk Inc

The Trade Desk Inc (TDD) is an advertising technology company based in the United States.

In December 2020, TTD called for a special shareholder meeting to change the rules governing the company's share classes. BAPIML's US equity team engaged with TTD ahead of the meeting as the change management wanted to make was not something BAPIML would normally support.

Some companies have a dual share-class structure, meaning that they have two or more types (classes) of shares. Different classes of shares usually have different voting rights and are owned by different types of investors. Often insiders, such as company founders and early investors, own one sort, and ordinary investors own a different one. The intention is usually to give insiders more control over decisions during the company's early years when the long run value of some investments might be unclear to outsiders. Dual share classes are not, however, normally considered best practice as they allow a small group of insiders to control decisions impacting all shareholders.

TTD has two classes of shares outstanding. It has founder shares which have 10 votes per share, and ordinary shares, which have one vote per share. Founder shares were meant to convert to ordinary shares when founder shares fell below 10% of the total number of shares. The company's proposal in December 2020 was to remove the automatic trigger and replace it with a guarantee that the company would convert the founder shares to ordinary shares by 2025.

BAPIML was normally unsupportive of dual share class structures and therefore reached out to the company. TTD explained that when the company went public in 2016, management's plan was that the dual share structure would be in place for ten years. They were now concerned that the 10% trigger would be reached before then and that that early conversion of founder shares would impact management's ability to control the company's future.

BAPIML voted in favour of changing the rules at the December meeting. BAPIML's fund manager had taken the view that the extension was needed to allow the company to make investment decisions based on the long-run, and to reduce the risk of it being bought by another company before its full value is recognised by the market. The proposal received more than 90% of shareholders' support, suggesting that most ordinary shareholders shared BAPIML's view.

Occasionally BAPIML collaborated with other shareholders to resolve a specific issue or achieve desired disclosures where this could have had a material impact on shareholder value. As an example, over the past several years, BAPIML worked with other investors on a number of occasions to influence companies' climate change policies. It particularly focused on lobbying where a company's memberships appeared to conflict with the company's commitment to align with the Paris Climate Agreement and to keep average global warming below 2 degrees Celsius.

Over the last 12 months, BAPIML continued to engage with companies and investor groups over environmental lobbying activities, using its vote to push for increased transparency and alignment whenever it could. Chevron Corporation is an example from this reporting period that shows the momentum collective shareholder action has generated in this area.

INVESTMENT REPORT

(Forming part of the revised Trustee's Report)

Climate change lobbying

Chevron Corporation (Chevron) is an American multinational energy company that produces and transports crude oil and natural gas.

At Chevron's Annual Meeting in May 2020, a shareholder proposal was filed by a large asset manager who owns shares in Chevron. The proposal requested that Chevron reports on how the company's lobbying activities align with the goal of the Paris Climate Agreement.

Chevron currently partners with a number of highly influential groups which lobby contrary to the Paris Agreement's goals, including the American Petroleum Institute (API) and the Chamber of Commerce and National Association of Manufacturing (NAM). The API, for example, has successfully persuaded the US administration to roll back methane regulations and pushed to speed up the approval processes for oil and gas projects without fully considering their environmental impacts.

BAPIML believed that increased transparency was important in keeping companies accountable and voted in favour of similar proposals at other investee companies' AGMs. What was interesting about the Chevron vote, was the change in investor attitudes over the last 12 months.

When BAPIML voted in favour of similar proposals at Exxon Mobil and BHP Plc & Ltd, it was in the minority. The Chevron vote received a majority support of 54%. This will force Chevron to increase the amount it tells shareholders about its lobbying activities going forwards.

BAPIML's investment managers also decided to engage thematically if they believed there were material, financial or non-financial risks present at a portfolio level. As an example, BAPIML, with the permission of the Trustee, worked with CDP (previously the Carbon Disclosure Project) to persuade companies to improve disclosure of their climate-change related financial information.

Working with CDP

BAPIML was an investor signatory to CDP, an organisation formerly known as the Carbon Disclosure Project. CDP is a non-profit organisation that facilitates the disclosure of information about companies' and cities' impact on the climate, on forests and on water security (access to clean, safe water). In 2020 approximately 9,600 companies and 810 cities disclosed environmental information through the CDP platform.

CDP runs an annual campaign aimed at companies that currently do not disclose enough relevant data on climate change, forests or water security. In 2020, CDP targeted 1,025 companies, selected mainly based on their size or their likely environmental impact. 108 institutional investors (including BAPIML) from 24 countries, representing USD 12 trillion in assets, signed up to support.

Access to environmental data can be important in understanding the risks investee companies face. Based on the Scheme's holdings, 116 of the 1,025 companies on CDP's list were judged by BAPIML to be directly relevant to APS. BAPIML allowed CDP to put its name in letters sent to these 116 companies, asking them to improve their disclosure. By the end of the 2020 campaign, 27 of the 116 companies selected by BAPIML on behalf of the Scheme had sent improved information to CDP.

8. Conclusion

The Trustee monitored BAPIML's implementation of their investment principles so far as they related to stewardship by means of written quarterly and annual reports, which are interrogated systematically by the Scheme's Executive, Trustee and advisors.

The Trustee and advisors also had regular access to BAPIML's CIO, Head of Asset Allocation and Investment Risk, and ESG specialists and supplementary information from asset-class fund managers as required.

On the basis of the information provided to them and their advisors, the Trustee is of the opinion that the stewardship components of the Scheme's SIP have been implemented as envisaged in the 12 months to 31 March 2021.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the revised financial statements of Airways Pension Scheme (the Scheme) for the year ended 31 March 2021 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related revised notes to the revised financial statements, including the accounting policies as set out in pages 28 to 43.

In our opinion the revised financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2021 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.

Emphasis of matter - revision of other investment liabilities

We draw attention to the disclosures made in note 1 to the revised financial statements concerning the need to revise other investment liabilities. The revised financial statements replace the original financial statements approved by the Trustee on 28 September 2021. Our previous report was signed on 29 September 2021. Our opinion is not modified in respect of this matter.

Going concern

The Trustee has prepared the revised 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 revised financial statements (the going concern period).

In our evaluation of the Trustees' 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.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the revised financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (fraud risks) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee and inspection of policy documentation, including the conflicts of interest register, as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.
- Reading meeting minutes.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee (or their delegates including the scheme administrator) may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

INDEPENDENT AUDITOR'S REPORT

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the revised financial statements have been prepared.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee (as required by auditing standards), and from inspection of the Scheme's regulatory and legal correspondence and discussed with the Trustee the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the revised financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related revised financial statement items.

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the revised financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of

operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

In relation to the revision discussed in note 1 to the revised financial statements, we assessed whether the revisions made by the Trustee are appropriate and have been properly made.

We have reported separately on contributions payable under the schedule of contributions in our statement about contributions.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the revised financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the revised financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities, implementation statement and the summary of contributions), the Chair's Statement, and the actuarial certification of the schedule of contributions. Our opinion on the revised 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 revised financial statements audit work, the information therein is materially misstated or inconsistent with the revised financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

INDEPENDENT AUDITOR'S REPORT

Trustee's responsibilities

As explained more fully in their statement set out on page 11, the Scheme Trustee is responsible for: supervising the preparation of revised financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of revised 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 it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the revised 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 revised financial statements.

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

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

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

Nadia Dabbagh-Hobrow
For and on behalf of KPMG LLP,
Senior Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL

Date: 29 October 2021

REVISED FUND ACCOUNT

	Note	31 March 2021 (revised) £'m	31 March 2020 £'m
Contributions and Benefits			
Employer contributions	3	1.8	3.7
Employee contributions	3	0.7	1.3
Total contributions		<u>2.5</u>	<u>5.0</u>
Benefits paid or payable	4	(373.7)	(379.2)
Payments to and on account of leavers	5	(26.9)	(16.9)
Administrative expenses	6	(4.6)	(5.6)
		<u>(405.2)</u>	<u>(401.7)</u>
Net (withdrawals) from dealings with members		<u>(402.7)</u>	<u>(396.7)</u>
Returns on Investments			
Investment income	7	28.9	31.2
Investment management expenses	8	(2.9)	(3.9)
Change in market value of investments	9	143.4	54.8
Net return on investments		<u>169.4</u>	<u>82.1</u>
Net (decrease) in the fund during the year		(233.3)	(314.6)
Net assets of the Scheme at 1 April		7,607.7	7,922.3
Net assets of the Scheme at 31 March		<u><u>7,374.4</u></u>	<u><u>7,607.7</u></u>

The revised notes on pages 30 to 43 form part of the revised financial statements.

REVISED STATEMENT OF NET ASSETS

(available for benefits)

	Note	31 March 2021 (revised) £'m	31 March 2020 £'m
Investment assets:			
Fixed interest bonds	9	694.7	752.6
Index-linked bonds	9	5,569.7	5,312.1
Pooled arrangements			
Property	10	4.5	21.7
Alternative investments	10	59.6	240.7
Private equity	10	37.8	38.4
Insurance contracts	12	4,285.0	4,457.1
Derivatives	14	3.9	5.3
AVC Mixed Portfolio Fund	16	15.8	13.1
Cash		61.7	83.3
Other investment balances		42.8	11.8
		10,775.5	10,936.1
Investment liabilities:			
Asset and longevity swaps	13	(3,296.3)	(3,210.8)
Derivatives	14	(16.4)	(53.7)
Other investment balances		(69.7)	(45.1)
		7,393.1	7,626.5
Total net investments			
Current assets		0.2	0.4
Current liabilities		(18.9)	(19.2)
Net assets of the Scheme at 31 March		7,374.4	7,607.7

The revised 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 49 and 50, and these revised financial statements should be read in conjunction with this report.

The revised notes on pages 30 to 43 form part of these revised financial statements.

These revised financial statements were approved by the Trustee Board on 29 October 2021 and were signed on their behalf by:

Roger Maynard **Trustee Director**

Paul Douglas **Trustee Director**

REVISED NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The revised 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).

The revised 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 revised 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 has considered the material uncertainty on the going concern basis in the half year results (six months to 30 June 2021) for International Airlines Group (IAG) (parent of British Airways Plc), the employer covenant and the most recent funding position as at 31 March 2021. The Scheme is well funded and currently does not need financial support from the employer. In the event that the principal employer was to cease trading, the Trustee considers the Scheme to have sufficient resources to continue operating. This assessment supports the Trustee's decision to prepare the revised financial statements on a going concern basis.

These revised financial statements for the year ended 31 March 2021 replace the original financial statements for that year which had been approved on 28 September 2021.

The original financial statements failed to comply with the Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland issued by the Financial Reporting Council ('FRS 102') and the guidance set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes in as much as the other investment liabilities balance did not include the true-up value due in relation to the buy-in insurance contract, as stipulated in the Framework Buy-In agreement. The value of the buy-in included in the original financial statements had reflected the true-up paid after the year end. The effect of correcting this has been to increase other investment liabilities in the revised Statement of Net Assets as at 31 March 2021 and decrease change in market value in the revised Fund Account for the year then ended by £69.6m. No revisions were required to the comparative amounts for the year ended 31 March 2021. Consequential amendments in respect of these financial statement captions have been made in the Trustee's Report and the related disclosure notes 9, 12 and 17 have been revised accordingly.

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.

REVISED NOTES TO THE FINANCIAL STATEMENTS

2. Accounting policies – continued

- iii. Individual transfers out of the Scheme are accounted for when member liability is discharged, which is normally when the transfer amount is paid.

c. Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

d. Investment income

- i. 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 of 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 of 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 at the year end 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.

REVISED NOTES TO THE FINANCIAL STATEMENTS

3. Contributions

	2021	2020
	£'m	£'m
Employer contributions		
Normal	1.8	3.7
Employee contributions		
Normal	0.1	0.1
Additional voluntary contributions	0.6	1.2
	2.5	5.0

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

Further details regarding contributions are included in the summary of contributions on page 45.

4. Benefits paid or payable

	2021	2020
	£'m	£'m
Pensions	356.3	368.8
Commutations of pensions and lump sum retirement benefits	16.7	9.9
Lump sum death benefits	-	0.3
Taxation where lifetime or annual allowance exceeded	0.7	0.2
	373.7	379.2

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

	2021	2020
	£'m	£'m
Individual transfers out to other schemes	26.9	16.9
	26.9	16.9

REVISED NOTES TO THE FINANCIAL STATEMENTS

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 that provide member services, finance operations and trustee support. They also include the costs of external advisers engaged by the Trustee, including the auditor, actuary, investment consultants, legal advisers and compliance costs. The split of costs at the year-end are as follows:

	2021	2020
	£'m	£'m
BAPSL in-house administration and processing	2.1	3.0
External professional fees	2.5	3.6
Reimbursed by employer in respect of litigation	-	(1.0)
	<u>4.6</u>	<u>5.6</u>

7. Investment income

	2021	2020
	£'m	£'m
Income from fixed interest bonds	13.0	23.0
Income from index-linked bonds	14.2	14.7
Interest on cash deposits	0.1	0.5
Other income	1.6)	(0.7)
	<u>28.9</u>	<u>31.2</u>

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 rebate from the winding up of the Captive insurance arrangement (prior year only). 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.

	2021	2020
	£'m	£'m
BAPIML in-house investment management	2.9	4.1
Captive insurance	-	(0.2)
	<u>2.9</u>	<u>3.9</u>

REVISED NOTES TO THE FINANCIAL STATEMENTS

9. Reconciliation of investments

	Value at 31 March 2020	Purchases at cost & derivative payments (revised)	Sales proceeds & derivative receipts	Change in market value (revised)	Value at 31 March 2021 (revised)
	£'m	£'m	£'m	£'m	£'m
Fixed interest bonds	752.6	208.1	(303.6)	37.6	694.7
Index-linked bonds					
- Rothesay Life assets	4,239.0	-	-	101.6	4,340.6
- Index-linked bonds	1,073.1	307.8	(148.5)	(3.3)	1,229.1
Pooled arrangements					
- Property	21.7	1.4	(18.3)	(0.3)	4.5
- Alternative investments	240.7	3.1	(190.0)	5.8	59.6
- Private equity	38.4	0.7	(4.2)	2.9	37.8
Insurance contracts					
- Legal & General buy-in	4,457.1	69.6	(202.0)	(39.7)	4,285.0
Asset and longevity swaps					
- Rothesay Life swaps	(3,210.8)	2.8	(80.5)	(7.8)	(3,296.3)
Derivatives					
- Inflation-linked swaps	(49.9)	-	-	33.5	(16.4)
- Interest rate swaps	3.1	-	-	0.4	3.5
Forward foreign exchange	(1.6)	6.3	(13.3)	9.0	0.4
AVC Mixed Portfolio Fund	13.1	0.5	(1.8)	4.0	15.8
	7,576.5	600.3	(962.2)	143.7	7,358.3
Cash	83.3		(20.8)	(0.8)	61.7
Other investments	(33.3)	5.9		0.5	(26.9)
	7,626.5	606.2	(983.0)	143.4	7,393.1

There were four (2020: three) individual investments which comprised greater than 5% of the net assets of the Scheme (in absolute terms); the Legal & General buy-in 58.1% (2020: 58.5%), the 2050 0.5% Treasury index-linked gilt 42.0% (2020: 39.5%), the Artemis asset swap 41.8% (2020: 39.3%) and the 2046 0.125% Treasury index-linked gilt 5.6% (2020: 5.3%).

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Due to MiFID II, research costs have been unbundled and are now included within investment management expenses. There were no such reportable transaction costs in the year.

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.

REVISED NOTES TO THE FINANCIAL STATEMENTS

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 is held directly on behalf of the Scheme. As of 31 March 2021, the value of these funds are as follows:

Property

	% held	2021	2020
		£'m	£'m
Externally pooled indirect funds		2.1	18.3
Direct UK property fund		2.4	3.4
Total property unitised	17.80%	4.5	21.7

Alternatives

	% held	2021	2020
		£'m	£'m
Alternative unitised fund	50.61%	0.5	0.3
Direct investment funds		59.1	240.4
Total		59.6	240.7

Private equity

	% held	2021	2020
		£'m	£'m
Private equity unitised fund	50.61%	10.3	10.0
Direct investment funds		27.5	28.4
Total		37.8	38.4

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.

REVISED NOTES TO THE FINANCIAL STATEMENTS

12. Insurance contracts

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. During the year, an approach for the true-up of actual and insured liabilities under this contract was agreed upon and settled after the year end. This led to a payment of £69.6m being made by the Scheme to Legal & General in July 2021. The most material item within this true-up payment was an allowance for the impact of the Settlement Agreement, meaning that the insurance cover was increased to reflect the catch-up Discretionary Increases granted in 2019.

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 the Artemis and Concerto swap contract assets that comprise:

Rothesay Life assets and liabilities	2021	2020
	£'m	£'m
United Kingdom public sector quoted		
2050 index-linked gilt 0.5%	3,095.3	3,017.8
2052 index-linked gilt 0.25%	282.6	274.7
2044 index-linked gilt 0.125%	298.4	294.6
2046 index-linked gilt 0.125%	412.1	404.2
2047 index-linked gilt 0.75%	252.2	247.2
Coupon interest receivable	-	0.5
	<u>4,340.6</u>	<u>4,239.0</u>
Artemis asset swap	(3,081.5)	(2,998.6)
Artemis longevity swap	(123.6)	(124.9)
Concerto longevity swap	(91.2)	(87.3)
	<u>(3,296.3)</u>	<u>(3,210.8)</u>

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

A proportion of the Scheme's UK Treasury index-linked, 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 £54.8m as of 31 March 2021 (2020: £55.6m). The value of the proportion for the Artemis contract was £69.2m as of 31 March 2021 (2020: £70.7m). The gilts are also used to cover the collateral requirements of the asset swap. See note 15 for the collateral values.

REVISED NOTES TO THE FINANCIAL STATEMENTS

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	152.8	-	(4.4)
Inflation-linked swaps	10-20 years	85.6	0.5	(2.7)
Inflation-linked swaps	20-30 years	28.3	-	(7.5)
Inflation-linked swaps	30-40 years	30.0	0.1	(2.5)
Interest rate swaps	<10 years	1,197.5	2.7	(3.8)
Interest rate swaps	10-20 years	43.1	4.6	-
Total 2021		1,537.3	7.9	(20.9)
Total 2020		1,384.6	3.2	(50.0)

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 21-Jun 21	€36.7	0.6	-
USD				
Forward to sell USD	Apr 21-Jun 21	\$76.1	0.1	(0.3)
Forward to buy USD	Apr 21-Jun 21	\$2.2	-	-
Total 2021			0.7	(0.3)
Total 2020			2.1	(3.7)

REVISED NOTES TO THE FINANCIAL STATEMENTS

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	(3,236.8)	Asset swap/longevity swap
JP Morgan	UK Gilt	(4.8)	FX Forwards & Swaps
Barclays	UK Gilt	(9.2)	Swaps
RBS	UK Gilt	(1.9)	FX Forwards & Swaps
UBS	UK Gilt	(0.1)	FX Forwards & Swaps
Lloyds Banking Group	UK Gilt	1.4	FX Forwards & Swaps
Goldman Sachs	UK Gilt	0.7	Swaps
		(3,250.7)	

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

The collateral balances at the 2020 year end amounted to £(3,263.9)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	2021 £'m	2020 £'m
Mixed Portfolio Fund			
Equities		12.6	10.5
Fixed interest		2.8	2.3
Cash		0.4	0.3
Total Mixed Portfolio Fund	8.95%	15.8	13.1
Short-Dated Gilts Fund		1.6	2.0
Equity Biased Fund		25.2	26.5
		42.6	41.6

REVISED NOTES TO THE FINANCIAL STATEMENTS

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 fairly valued using the above hierarchy levels:

	As of 31 March 2021			
	Level	Level	Level	Total
	(1)	(2)	(3)	
	(revised)			
	£'m	£'m	£'m	£'m
Bonds	6,264.4	-	-	6,264.4
Pooled arrangements	-	-	101.9	101.9
Insurance contracts	-	-	4,285.0	4,285.0
Asset and longevity swaps	-	-	(3,296.3)	(3,296.3)
Derivatives	-	(12.5)	-	(12.5)
AVC mixed portfolio fund	15.8	-	-	15.8
Cash	8.2	53.5	-	61.7
Other investment balances	(26.9)	-	-	(26.9)
	6,261.5	41.0	1,090.6	7,393.1

	As of 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

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, namely the annual revision to the CMI model for improvements in mortality.

REVISED NOTES TO THE FINANCIAL STATEMENTS

18. Investment risk disclosures

Investment risks

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

Liability risk: this is the risk that exists if the projected cashflow profile of the assets held differs from that of the projected liabilities.

Longevity risk: this is the risk that reflects the possibility that the value of the Scheme's liabilities will increase due to improving life expectancy risk.

Counterparty (or credit) risk: this is the risk that reflects the possibility that payments due or expected from a third party (including insurers) are not made.

Currency risk: this is the risk that can arise through investment in non-Sterling assets, given that the Scheme's liabilities are denominated in Sterling.

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 is the risk that can arise from investing in a market environment where the regulatory regime may change.

Concentration Risk: this is the risk that can arise when a high proportion of the Scheme's assets are invested in instruments of the same or related issuers.

ESG Risk: this is the risk that can arise from investing in assets exposed to ESG-related matters, including climate change, which could have a material negative impact on the asset's value.

The Scheme has exposure to investment risks as a result of the investments it makes to implement its investment strategy described in the revised Trustee's Report. The Trustee manages investment risks 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) Liability risk

The Trustee's primary investment objective is to invest the Scheme's assets in such a manner that members' benefit entitlements can be paid as and when 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.

REVISED NOTES TO THE FINANCIAL STATEMENTS

18. Investment risk disclosures - continued

(ii) Longevity risk

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 97.5% of the total investment portfolio, approximately 72% of which were the longevity swaps and insurance contracts.

The Scheme continues to allocate a relatively small proportion of its assets (around 5.3%) to investments exhibiting higher risk but with correspondingly higher return expectations. 1.4% 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.

(iii) Counterparty risk

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

Counterparty 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 predominantly rated BBB or above. The Trustee manages the associated counterparty risk by requesting that the Investment Manager diversifies the portfolio to minimise the impact of a default by any one issuer. Counterparty risk arising on other investments is mitigated by investment mandates requiring counterparties to have predominantly investment grade credit quality.

Counterparty 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 counterparty 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 counterparty 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 no Government bonds (2020: £17.0 million) and so did not hold any collateral in the form of cash and fixed interest securities of stock lent (2020: 100.8%).

The Scheme invests in private equity, alternatives and indirect property funds through pooled arrangements and some of these investments are exposed to counterparty 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.

REVISED NOTES TO THE FINANCIAL STATEMENTS

18. Investment risk disclosures – continued**(iv) 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:

	2021	2020
	£'m	£'m
US Dollar	7.6	9.2
Euro	10.8	13.6
Other	-	0.2
	18.4	23.0

(v) Liquidity risk

The Trustee has a policy to accelerate the run-off of the illiquid assets held, thus reducing this risk over time.

(vi) Regulatory risk

The Trustee receives regulatory updates from its various advisors and considers how to address any significant changes in regime as and when they arise.

(vii) Concentration risk

The Trustee seeks to diversify instruments appropriately to mitigate this risk and specific concentration limits are set out in the Investment Guidelines. Concentration risk in relation to insurers will be assessed at the time of transacting each insurance policy, noting that insurers are subject to their own regulatory regime regulated by the Prudential Regulation Authority.

(viii) ESG risk

The management of ESG-related risks is delegated to the investment manager. The Trustee has produced a responsible investment (RI) policy, as well as a mission statement which set out the Scheme's plans to address RI issues.

19. Contingent liabilities and contractual commitments

The following contractual commitments existed at the year end:

	2021	2020
	£'m	£'m
Pooled arrangements		
Property	0.1	-
Alternatives	17.0	24.6
Private equity	11.8	15.3
	28.9	39.9

REVISED NOTES TO THE FINANCIAL STATEMENTS

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.

BAPSL provides administration services, and BAPIML provided investment management services to the Scheme during the Scheme year⁷. The Scheme is recharged for these services, as shown in the revised fund account and in notes 6 and 8. BA Plc provides occasional services to the Scheme (e.g. recruitment, procurement advice on contracts for the purchase of equipment) for which the Scheme is not recharged.

The Trustee Directors of the Scheme are considered to be key management personnel. 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. In November 2020, the Court confirmed that transfers out of pension schemes which had been calculated without equalising for the effect of unequal GMP should in certain cases be adjusted to reflect equalised benefits. The issues determined by the judgments 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. Under the rulings, 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 revised financial statements and therefore have not included a liability in respect of these matters in these revised financial statements. They will be accounted for in the year they are determined.

23. Post Balance Sheet Events

On 15 April 2021 the Trustees of the Schemes made the decision to transfer the investment management to BlackRock Investment Management (UK) Limited. This was completed on 1 June 2021.

⁷ BAPIML's role as investment manager ceased after 31 May 2021, with BlackRock taking over as investment manager from 1 June 2021.

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

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 2021 which is set out on pages 46 and 47.

In our opinion contributions for the Scheme year ended 31 March 2021 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 28 November 2019.

Scope of work

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

Respective responsibilities of the Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 45, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

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

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

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

Nadia Dabbagh-Hobrow
for and on behalf of KPMG LLP, Statutory Auditor

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

Date: 29 September 2021

TRUSTEE'S SUMMARY OF CONTRIBUTIONS

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 2021

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 28 November 2019 in respect of the Scheme year ended 31 March 2021. 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	1.8
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)	1.9

Reconciliation of contributions

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

	£'m
Contributions payable under the Schedule (as above)	1.9
Contributions payable in addition to those due under the Schedule:	
Employer augmentation	-
Employee additional voluntary contributions	0.6
Total contributions reported in the financial statements	2.5

This report was approved by the Trustee Board on 28 September 2021 and was signed on their behalf by:

Monica Gupta
Scheme Secretary

SCHEDULE OF CONTRIBUTIONS

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 this 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 for 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.

SCHEDULE OF CONTRIBUTIONS

- 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

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 the period for 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

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Date: 28 November 2019

REPORT ON ACTUARIAL LIABILITIES

(Forming part of the revised 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 their 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 of 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 upcoming actuarial valuation of the Scheme as of 31 March 2021 is in progress and due for completion by the statutory deadline of 30 June 2022.

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 ⁸	RPI
Deferred pension revaluation ⁹	RPI-1.1% p.a.
Pension increases in payment ⁹ - PIRO ¹⁰ - APS I-V (cap of 2.5% p.a.) ¹⁰ - Post 88 GMP (cap of 3.0% p.a.) ¹⁰	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.

⁸ Pay increases for members who have not elected to link their Pay for Pension Purposes to increases in their Pay are assumed to be in line with PIRO

⁹ With relevant annual caps and floors applied to the forward rates.

¹⁰ The income streams in respect of pensions covered by the Artemis buy-in contract and Concerto 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.

REPORT ON ACTUARIAL LIABILITIES

(Forming part of the revised 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.

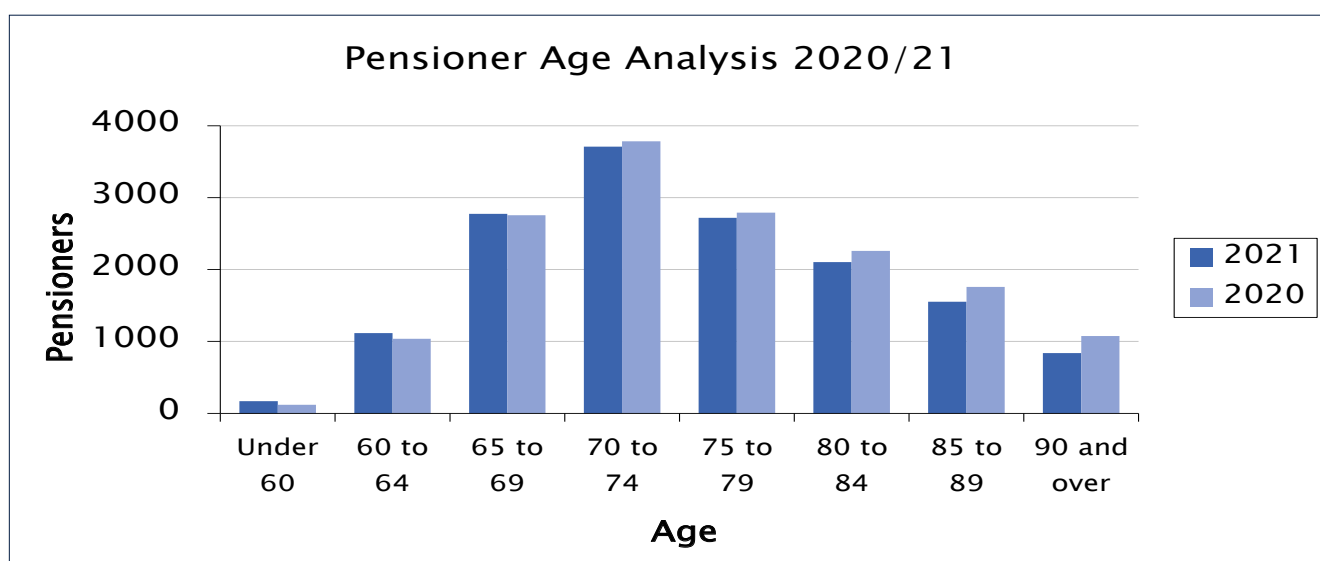
At 31 March 2018 an allowance for future reductions in mortality rates has been included based on the CMI's 2017 core projection model, with an explicit allowance for long-term trend reductions in mortality rates of 1.5% per annum.

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.

MEMBERSHIP INFORMATION

(Forming part of the revised Trustee's Report)

	2021	2020
Active members	73	219
Pensioners in payment	14,986	15,583
Dependant pensioners	5,713	5,918
Deferred pensioners	547	617
	21,319	22,337



In addition to the above, there are approximately 19,400 (2020: 20,500) deferred pensioners with Equivalent Pension Benefits.

COMPLIANCE STATEMENT

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 HM Revenue & Customs 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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