



**The BAA Pension Scheme  
Report & Accounts  
for the year ended 30 September 2014**

## **Report and Accounts for the year ended 30 September 2014**

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Any enquiries regarding the Scheme generally or in relation to an individual's entitlement to benefits should be addressed to:

**BAA Pension Trust Ltd  
c/o Equiniti Paymaster  
Sutherland House  
Russell Way  
Crawley,  
West Sussex  
RH10 1UH  
T: 01293 604 248  
E: [baa.pensions@equiniti.com](mailto:baa.pensions@equiniti.com)**



## BAA Pension Scheme Trustee's Report

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### **Trustee Directors**

+\$ G Price  
(Resigned 30 June 2014 )

# P Stannett

# P Williams (Member Nominated Trustee Representative)  
(appointed 29 September 2014)

### **Independent Trustee**

+\$\* M Chatterton (LDPTC)

+\$\* J Nestor ( LDPTC)

### **Secretary to the Trustee**

##\$+ A Knowles

+member of the Audit Committee

\* member of the Investment Committee

# member of the Administration Committee

\$ member of the Valuation Committee

The Law Debenture Trust Corporation plc owns the whole of the share capital of LDPTC and has the right to appoint and remove the Directors of LDPTC and is currently the sole Director.

### **ADVISERS**

**Actuary** C Sheppard FIA, Mercer Limited

**Auditor** Crowe Clark Whitehill LLP

**Administrators** Equiniti Paymaster

**Bankers** Lloyds TSB

**Custodian** JP Morgan Chase. Assets are held in the name of  
'Chase Nominees'.

**Investment Managers** Baring Asset Management (appointed December 2013)  
BlackRock Investment Management (UK) Limited  
BlueBay Asset Management LLP  
Brevan Howard Fund Ltd  
Lazard Asset Management Ltd (until October 2014)  
M&G Asset Management  
Rogge Investment Management  
Standard Life Investments Ltd (until January 2014)  
State Street Global Advisors Ltd  
Wellington Asset Management  
Westwood Holdings Group (appointed November 2013)

**Investment Consultants** Cardano

**Legal Adviser** CMS Cameron McKenna LLP

## **1. TRUSTEE AND ADVISERS (continued)**

### **Procedure for Appointment and Removal of Trustee Directors of BAA Pension Trust Company Limited**

The approved arrangements for this Scheme, which comply with the requirements specified in the Pension Act 2004, which were endorsed by the Board at their meeting on 4 May 2007 are summarised as follows:

Trustee Directors are appointed by the Board of the Employer and will normally serve a three year term. There shall be eight Trustee Directors: four Management Representatives, three Members' Representatives and one Pensioner Representative. The appointment of the Chairman and Management Representatives is based on nominations made by the Employer. The Members' and Pensioner Representatives are chosen by ballot controlled by the Electoral Reform Society.

A Trustee Director may also be removed at his/her own or at the Employer's request and any Trustee Director who fails to attend any Trustee meeting in a six month period may be removed from office by the Employer at the request of the other Trustee Directors. Where the Trustee Director being removed was a Member or Pensioner representative, all the other Trustee Directors must agree to the removal and elections would then be held to appoint a replacement.

The procedure for the appointment and removal of Trustee Directors is currently being reviewed by the Trustee and the Employer.

### **Procedure for Appointment and Removal of the Independent Trustee**

There must at all times be a single Independent Trustee of the Scheme. It is appointed by and can be removed by the Employer in certain circumstances or may, at its own request, retire. A replacement Independent Trustee would have to be appointed simultaneously with any removal or resignation and the outgoing Independent Trustee would be entitled to write to all beneficiaries explaining the circumstances of its replacement, removal or resignation.

### **Investment Committee**

The membership of the Committee is noted on pages 1 and 2. The Trustee decided that this group will be a standing committee which would make operational decisions relating to the implementation of the Scheme's investment strategy including selection and appointment of investment managers.

### **Valuation Committee**

The membership of the Committee is noted on pages 1 and 2. The Trustee decided that this group will be an ad hoc committee which would only deal with the issues relating to the Triennial Valuation for 30<sup>th</sup> September 2014 including dialogue with the Company and preparation of Valuation related correspondence for the Main Board.

### **Audit Committee**

The membership of the Committee is noted on pages 1 and 2. The Trustee decided that this group will be a standing committee which would be responsible for dealing with any issues relating to the preparation and audit of the statutory accounts, monitoring the Scheme's internal controls and record keeping, and maintenance of the Risk Register of the Scheme.

### **Administration Committee**

The membership of the Committee is noted on pages 1 and 2. The Trustee decided that this group will be a standing committee which would be responsible for monitoring the third party administration services provided by Equiniti Paymaster and make delegated day to day decisions concerning settlement of death benefits and other discretionary benefits.

### **Trustee Training**

All newly appointed Trustee Directors are required to attend suitable training. Subsequently, during their term of office or on reappointment, Trustee Directors are encouraged to identify their

own training needs and attend appropriate courses. In addition a formal half day's training is organised every November.

The Pensions Regulator has issued scope guidance specifying the expected knowledge and understanding requirements of a competent trustee. Each Trustee Director attends appropriate training so they become conversant with Scheme documents and develop knowledge and understanding (appropriate to their role as Trustee Director) of trusts and pensions law and the principles of funding and investment.

## **2. CHANGES DURING THE YEAR**

### **(a) Sale of Stansted Airport Limited (STAL) to Manchester Airport Group (MAG)**

As disclosed in last year's Report & Accounts, in February 2013 STAL was sold by a subsidiary of the Employer to MAG. Active members of the Scheme whose contracts of employment transferred to MAG could elect to transfer their accrued service benefits to a new, wholly independent scheme established by MAG.

The Trustee paid a transfer amount of £103.0m to the new scheme set up by MAG in respect of transferring members on a basis agreed with the Employer. The Trustee received an additional payment of £34.9m from STAL to sever its obligations to the Scheme in respect of deferred members and pensioners. These payments were settled on 31 October 2013.

## **3. CHANGES AFTER YEAR-END**

### **(a) Sale of Aberdeen, Glasgow and Southampton Airports**

In October 2014 the Employer announced that an investor consortium formed by Ferrovial and Macquarie was the successful bidder, paying £1,048 million for Glasgow, Aberdeen and Southampton airports which completed in December 2014.

As with the sale of previous airports, it is expected that Active members of the Scheme whose contracts of employment transfer will be offered the option to transfer their accrued service benefits to a new, wholly independent scheme established by the investor consortium and the Trustee will provide further details when available.

### **(b) Investment Manager Changes**

The Trustee redeemed £150m of assets from the BlackRock Global Credit Screened Corporate Bond Pooled Fund and topped up the investment in the BlueBay Global Multi Asset Credit Fund. This investment took place post year end across two tranches in November and December 2014.

The Trustee has also agreed to allocate £150m to a new mandate; the Winton Futures Fund, to be funded over Q1 2015 from a full redemption of the BlackRock Global Credit Screened Corporate Bond Pooled Fund and a partial redemption of the State Street global equity fund.

The Trustee also agreed post year end to fully redeem Baring's mandate following senior staff departures, and invest the proceeds in Invesco's Global Targeted Returns fund.

#### **4. MEMBERSHIP OF THE SCHEME AND PENSIONERS**

|                         | <b>30 September<br/>2014</b> | <b>30 September<br/>2013</b> |
|-------------------------|------------------------------|------------------------------|
| (a) Active Members      | 4,564                        | 4,887                        |
| (b) Pensioners          |                              |                              |
| Former Members          | 6,922                        | 6,811                        |
| Dependants              | 1,720                        | 1,698                        |
| (c) Deferred Pensioners | 5,073                        | 5,055                        |
| Total                   | <u>18,279</u>                | <u>18,451</u>                |

#### **5. ACTUARIAL VALUATION AND CONTRIBUTIONS**

The Trustee undertakes a full valuation every three years. This is in line with the requirement of the Pensions Act 2004 that there should be full valuations at intervals no greater than three years. A full valuation of the BAA Pension Scheme was carried out as at 30 September 2013 and determined a shortfall of £300m (equal to a funding level of 90%). The next valuation will be carried out as at 30 September 2016.

The 2013 valuation was the third valuation for the Scheme under the Pensions Act 2004 and the Scheme Funding Regulations issued in 2005 which require schemes to adopt the Statutory Funding Objective. The Trustee decided on a funding objective, including a set of actuarial assumptions, and agreed it with the Employer. This is set out in the current Statement of Funding Principles.

The Trustee and Employer agreed a Recovery Plan that sets out how the shortfall of £300m as at 30 September 2013 is to be addressed. The Trustee and Employer agreed that £24m would be paid into the Scheme during 2014 followed by £27m p.a. paid for 9 years, from 1 January 2015 to 31 December 2023. At the end of this Recovery Plan period, the shortfall is expected to be eliminated. The Recovery Plan will be reviewed, and may be revised, as part of the Scheme's next valuation as at 30 September 2016.

As a result of the 2013 valuation, the Trustee and Employer agreed that regular Employer contributions of 33.3% of Basic Pay plus Shift Pay will be paid from 1 January 2015, in addition to the deficit reduction contributions of £27.0m p.a., to meet the cost of the future accrual of benefits.

As at 30 September 2013 regular Employer contributions were £70.1m per annum. This amount fell to £63.1m per annum with effect from November 2013 (following the sale of Edinburgh airport) before the rate of 33.3% of Basic Pay plus Shift Pay mentioned above was introduced.

The Employer also continues to pay the augmentation costs (if any) arising following redundancies.

The level of contributions paid by members of the Scheme is set out in the Trust Deed and Rules of the Scheme.

Employees' and Employers' contributions are due monthly by the 19<sup>th</sup> day of the following month to which contributions relate. Contributions relating to benefit augmentations are due within one month of the later of the date of granting of the augmentation or such later date as is agreed between the Trustee and the Employer.

A Schedule of Contributions setting out all of the contributions due to the Scheme has been agreed between the Employer and the Trustee.

## **6. FINANCIAL DEVELOPMENT OF THE SCHEME**

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of The Pensions Act 1995. The Fund Account shows in detail the financial development of the assets of the Scheme over the year to 30 September 2014.

A summary of the changes in the Scheme during the year and in the preceding year were as follows:

|                                  | Year to<br>30 September<br>2014<br>£'000 | Year to<br>30 September<br>2013<br>£'000 |
|----------------------------------|--|--|
| Income                           | 99,968                                   | 143,840                                  |
| Expenditure                      | (103,310)                                | (200,012)                                |
| Net withdrawals                  | (3,342)                                  | (56,172)                                 |
| Net return from investments      | 319,536                                  | 223,238                                  |
| Net increase                     | 316,194                                  | 167,066                                  |
| Net assets at beginning of year  | 2,837,986                                | 2,670,920                                |
| <b>Net assets at end of year</b> | <b>3,154,180</b>                         | <b>2,837,986</b>                         |

## **7. PENSION INCREASES**

Although the two original schemes have been merged, pension increases are still determined relative to the category of membership basis.

Both the "Plc Section" basis and the "Group Section" basis are determined in accordance with the relevant version of the Trust Deed and Rules (as amended) that applies to particular members. Under the version of the Rules in place as at 30 September 2014, pensions are increased with effect from 1 October in line with the proportionate increase in the Government's Index of Retail Prices during the year ending in the preceding August. For the Group Section basis only, increases are capped at 5% per year. Deferred pensions have increased in accordance with the Scheme's Trust Deed and Rules.

Pensions payable under the version of the Trust Deed and Rules that were in place as at 30 September 2014 were increased on 1 October 2014 by 2.4% for the Plc section and 2.4% for the Group section (in line with RPI for the year to August 2014). There were no discretionary increases.

## **8. ADMINISTRATION AND INVESTMENT MANAGEMENT COSTS**

The fees for professional services provided by the actuary, auditor, custodian, independent trustee, legal advisers, investment adviser and investment managers are all paid by the Scheme as well as the salary for the Scheme Secretary.



## **9. TRUSTEE GOVERNANCE MATTERS**

### **Risk Management**

The Trustee has adopted and maintains a formal risk management process to assess risks and implement risk management strategies. This has involved identifying the type of risks the Scheme faces, presenting them in terms of potential impact and likelihood of occurrence and identifying means of mitigating the risks. As part of this process the Trustee has reviewed the adequacy of the Scheme's internal controls. This document is reviewed annually and amended as appropriate.

### **Pensions Act 2004**

This Act introduced a number of significant changes including a Pension Protection Fund (PPF). This is intended to help safeguard the benefits of members where a scheme is in deficit and the sponsoring employer is in liquidation. The assets of the PPF are drawn from all defined benefit schemes by way of a levy.

The Pension Regulator has set down a list of notifiable events. These are matters of significance that potentially negatively impact on members benefits and where a report has to be made to the Regulator. During the year there were no notifiable events arising in relation to either the Scheme, or to the Employer.

## **10. SUMMARY FUNDING STATEMENT**

The Scheme provides members with an annual statement summarising the funding position under the Scheme. The next statement for the year ended 30 September 2014 will be sent to members in Spring 2015.

## **11. STATEMENT OF TRUSTEE'S RESPONSIBILITIES**

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustees. 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:

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

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

## **11. STATEMENT OF TRUSTEE'S RESPONSIBILITIES (Continued)**

The 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 Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

## 1. INVESTMENT STRATEGY

Over the course of the year, a number of changes were made to the investment strategy. A long only emerging market equity manager, Westwood International Advisors, was added to the portfolio. BlueBay's mandate was switched from the Global High Yield Fund to the Global Multi Asset Credit Fund, to allow for a greater opportunity set within the credit markets. Standard Life's mandate was terminated and was replaced by Baring's Diversified Growth Fund, and Lazard's long only active equity mandate was redeemed, to be invested passively with State Street. State Street's mandate was also changed to restrict allocations to emerging market equity and, furthermore, State Street's currency hedging mandate was terminated, as the currency hedging is now performed within the underlying pooled funds.

The Scheme's level of interest rate hedging remained broadly flat over the year, but attractive pricing led the Trustee to increase the level of inflation hedging by c.14% (of the Scheme's Technical Provisions liabilities).

The table below shows the Scheme's investment manager structure as at 30 September 2014:

|                                |                               |                      |                                  |                          |                                       |
|--------------------------------|-------------------------------|----------------------|----------------------------------|--------------------------|---------------------------------------|
| Equities<br>20.6%              | Credit<br>18.6%               | Property<br>3.5%     | Macro/Multi-<br>Strategy<br>8.7% | LIBOR+<br>19.7%          | Liability Hedging Assets<br>28.9%     |
| State Street Global Equity     | BlackRock Credit<br>Screened  | M&G<br>Long<br>Lease | Barings                          | Rogge Short-Dated Credit | JPM Liquidity                         |
| State Street Currency<br>Hedge | BlackRock Global<br>Corporate |                      | Brevar<br>Howard                 |                          | Rogge Interest Rate & Inflation Hedge |
| Westwood                       | BlueBay                       |                      |                                  |                          |                                       |

**Note:** The passive currency hedge overlay managed by State Street was terminated in September 2014 in conjunction with the transfer of assets from Lazard to the State Street global equity mandate. The final margin was settled during October 2014.

Investment in stock, shares, debentures or other securities issued by Grupo Ferrovial SA, any holding company of Grupo Ferrovial SA or any subsidiary of Grupo Ferrovial SA or any such holding company is restricted under the terms of the investment manager agreements in place. The Trustee accepts that where they invest in pooled investment vehicles the Trustee cannot impose this restriction on the investment manager.

## **2. ASSET ALLOCATION**

The table below shows the Scheme's investment allocation as at 30 September 2014 versus last year's asset allocation and target strategic allocation:

|                                 | 30 September<br>2014 | 30 September<br>2013 | Target asset<br>allocation |
|---------------------------------|----------------------|----------------------|----------------------------|
| Equity                          | 20.6%                | 20.4%                | 21.0%                      |
| Credit                          | 18.6%                | 18.6%                | 20.0%                      |
| Property                        | 3.5%                 | 1.7%                 | 4.0%                       |
| Macro Orientated/Multi Strategy | 8.7%                 | 9.0%                 | 9.0%                       |
| LIBOR+                          | 19.7%                | 20.9%                | 22.0%                      |
| Cash & High Quality Bonds*      | 28.9%                | 29.4%                | 24.0%                      |

\*Includes liability hedging interest rate and inflation swaps, and other efficient liability hedging strategies.  
Figures subject to rounding.

A Statement of Investment Principles (SIP), which reflects the Trustee's investment approach, has been produced and is periodically reviewed and updated. The SIP was amended in December 2014 to reflect the Scheme's current investment objectives and strategy.

## **3. INVESTMENT PERFORMANCE**

The table below shows the Scheme's return over various periods to 30 September 2014.

|                                 | 1 Year | 3 Years (p.a.) | 5 Years (p.a.) |
|---------------------------------|--------|----------------|----------------|
| Scheme                          | 11.1%  | 8.9%           | 9.2%           |
| Change in value of liabilities* | 10.9%  | 7.2%           | 6.9%           |

\*Change in liabilities has been calculated on a Gilts basis by the Actuary and the asset return uses performance data provided by the Custodian

As the most appropriate overall benchmark for the investment strategy, the Scheme uses an approximation for the movement in the value of its liabilities through time. Adopting this benchmark means that over certain periods there may be significant discrepancies between this benchmark and the underlying targets for each of the investment managers used. This is because strategic decisions (such as not to fully liability hedge at low interest rates) have been taken with a long term view, and individual investment managers are therefore not intended to exactly match a liability based benchmark.

As at 30 September 2014, all of the investment managers were performing within acceptable tolerances of their individual objectives.

## **4. INVESTMENT MANAGER FEES**

All of the investment managers are remunerated on an ad valorem basis, i.e. fees are geared to the market value of the assets under their management. There are however additional performance related fees in place for Brevan Howard.

## **5. COMPLIANCE WITH MYNERS PRINCIPLES**

The primary purpose of the Myners' Principles is to ensure that Trustee has the right skill set and decision-making structures and also that they have clear objectives for the Scheme and an appropriate and well-documented strategy in place for achieving these objectives.

The ten original recommendations of the first Myners' review have been narrowed down to six major principles:

1. Effective decision making
2. Clear objectives
3. Risk and liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and reporting

The Trustee makes all major decisions on the management of assets and liabilities based on investment advice. There is also an Investment Committee that has limited powers to make certain decisions as agreed and delegated by the Trustee. The Investment Committee also receives investment advice before taking decisions.

The Trustee has clear investment objectives, which relate to improving the value of the assets compared to the liabilities. They also monitor the risk versus the liabilities, based on information supplied by their investment advisor. Performance is measured against the Trustee's liability related benchmark each quarter, as well as underlying manager performance being reviewed on a quarterly basis against their respective benchmarks.

The Trustee's Statement of Investment Principles (SIP) sets out their policy on Responsible Ownership. The Trustee's policy is that its Investment Managers should take account of social, environmental and ethical considerations in the selection, retention and realisation of investments to the extent material to the value of the investments, and where to do so would not prejudice the best long-term financial interests of the Scheme, more generally. With regard to corporate governance, the Trustee wishes to encourage best practice in terms of activism. It therefore encourages its managers investing in equities to discharge their responsibilities in respect of investee companies in accordance with the Statement drawn up by the Institutional Shareholders' Committee.

The Trustee communicates periodically with members on investment issues as part of their regular member updates. In particular, the SIP is reviewed periodically and is available to all members on request.

Signed on behalf of BAA Pension Trust Company Limited:

Director

Director

Date: 16.04.2015.....

**BAA Pension Scheme  
Independent Auditor's Report**

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**Independent Auditor's Report to the Trustee of the BAA Pension Scheme**

We have audited the financial statements of the BAA Pension Scheme for the year ended 30 September 2014 which comprise the Fund Account, the Net Assets Statement and the related Notes set out on pages therein.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the 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 and the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Trustees and auditors**

As explained more fully in the Trustee's Responsibilities Statement, the Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report, (which comprises the Trustee's Report, the Investment Report, the Actuarial Certificate and the Compliance Statement) to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme for the year ended 30 September 2014, 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 United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

**Crowe Clark Whitehill LLP**  
Statutory Auditor  
London

*30 April 2015*

**BAA Pension Scheme**  
**Fund Account for the year ended 30 September 2014**

|  | Note  | 2014             | 2013             |
|--|-------|------------------|------------------|
|  |       | £'000            | £'000            |
| <b>Contributions and benefits</b>                        |       |                  |                  |
| Contributions receivable                                 | 3     | 99,655           | 143,107          |
| Transfers in   | 4     | 313              | 733              |
|  |       | <u>99,968</u>    | <u>143,840</u>   |
| Benefits payable   | 5     | (93,011)         | (91,369)         |
| Payments to and on account of leavers                    | 6     | (7,222)          | (105,701)        |
| Administrative expenses                                  | 7     | (3,077)          | (2,942)          |
|  |       | <u>(103,310)</u> | <u>(200,012)</u> |
| <b>Net deductions from dealings with members</b>         |       | <u>(3,342)</u>   | <u>(56,172)</u>  |
| <b>Return on investments</b>                             |       |                  |                  |
| Net investment income                                    | 8     | 47,175           | 35,533           |
| Investment management expenses                           | 9     | (5,315)          | (5,448)          |
| Change in market value of investments                    | 10(a) | 277,676          | 193,153          |
| <b>Net returns on investments</b>                        |       | <u>319,536</u>   | <u>223,238</u>   |
| <b>Net increase in the Fund during the year</b>          |       | <u>316,194</u>   | <u>167,066</u>   |
| <b>Net assets of the Scheme at the start of the year</b> |       | <u>2,837,986</u> | <u>2,670,920</u> |
| <b>Net assets of the Scheme at the end of the Year</b>   |       | <u>3,154,180</u> | <u>2,837,986</u> |

The notes on pages 15 to 28 form part of these financial statements

**BAA Pension Scheme**  
**Net Assets Statement as at 30 September 2014**

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|   | Note  | 2013<br>£'000    | 2013<br>£'000    |
|---|-------|------------------|------------------|
| Investment assets                               | 10(b) | 3,309,900        | 3,192,209        |
| Investment liabilities                          | 10(c) | (167,384)        | (297,170)        |
| Net investments                                 | 10(a) | 3,142,516        | 2,895,039        |
| Current assets                                  | 11    | 14,950           | 49,384           |
| Current liabilities                             | 12    | (3,286)          | (106,437)        |
| <b>Net assets of the Scheme at the year end</b> |       | <b>3,154,180</b> | <b>2,837,986</b> |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Trustee's Report and Actuarial Certificate included in the Annual Report and these financial statements should be read in conjunction with them.

The financial statements were approved by the Directors of BAA Pension Trust Company Ltd on

16<sup>th</sup> April 2015

Director

Director

The notes on pages 15 to 28 form part of these financial statements



## **1. BASIS OF PREPARATION**

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 with the guidelines set out in the Statement of Recommended Practice, "Financial Report of Pension Schemes" (revised May 2007) except for the disclosure of transaction costs.

## **2. ACCOUNTING POLICIES**

The principal accounting policies adopted by the Trustee are shown below:

### **a) Investments**

#### **(i) Investments other than derivatives**

- Listed securities are valued at bid market values for the year ended 30 September 2014.
- Pooled investment vehicles are valued at the bid market values for the year ended 30 September 2014 for funds with bid/offer spreads, or a single price where there are no bid/offer spreads, as provided by the relevant fund managers on the last dealing day prior to the year-end date.
- The Macro Orientated Funds are valued at fair value either using a swinging single price or the net asset value at the year-end.
- Investments held in foreign currencies are valued as above and translated into sterling at the relevant spot rates ruling at the year-end date.
- Investments are included in the financial statements at fair value. In the absence of a liquid market for certain securities, these fair values may differ from their realisable value.

#### **(ii) Derivatives**

##### **Futures**

- Open futures contracts that are exchange traded are included in the net asset statement at market value. For future contracts that are assets, market value will be unrealised profit at the current bid quoted price of the contract for the year ended 30 September 2014. For futures contracts that are liabilities, market value will be the unrealised loss at the current offer quoted price of the contract for the year ended 30 September 2014.
- Amounts due from brokers are included within cash deposits and other investment balances and represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker.
- The amounts included in change in market value are the realised and unrealised gains or losses on open and closed futures contracts.

## **2. ACCOUNTING POLICIES (continued)**

### **(iii) Swaps**

- Swaps are 'Over the Counter' (OTC) derivatives and are included in the net asset statement at market value using pricing models and relevant market data at the year-end date.
- Interest is accrued monthly on a basis consistent with the terms of each contract. The amounts included in change in market value are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts.
- Interest receipts or payments on swap contracts are reported within investment income.
- All gains and losses arising on these contracts are included within change in market value.

### **(iv) Options**

- All option derivatives utilised by the Scheme are exchange traded and are included in the net asset statement at their mark to market value.
- Options contracts are entered to hedge risk exposures and all gains or losses arising on open and closed contracts are included within change in market value.

### **(v) Bond Forwards**

- Bond forward contracts are included in the net asset statement at their mark to market value. All gains or losses arising on open and closed contracts are included within change in market value.

### **(vi) Forward Foreign Exchange**

- Forward foreign exchange contracts outstanding at the year-end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was closed out at the year-end date with an equal and opposite contract.
- All gains or losses arising on these contracts are included within change in market value.

### **(vii) Repurchase Agreements**

- Securities sold subject to repurchase agreements are included in the financial statements as assets of the Scheme at their year-end market value. Amounts payable under repurchase agreements are included under other investment liabilities.

## **b) Contributions Receivable**

Contributions receivable are included on an accruals basis.

**2. ACCOUNTING POLICIES (continued)**

**c) Investment Income**

- (i) Investment income from fixed interest and index linked securities is recognised on an accruals basis.
- (ii) Dividend income from equity shares is recognised when the Scheme becomes entitled to the dividend. In the case of UK quoted shares this will be from the ex-dividend date.
- (iii) Income from accumulating pooled investment vehicles is reinvested by the fund managers is included within change in market value.
- (iv) Deposit and other interest receivable is accounted for on an accruals basis.

**d) Transfers in**

Transfers in from other registered pension arrangements include all transfers which have been formally accepted by the Trustee of the Scheme as at 30 September in respect of individual members.

**e) Benefits Payable and Payments to Leavers**

- (i) Individual transfers out are accounted for on a cash basis and represent the capital sums paid to personal pensions or pension plans of new employers for members who have left service. Group transfers are recognised in accordance with the transfer agreement.
- (ii) Benefits payable in respect of retirements and deaths are accounted for on an accruals basis.

**f) Expenses**

Administration and investment management expenses are accounted for on an accruals basis.

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2014**

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**3. CONTRIBUTIONS RECEIVABLE**

|  | <b>2014</b>   | <b>2013</b>    |
|--|---------------|----------------|
|  | <b>£'000</b>  | <b>£'000</b>   |
| Employer   |               |                |
| Normal - future service                          | 63,691        | 70,831         |
| Augmentations                                    | 4,200         | 4,556          |
| Deficit funding                                  | 24,000        | 24,000         |
| Other – Commutation Payment*                     | -             | 34,933         |
| Member   |               |                |
| Normal   | 7,450         | 8,448          |
| Additional Voluntary Contributions               | 90            | 77             |
| Additional Contributions to purchase added years | 224           | 262            |
|  | <u>99,655</u> | <u>143,107</u> |

Augmentations were receivable during the year in respect of unreduced pensions, payable on redundancy. Augmentations also includes £987k (2013: £964k) in respect of the reimbursement by the employer of discretionary UURBS pensions paid by the Scheme and included in pensions payable in note 5.

\*The Commutation Payment receivable in the prior year was due on the disposal of Stansted Airport Ltd, in respect of former employees.

**4. TRANSFERS IN**

|  | <b>2014</b>  | <b>2013</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| Individual transfers in from other schemes | <u>313</u>   | <u>733</u>   |

**5. BENEFITS PAYABLE**

|                              | <b>2014</b>   | <b>2013</b>   |
|------------------------------|---------------|---------------|
|                              | <b>£'000</b>  | <b>£'000</b>  |
| Pensions                     | 82,132        | 78,866        |
| Lump sum death benefits      | 414           | 848           |
| Lump sum retirement benefits | 10,465        | 11,650        |
| Spouse's commutations        | -             | 5             |
|                              | <u>93,011</u> | <u>91,369</u> |

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2014**

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**6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

|   | <b>2014</b>  | <b>2013</b>    |
|---|--------------|----------------|
|   | <b>£'000</b> | <b>£'000</b>   |
| Refunds to members leaving service        | -            | 4              |
| State scheme premium                      | 2            | -              |
| Individual transfers out to other schemes | 7,195        | 2,681          |
| Group transfer out*                       | 25           | 103,016        |
|   | <u>7,222</u> | <u>105,701</u> |

\* During the year ended 30 September 2013 there was a bulk transfer of assets amounting to £103.0m in respect of past service liabilities to a new pension scheme established for Stansted Airport Ltd employees.

**7. ADMINISTRATIVE EXPENSES**

|                                      | <b>2014</b>  | <b>2013</b>  |
|--------------------------------------|--------------|--------------|
|                                      | <b>£'000</b> | <b>£'000</b> |
| Actuarial fees                       | 439          | 597          |
| Legal and professional fees          | 698          | 465          |
| Investment adviser fees              | 550          | 570          |
| Independent Trustee fees             | 72           | 89           |
| PPF levy and other regulatory levies | 515          | 432          |
| Audit fee                            | 65           | 67           |
| Scheme administrative costs          | 738          | 722          |
|                                      | <u>3,077</u> | <u>2,942</u> |

**8. NET INVESTMENT INCOME**

|  | <b>2014</b>   | <b>2013</b>   |
|--|---------------|---------------|
|  | <b>£'000</b>  | <b>£'000</b>  |
| Income from fixed interest securities  | 28,582        | 28,854        |
| Income from index-linked securities    | 5,453         | 5,278         |
| Dividends from equities                | 6,596         | 7,677         |
| Income from pooled investment vehicles | 3,666         | 534           |
| Interest on cash deposits              | 21            | 31            |
| Interest receivable on swap contracts  | 15,012        | 7,513         |
| Interest payable on swap contracts     | (11,924)      | (14,195)      |
| Net interest on cash instruments       | (349)         | (229)         |
| Income from stock lending              | 118           | 70            |
|  | <u>47,175</u> | <u>35,533</u> |

Income from pooled investment vehicles relates to investment fee rebates 2014 £489k (2013: 474k). The remainder of the income from pooled investment vehicles consists of distributions from the M&G property fund.

## 9. INVESTMENT MANAGEMENT EXPENSES

|  | 2014<br>£'000 | 2013<br>£'000 |
|--|---------------|---------------|
| Administration, management and custody | 5,315         | 5,448         |

Included within investment management expenses is irrecoverable VAT amounting to £328k (2013: £736k).

## 10. INVESTMENTS

### 10(a) Investment Movements Table

|                        | Value at<br>30<br>September<br>2013 | Purchases<br>at cost<br>and<br>derivative<br>payments | Sales<br>proceeds<br>and<br>derivative<br>receipts | Change in<br>Market<br>Value | Value at<br>30<br>September<br>2014 |
|------------------------|-------------------------------------|---|--|------------------------------|-------------------------------------|
|                        | £'000                               | £'000   | £'000  | £'000                        | £'000                               |
| Fixed Interest & Index |                                     |   |  |                              |                                     |
| Linked Securities      | 1,411,484                           | 1,010,597   | (955,784)  | 43,982                       | 1,510,279                           |
| Equities               | 348,821                             | 110,223   | (343,736)  | 35,643                       | 150,951                             |
| Pooled Investment      |                                     |   |  |                              |                                     |
| Vehicles               | 837,777                             | 876,597   | (533,659)  | 68,017                       | 1,248,732                           |
| Derivative Contracts   | 184,402                             | 126,627   | (226,081)  | 125,537                      | 210,485                             |
| AVC Investments        | 1,506                               | 90  | (102)  | 72                           | 1,566                               |
|                        | <u>2,783,990</u>                    | <u>2,124,134</u>                                      | <u>(2,059,362)</u>                                 | <u>273,251</u>               | <u>3,122,013</u>                    |
| Cash Deposits & Other  |                                     |   |  |                              |                                     |
| Investment Balances    | <u>111,049</u>                      |   |  | <u>4,425</u>                 | <u>20,503</u>                       |
|                        | <u>2,895,039</u>                    |   |  | <u>277,676</u>               | <u>3,142,516</u>                    |

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, including profits and losses realised on the sale of investments during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition to direct transaction cost indirect costs are incurred through the bid-offer spread on certain investments. The amount of direct and indirect transaction costs have not been separately provided to the scheme.

Investment purchases and sales during the year include the transition of assets amounting to £371m from the Lazard equity portfolio to the State Street Global Advisors global equity pooled investment vehicle. In addition, the Standard Life Global Absolute Return fund was terminated and the proceeds of £149m were invested in the Barings Dynamic Growth Fund, and the Trustee also invested £100m in a global equity fund managed by Westwood International Advisers.

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2014**

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**10. INVESTMENTS (continued)**

**10(b) Investment Allocation – Assets**

|   | Note  | 2014<br>£'000    | 2013<br>£'000    |
|---|-------|------------------|------------------|
| <b>Fixed interest securities</b>  |       |                  |                  |
| UK Quoted – Public Sector   |       | 221,408          | 65,938           |
| UK Quoted – Other   |       | 103,250          | 145,745          |
| Overseas Quoted – Public Sector   |       | 32,505           | 48,108           |
| Overseas Quoted – Other   |       | 645,953          | 578,836          |
|   |       | <b>1,003,116</b> | <b>838,627</b>   |
| <b>Index Linked Securities</b>  |       |                  |                  |
| UK Quoted – Public Sector   |       | 507,163          | 572,857          |
|   |       | <b>507,163</b>   | <b>572,857</b>   |
| <b>Total Fixed Interest &amp; Index Linked Securities</b>   |       | <b>1,510,279</b> | <b>1,411,484</b> |
| <b>Equities</b>   |       |                  |                  |
| UK Quoted   |       | 150,951          | 26,302           |
| Overseas Quoted   |       | -                | 322,519          |
|   |       | <b>150,951</b>   | <b>348,821</b>   |
| <b>Pooled Investment Vehicles</b>   |       |                  |                  |
| Overseas Managed Funds  |       | 1,248,732        | 837,777          |
|   |       | <b>1,248,732</b> | <b>837,777</b>   |
| <p>The investment managers of the pooled investment vehicles in which the Scheme has invested are registered in the UK, except for Brevan Howard which is registered in the Cayman Islands and Bluebay which is registered in Luxembourg.</p> |       |                  |                  |
| <b>Derivative Contracts</b>   |       |                  |                  |
| Futures   | 10(e) | 415              | 343              |
| Forward Foreign Exchange Contracts  | 10(f) | 11,374           | 44,892           |
| Swaps   | 10(g) | 299,861          | 169,650          |
| Options   | 10(h) | 125              | 151              |
| Bond Forwards   | 10(k) | 3                | 293              |
|   |       | <b>311,778</b>   | <b>215,329</b>   |
| <b>Totals carried forward</b>   |       | <b>3,221,740</b> | <b>2,813,411</b> |

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2014**

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**10. INVESTMENTS (continued)**

**10(b) Investment Allocation – Assets (continued)**

|   | Note  | 2014<br>£'000           | 2013<br>£'000           |
|---|-------|-------------------------|-------------------------|
| Totals brought forward                                      |       | <u>3,221,740</u>        | <u>2,813,411</u>        |
| <b>Cash Deposits and Other Investment Assets</b>            |       |                         |                         |
| Investment income receivable                                |       | 11,487                  | 12,438                  |
| Cash deposits and liquidity funds                           |       | 52,123                  | 349,254                 |
| Short term investments                                      |       | 10,129                  | 670                     |
| Cash due from broker  |       | 2,656                   | 4,928                   |
| Outstanding trades  |       | <u>10,199</u>           | <u>10,002</u>           |
|   |       | <b>86,594</b>           | <b>377,292</b>          |
| <b>AVC Investments</b>                                      | 10(d) | <u>1,566</u>            | <u>1,506</u>            |
| <b>Total Investment Assets</b>                              |       | <u><b>3,309,900</b></u> | <u><b>3,192,209</b></u> |
| <br><b>10(c) <u>Investment Allocation – Liabilities</u></b> |       |                         |                         |
| <b>Derivative contracts</b>                                 |       |                         |                         |
| Futures   | 10(e) | (590)                   | (2,182)                 |
| Forward Foreign Exchange Contracts                          | 10(f) | (26,175)                | (6,999)                 |
| Swaps   | 10(g) | (74,492)                | (21,439)                |
| Options   | 10(h) | -                       | (27)                    |
| Bond Forwards   | 10(k) | <u>(36)</u>             | <u>(280)</u>            |
|   |       | <b>(101,293)</b>        | <b>(30,927)</b>         |
| <b>Other Investment Liabilities</b>                         |       |                         |                         |
| Amounts payable under repurchase agreements                 | 10(l) | (42,980)                | (245,306)               |
| Other   |       | -                       | (3,576)                 |
| Outstanding trades  |       | <u>(23,111)</u>         | <u>(17,361)</u>         |
|   |       | <b>(66,091)</b>         | <b>(266,243)</b>        |
| <b>Total Investment Liabilities</b>                         |       | <u><b>(167,384)</b></u> | <u><b>(297,170)</b></u> |
| <b>Total Investments</b>                                    | 10(a) | <u><b>3,142,516</b></u> | <u><b>2,895,039</b></u> |

The following investments represent more than 5% of the net assets of the Scheme:

|   | <b>30 September 2014</b> |       |
|---|--------------------------|-------|
|   | £'000                    | %     |
| BlackRock Global Screened Corporate Bond Fund     | 226,063                  | 7.21  |
| MPF North American Equity(75Pct Hedged) Index sub | 319,522                  | 10.21 |



**10. INVESTMENTS (continued)**

**10(d) AVC Investments**

|                          | <b>2014</b>  | <b>2013</b>  |
|--------------------------|--------------|--------------|
|                          | <b>£'000</b> | <b>£'000</b> |
| Santander                | 444          | 470          |
| Equitable Life Insurance | 212          | 206          |
| Friends Provident        | 910          | 830          |
|                          | <u>1,566</u> | <u>1,506</u> |

AVC investments held on a money purchase basis are invested separately from main Scheme assets. Members participating in such AVC arrangements each receive an annual statement confirming the value of their investments and the movement in the year.

**10(e) Futures**

The Scheme manages risk in the portfolio by entering into a futures position to adjust the portfolio weighting without disturbing the underlying assets.

Futures contracts are exchange traded derivatives, which reduce the risk that the counterparty does not fulfill their side of the contract.

Outstanding futures contracts at the year-end are as follows:

| <b>Investment Underlying<br/>Future</b> | <b>Economic<br/>Exposure<br/>Value (asset)<br/>£'000</b> | <b>Economic<br/>Exposure<br/>Value<br/>(liability)<br/>£'000</b> | <b>Market Value<br/>(asset)<br/>£'000</b> | <b>Market Value<br/>(liability)<br/>£'000</b> |
|---|--|--|---|---|
| UK Fixed Interest                       | 65,937   | (27,154)   | 20  | (149)   |
| Overseas Fixed Interest                 | 90,369   | (407,578)  | 395                                       | (441)   |
| <b>Total</b>                            | <u><b>156,306</b></u>                                    | <u><b>(434,732)</b></u>  | <u><b>415</b></u>                         | <u><b>(590)</b></u>                           |

**Expiration**

|                                |                       |                         |                   |                       |
|--------------------------------|-----------------------|-------------------------|-------------------|-----------------------|
| Less than one year             | 156,306               | (434,732)               | 415               | (590)                 |
| <b>Total 30 September 2014</b> | <u><b>156,306</b></u> | <u><b>(434,732)</b></u> | <u><b>415</b></u> | <u><b>(590)</b></u>   |
| 30 September 2013              | <u><b>92,320</b></u>  | <u><b>(397,701)</b></u> | <u><b>343</b></u> | <u><b>(2,182)</b></u> |

The economic exposure values futures on a 'gross basis' showing the total exposure to the underlying asset class that the future effects as if the change in asset allocation in the underlying asset has taken place.

## **10. INVESTMENTS (continued)**

### **10(f) Forward Foreign Exchange Contracts**

The Scheme enters into investments and transactions in currencies other than sterling, consequently the Scheme is exposed to the risk that the exchange rate of its currency relative to other currencies may change in a way that has an adverse effect on the assets held in overseas currencies. During the period forward foreign exchange contracts were entered into by the Scheme to hedge foreign exchange risk on overseas securities.

Forward contracts are individually traded over-the-counter contracts. The contracts are generally three months duration.

Outstanding forward foreign exchange contracts at the year-end are as follows:

| <b>Country of currency<br/>underlying forward<br/>foreign exchange<br/>contracts</b> | <b>Gross amount<br/>at inception<br/>(asset)<br/><br/>£'000</b> | <b>Gross amount<br/>at inception<br/>(liability)<br/><br/>£'000</b> | <b>Market Value<br/>(asset)<br/><br/>£'000</b> | <b>Market Value<br/>(liability)<br/><br/>£'000</b> |
|--|---|---|--|--|
| USA  | 470,061   | (984,335)   | 4,507  | (22,931)   |
| Europe   | 1,317,483   | (553,989)   | 3,695  | (657)  |
| UK   | 48,332  | (50,658)  | -  | -  |
| Japan  | 470,061   | (984,335)   | 1,436  | (453)  |
| Others   | 115,775   | (154,917)   | 1,736  | (2,134)  |
| <b>Total 30 September 2014</b>   |   |   | <b>11,374</b>                                  | <b>(26,175)</b>                                    |
| <br>30 September 2013  |   |   | <br>44,892                                     | <br>(6,999)  |

The gross amount is the gross sterling equivalent of the currency on which the contract is based.

### **10(g) Swaps**

The Scheme has entered into a series of interest rate, inflation, total return and credit default swaps primarily to hedge against long term interest rate and inflation rate movements. The value of the swaps will therefore be likely to move in the same direction as the actuarial liabilities.

Swap contracts in place as at 30 September 2014 are as follows:

| <b>Expiration</b> | <b>Nominal<br/>Principal<br/>£'000</b> | <b>Market Value<br/>(asset)<br/>£'000</b> | <b>Market Value<br/>(liability)<br/>£'000</b> |
|-------------------|--|---|---|
| Up to 2020        | 1,366,900                              | 41,147                                    | (8,901)                                       |
| 2021 to 2030      | 1,003,076                              | 40,678                                    | (24,804)                                      |
| After 2030        | 1,451,620                              | 218,036                                   | (40,787)                                      |
| <b>Total</b>      | <b>3,821,596</b>                       | <b>299,861</b>                            | <b>(74,492)</b>                               |

## 10. INVESTMENTS (continued)

### 10(g) Swaps (continued)

| Types of swaps                 | Nominal<br>Principal<br>£'000 | Market Value<br>(asset)<br>£'000 | Market Value<br>(liability)<br>£'000 |
|--------------------------------|-------------------------------|----------------------------------|--------------------------------------|
| Interest rate                  | 2,509,457                     | 253,460                          | (51,177)                             |
| Inflation                      | 836,239                       | 12,055                           | (21,483)                             |
| Total return                   | 475,900                       | 34,346                           | (1,832)                              |
| <b>Total 30 September 2014</b> | <b>3,821,596</b>              | <b>299,861</b>                   | <b>(74,492)</b>                      |
| 30 September 2013              | 3,686,782                     | 169,650                          | (21,439)                             |

The notional principal of the swap is the amount used to determine the value of swapped receipts and payments.

To reduce counterparty risk during the life of the swap collateral in the form of cash or government bonds is passed between the parties depending on whether there is an asset or a liability and the value of the swap. See note 10(i).

### 10(h) Options

The Scheme enters into option contracts to meet the requirements of its risk management activities. These option contracts are exchange traded and the exchange acts as the counterparty, bearing the risk of failure to deliver the position. All contracts expire within one year.

| Investment underlying option<br>Contract  | Nominal amount<br>of contract<br>£'000 | Market value<br>(asset)<br>£'000 | Market value<br>(liability)<br>£'000 |
|---|--|----------------------------------|--------------------------------------|
| Overseas fixed Interest purchased - Puts  | 3,033                                  | 78                               | -                                    |
| Overseas fixed interest purchased - Calls | 7,419                                  | 32                               | -                                    |
| Overseas fixed interest written - Calls   | 1,100                                  | 15                               | -                                    |
| <b>Total 30 September 2014</b>            | <b>11,552</b>                          | <b>125</b>                       | <b>-</b>                             |
| 30 September 2013                         | 30,702                                 | 151                              | (27)                                 |

The notional amount represents the value of underlying stocks subject to the option contracts. Included in options are swaptions with a value of £331 (2013: £44,000)

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2014**

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**10(i) Collateral**

During the year collateral was received and pledged in respect of swaps, bond forward contracts and forward foreign exchange contracts. As at 30 September 2014 the collateral received/pledged was as follows:

|                               | <b>2014</b>      | <b>2013</b>      |
|-------------------------------|------------------|------------------|
|                               | <b>£'000</b>     | <b>£'000</b>     |
| <b>Collateral Received</b>    |                  |                  |
| Stock Equivalents             | 12,814           | 33,510           |
| Cash Equivalents              | 224,201          | 128,162          |
|                               | <u>237,015</u>   | <u>161,672</u>   |
| <br><b>Collateral Pledged</b> | <br><b>£'000</b> | <br><b>£'000</b> |
| Stock Equivalents             | (14,241)         | (694)            |
| Cash Equivalents              | -                | (12)             |
|                               | <u>(14,241)</u>  | <u>(706)</u>     |

**10(j) Stock Lending**

During the year the Fund lent some of its investments under a stock lending agreement. The titles to the investments that have been lent remain with the Fund and dividends paid during the year in respect of stock lent by the Fund are paid to the Fund. Collateral is received by the Fund in excess of the market value of the stock lent. At 30 September 2014 the position was as follows:

|                              | <b>2014</b>      | <b>2013</b>      |
|------------------------------|------------------|------------------|
|                              | <b>£'000</b>     | <b>£'000</b>     |
| <b>Stock Lending</b>         |                  |                  |
| Fixed Interest               | 12,882           | 22,886           |
| Equities                     | -                | 10,896           |
|                              | <u>12,882</u>    | <u>33,782</u>    |
| <br><b>Collateral</b>        | <br><b>£'000</b> | <br><b>£'000</b> |
| Fixed Interest               | 3,049            | 8,471            |
| Equities                     | -                | 6,329            |
| Cash Equivalents             | 9,833            | 20,052           |
|                              | <u>12,882</u>    | <u>34,852</u>    |
|                              | <br><b>£'000</b> | <br><b>£'000</b> |
| Income for the year (note 8) | <u>118</u>       | <u>70</u>        |

**10. INVESTMENTS (continued)**

**10(k) Bond Forward Contracts**

Bond forwards are over the counter contracts entered into by two counterparties to buy or sell a bond on a specified future date at an agreed price. The contracts generally expire in up to three months.

|                                | Gross<br>amount at<br>inception<br>(asset) | Gross<br>amount at<br>inception<br>(liability) | Market value<br>(asset) | Market value<br>(liability) |
|--------------------------------|--|--|-------------------------|-----------------------------|
|                                | £'000                                      | £'000  | £'000                   | £'000                       |
| UK                             | -  | (12,500)                                       | -                       | (1)                         |
| Overseas                       | 2,805                                      | (15,637)                                       | 3                       | (35)                        |
| <b>Total 30 September 2014</b> | <b>2,805</b>                               | <b>(28,137)</b>                                | <b>3</b>                | <b>(36)</b>                 |
| 30 September 2013              | 16,119                                     | (31,096)                                       | 293                     | (280)                       |

**10(l) Repurchase Agreements**

The Scheme holds an interest rate and inflation hedging mandate under which fixed interest securities have been sold subject to repurchase agreements.

The Scheme retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date.

The securities are included in the financial statements as assets of the Scheme at their market value. At 30 September 2014 the market value of securities sold under repurchase agreements was £43.1m (2013: £247.2m).

Cash received from counterparties in respect of the securities that have been sold is used by the investment manager to purchase additional securities to meet desired exposure levels. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Scheme's financial statements under other investment liabilities. At 30 September 2014 this amounted to £43.0m including accrued interest (2013: £245.6m).

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2014**

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**11. CURRENT ASSETS**

|   | <b>2014</b>   | <b>2013</b>   |
|---|---------------|---------------|
|   | <b>£'000</b>  | <b>£'000</b>  |
| <b>Debtors</b>  |               |               |
| Contributions due from the Principal Employer in respect of augmentations | 1,502         | 3,052         |
| Contributions due in respect of sale of Stansted Airport                  | -             | 34,933        |
| AVC Benefits due  | 11            | -             |
| Prepayments   | 215           | 48            |
| Due from HMRC – VAT   | 278           | 258           |
|   | <u>2,006</u>  | <u>38,291</u> |
| <b>Cash balances:</b>   |               |               |
| Current Account   | 12,944        | 11,093        |
|   |               |               |
|   | <u>14,950</u> | <u>49,384</u> |

The contributions due from the Principal Employer in respect of augmentations at the year-end were received 25 days after the due date set out in the Schedule of Contributions.

**12. CURRENT LIABILITIES**

|  | <b>2014</b>    | <b>2013</b>      |
|--|----------------|------------------|
|  | <b>£'000</b>   | <b>£'000</b>     |
| <b>Creditors</b>   |                |                  |
| PPF levy payable   | -              | (268)            |
| Administration and investment management expenses                  | (1,618)        | (1,492)          |
| Due to HMRC  | (1,132)        | (1,042)          |
| State Scheme premiums payable                                      | (9)            | (9)              |
| Benefits payable   | (527)          | (603)            |
| Group transfer payable in respect of the sale of Stansted Airports | -              | (103,023)        |
|  | <u>(3,286)</u> | <u>(106,437)</u> |

**13. RELATED PARTY TRANSACTIONS**

LHR Airports Ltd provides certain administration and other services to the Scheme. The costs of these services are recharged to the Scheme and are included within administrative expenses disclosed in Note 7. During the year these costs amounted to £120,000 (2013: £120,000).

LHR Airports Ltd is responsible for certain discretionary payments of pension benefits. The actual payment of these amounts is made by the Scheme and reimbursed by LHR Airports Ltd. During the year such payments amounted to £987,479 (2013: £963,517). Apart from the above, and transactions and balances with the Principal Employer shown in the Financial Statements and notes thereto, there were no other related party transactions.

**14. CAPITAL COMMITMENTS**

At the year-end the Scheme had undrawn commitments to the M&G Secured Property Income Fund of £nil (2013: £65.9m) and the Westwood Emerging Markets Fund of £nil (2013: £100.0m).

**15. POST YEAR END EVENTS**

The Scheme received an Employer contribution of £20m on 16 December 2014 relating to the sale of Aberdeen, Glasgow and Southampton Airports after the year end.

**BAA Pension Scheme**  
**Independent auditor's statement about contributions**

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**Independent auditor's statement about contributions, under regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the BAA Pension Scheme**

We have examined the summary of contributions payable to the BAA Pension Scheme for the year ended 30 September 2014 which is set out on page 30.

This report is made solely to the Scheme's Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. 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 auditors' statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this report, or for the opinion we have formed.

**Respective responsibilities of Trustees and auditors**

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member 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 and to report our opinion to you.

**Scope of work on Statement of Contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached 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.

**Qualified statement about contributions payable under the Schedule of contributions**

Except for the contributions paid to the Scheme after the due date as detailed on page 30, in our opinion contributions for the Scheme year ended 30 September 2014 as reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 21 December 2011.

**Crowe Clark Whitehill LLP**  
Statutory Auditor  
London

Date: 30 April 2015

**BAA Pension Scheme  
Summary of Contributions**

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**Trustee's summary of contributions payable during the Scheme year ended 30 September 2014**

Contributions payable to the Scheme in accordance with the Schedules of Contributions in respect of the year ended 30 September 2014 were as follows:

|  | <b>2014<br/>£'000</b> |
|--|-----------------------|
| Employer normal contributions                                | 63,691                |
| Employer deficit funding contributions                       | 24,000                |
| Employer augmentations                                       | 4,200                 |
| Member normal contributions                                  | <u>7,450</u>          |
| Total contributions paid under the Schedule of Contributions | 99,341                |
| <br>   |                       |
| Member additional voluntary contributions                    | 90                    |
| Member additional contributions to purchase added years      | <u>224</u>            |
| Contributions disclosed in the financial statements          | <u>99,655</u>         |

Employer contributions in respect of benefit augmentations amounting to £3.4m were paid between 24 days and 158 days after the due dates set out in the Schedule of Contributions, which requires these contributions to be paid within one month of the employer being notified of the amount due.

All other contributions were received in accordance with the Schedule of Contributions.

For and on behalf of the BAA Pension Trust Company Limited

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

Date: 16.04.2015



## CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

**Name of Scheme**

BAA 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 30 September 2010 to be met by the end of the period specified in the recovery plan.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 21 December 2011.

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.

**Signature**

**Scheme Actuary**

Chris Sheppard

**Qualification**

Fellow of the Institute and Faculty of Actuaries

**Date of signing**

21-12-2011

**Name of Employer**

Mercer Limited

**Address**

Riverside Court  
Guildford Road  
Leatherhead  
Surrey KT22 9DF

## **CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS**

**Name of Scheme**

BAA 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 30 September 2013 to be met by the end of the period specified in the Recovery Plan.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 7 January 2015.

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.

**Signature**

**Scheme Actuary**

Chris Sheppard

**Qualification**

Fellow of the Institute and Faculty of Actuaries

**Date of signing**

7th January 2015

**Name of Employer**

Mercer Limited

**Address**

One Christchurch Way  
Woking  
Surrey  
GU21 6JG

## **COMPLIANCE STATEMENT**

### **1. Tax Status**

The Scheme was approved by the Inland Revenue Pension Schemes Office under Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988 until 5 April 2007. Subsequently it became a Registered Scheme with Her Majesty's Revenue and Customs from 6 April 2007, in accordance with the provisions of the Finance Act 2006. The Trustees' opinion is that there is no reason to believe this approval/registration may be prejudiced or withdrawn.

### **2. Employer Related Investments**

#### **Shares in Grupo Ferrovial**

Following the acquisition of BAA plc (now LHR Airports Limited) the Trustees decided that there should be no direct investment in the shares of Grupo Ferrovial and there was no such investment during the year.

### **3. Transfer of Pension Rights**

The Scheme can transfer pension rights to, or receive them from such schemes as are suitably approved by the Commissioners of Inland Revenue. Transfers out to other pension schemes include transfers to arrangements approvable under Section 32 of the Finance Act 1981. The sums transferred were cash equivalents calculated, and paid in the manner prescribed by the Actuary in accordance with legislation. The calculation of transfer values does not make any allowance for discretionary benefits as these are not a feature of the Scheme. Transfer values paid during the year are the full cash equivalent and have not been adjusted as a result of Scheme funding levels.

### **4. Complaints**

If Scheme members have any queries concerning their benefits they should contact the Scheme's administrator at the address shown for enquiries on the contents page. If the enquiry is not resolved to their satisfaction, members should use the Scheme's dispute resolution procedure, which is aimed at resolving complaints and disputes.

The Pensions Advisory Service (TPAS), an independent voluntary organisation, offers free advice and assistance to members at any stage during the complaints process. The TPAS can be contacted at:

11 Belgrave Road  
London

SW1V 1RB

Tel: 0845 601 2923

[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

**COMPLIANCE STATEMENT (continued)**

If the matter remains unresolved after TPAS has assisted, members have the right to refer their complaint to the Pensions Ombudsman, who investigates complaints of injustice caused by bad administration or disputes of fact or law. The Pensions Ombudsman can be contacted at:

11 Belgrave Road

London

SW1V 1RB

Tel: 0207 834 9144

[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

**5. The Pensions Regulator**

The Pensions Regulator is the UK regulator of work-based pension schemes.

The Regulator's aim is to encourage high standards in the way pension schemes are run, to prevent problems from developing. The Regulator works with pension scheme trustees and scheme managers to help protect work-based pensions and if problems do develop, the Regulator has powers to put matters right. The Regulator cannot help with individual complaints or disputes, but if members believe that the Scheme is not complying with pensions rules and regulations, they can report this to the Regulator, at the following address:

Napier House

Trafalgar Place

Brighton

BN1 4DW

Tel: 0870 6063636

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)