



The BAA Pension Scheme

Report & Accounts

for the year ended 30 September 2019

Report and Accounts **for the year ended 30 September 2019**

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

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THE BAA PENSION SCHEME

The BAA Pension Scheme ("the Scheme") was established in April 1966. It is a contributory, final salary, defined benefit arrangement. The Scheme includes the transferred assets and liabilities of the BAA Group Pension Scheme established 1 January 1991 and wound up 30 June 1996.

The Scheme closed to new members on 15 June 2008. However, membership at a later date was also permitted to those who had commenced an apprenticeship prior to the closure date and who then subsequently became a permanent BAA Group employee on the conclusion of that vocational training.

The Scheme is established under irrevocable trusts and administered by the Trustee in accordance with the provisions of the Trust Deed and Rules which are amended from time to time. The Principal Employer is LHR Airports Limited ("the Employer") and the primary purpose of the Scheme is to provide pensions on retirement and other benefits for all eligible participants.

1. TRUSTEE AND ADVISERS

The Trustee is BAA Pension Trust Company Limited, and it is responsible for the management of the Scheme. Law Debenture (BAA) Pension Trust Corporation (LDPTC), although not formally a trustee is referred to in the Rules as the Independent Trustee and has special reserve powers designed to safeguard the accrued rights of beneficiaries. LDPTC satisfies requirements of independence from the Employer set out in the Trust Deed and Rules. LDPTC's nominated representatives, who attend Trustee meetings, are Mr M Jaffe or Ms S Pitt.

The Trustee is responsible for all aspects of the Scheme. However, in order to facilitate the efficient discharge of business certain matters are, from time to time, delegated to and managed by an investment committee or other specialist committees. Any decisions of the committees are subject to endorsement by the full Trustee Board, except where this is not appropriate, e.g. where doing so would create a conflict of interest.

Details of the Directors of the Trustee Company ("the Trustee Directors") and its advisers, who served during the year, are set out below:

BAA Pension Trust Company Limited

Unless otherwise stated, the Trustee Directors are Management Representatives

Trustee Directors

P Wilbraham *β	Chairman
S Chambers *+β	(Member Nominated Trustee Representative, resigned 3 May 2019)
A Hurn *β	
M Macgregor #+	(Pensioner Nominated Trustee Representative)
T Mackay #	(Member Nominated Trustee Representative)
A Macmillan*	
P Stannett #	
M Riaz #+	(Member Nominated Trustee Representative)
C Hobbs	(Member Nominated Trustee Representative, appointed 3 February 2020)

Independent Trustee

*+β M Jaffe (LDPTC)

*+β S Pitt (LDPTC)

+ member of the Audit and Risk Committee

* member of the Investment Committee

member of the Administration Committee

β member of the Valuation Committee

Secretary to the Trustee

#*+β A Knowles (resigned May 2019)

#*+β R Francis, Mercer Limited (appointed July 2019)

ADVISERS

Actuary	C Sheppard FIA, Mercer Limited
Auditor	Crowe U.K. LLP
Administrators	Equiniti Pension Solutions
Bankers	Lloyds Bank plc
Custodian	JP Morgan Chase. Assets are held in the name of 'Chase Nominees'.
Investment Managers	Allianz Global Investors GmbH (formerly Rogge Global Partners) BlackRock Investment Management (UK) Limited BlueBay Asset Management LLP Bridgewater Associates LP Invesco Asset Management Ltd KKR Private Credit Opportunities Partners II (EEA) L.P. M&G Asset Management Man Group plc State Street Global Advisors Ltd Wellington Asset Management
AVC Investment Managers	Santander Utmost Life Insurance (formerly Equitable Life Insurance) Aviva Group (formerly Friends Life)
Bulk Purchase Annuity Provider	Legal & General Assurance Society Limited
Investment Consultants	Redington Limited
Legal Adviser	CMS Cameron McKenna Nabarro Olswang 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, 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 or such other organisation as the Employer, with the agreement of the Independent Trustee, shall decide.

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.

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 page 1. 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 page 1. The Trustee decided that this group will be an ad hoc committee which would only deal with the issues relating to the triennial actuarial valuation, including dialogue with the Company and preparation of valuation related correspondence for the Main Board.

Audit and Risk Committee

The membership of the Committee is noted on page 1. 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 page 1. 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 Pensions Solutions 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. During their term of office or on reappointment, Trustee Directors are encouraged to identify their own training needs and attend appropriate courses. In addition, formal training is organised as part of business planning.

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. MEMBERSHIP OF THE SCHEME

	Actives	Deferred Pensioners	Pensioners – former members	Pensioners – Dependants	Total
At 1 October 2018	2,937	4,887	7,288	1,737	16,849
Adjustments	(72)	71	(3)	(4)	(8)
Retirements	(79)	(207)	286	-	-
Leavers with deferred benefits	(103)	103	-	-	-
Deaths	(1)	-	(181)	(103)	(285)
Transfers out	-	(64)	-	-	(64)
Spouses and dependants pensions	-	-	-	90	90
Children's pension ceased	-	-	-	(6)	(6)
As 30 September 2019	2,682	4,790	7,390	1,714	16,576

The adjustments in the year primarily relate to late notifications that members had left the Scheme before the start of the year.

3. ACTUARIAL VALUATION AND CONTRIBUTIONS

The Trustee undertakes a full valuation at least every three years in line with the requirements of the Pensions Act 2004. A full valuation of the BAA Pension Scheme was carried out as at 30 September 2018 and determined a shortfall of £123m (corresponding to a funding level of 97%).

The 2018 valuation was the fifth 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 £123m as at 30 September 2018 is to be addressed. The Trustee and Employer agreed that £23m p.a. (payable monthly) would be paid into the Scheme until 30 September 2019 followed by £20m p.a. paid monthly from 1 October 2019 to 30 September 2022. 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 due as at 30 September 2021.

As a result of the 2018 valuation, the Trustee and Employer agreed that regular Employer contributions of 25.6% of Basic Salary plus Shift Pay would be paid from 1 October 2019, an increase from 23.0% payable up to 30 September 2019, in addition to the deficit reduction contributions of £20m p.a., to meet the cost of the future accrual of benefits. Employee contributions continued to be payable at between 5% and 7.5% of Pensionable Salary, however, since 1 October 2015, Pensionable Salary increases are capped at 2% p.a.

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 Schedule of Contributions and Trust Deed and Rules of the Scheme. A revised Schedule of Contributions was agreed by the Employer and the Trustee, effective from 1 October 2019, incorporating the changes set out above.

Employees' and Employer's contributions are due monthly by the 19th 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.

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, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The most recent actuarial valuation of the Scheme was carried out as at 30 September 2018. A summary of the funding position at the valuation date is set out below:

Funding Assessment as at 30 September 2018	
	£m
Market value of assets	3,949.6
Technical provision liabilities	4,047.2
Deficit	(122.8)
Funding Level	97%

Method: The actuarial method used in the calculation of the technical provisions is the Attain Age method.

The key assumptions underlying the calculation of technical provisions were:

Retail Price Inflation	3.40% p.a.
Consumer Price Inflation	2.65% p.a.
Pensionable salary increases	1.90% p.a.
Basic Salary plus Shift Pay increases	4.90% p.a.
Discount rate:	
Pre-retirement	3.54% p.a.
Post-retirement	2.34% p.a.
Pension increases in payment:	
Open section	3.35% p.a.
Closed section	3.40% p.a.
Post 2015 pension	2.30% p.a.
Mortality – base table	107/98%% of S3PMA year of birth tables for non-pensioner/pensioner males and 95%/89% of S3PFA_M year of birth tables for non-pensioner/pensioner females to reflect the membership profile of the Scheme.

4. 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 2019.

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

	Year to 30 September 2019 £'000	Year to 30 September 2018 £'000
Income	52,741	54,173
Expenditure	(146,548)	(140,963)
Net withdrawals	(93,807)	(86,790)
Net return from investments	785,754	118,998
Net increase / (decrease)	691,947	32,208
Net assets at beginning of year	3,950,886	3,918,678
Net assets at end of year	4,642,833	3,950,886

5. 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 Rules 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 in payment as at 30 September 2018 were increased on 1 October 2018 by 3.5% for the Plc section and 3.5% for the Group section (in line with RPI for the year to August 2018). Pensions in payment as at 30 September 2019 were increased on 1 October 2019 by 2.6% for the Plc section and 2.6% for the Group section (in line with RPI for the year to August 2019).

6. 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.

7. 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 regularly reviews the adequacy of the Scheme's internal controls as documented in the Scheme's risk register.

8. 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 be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at future meetings and decisions will be made as to the next steps. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. Any adjustments necessary will be recognised in the future accounts as necessary.

9. 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 2019 will be sent to members in Spring 2020.

10. STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- 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 its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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

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.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and 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 adopting risk-based processes to monitor 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.

11. INVESTMENT STRATEGY

The Trustee sets the investment strategy for the Scheme, taking into account considerations such as the strength of the Employer covenant, the long-term liabilities of the Scheme and the funding agreed with the Employer. The investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP").

The current strategy is broadly split between:

1. Investments that move in line with the long-term liabilities of the Scheme. This is referred to as Liability Driven Investing ("LDI"), which comprises mostly UK government bonds ("Gilts"), Gilt repurchase agreements and cash, along with interest rate swaps and inflation swaps to a lesser extent. The purpose of these investments is to hedge against the impact of interest rate and inflation movements on the value of the long-term liabilities.
2. Return-seeking investments comprising UK and overseas equities, UK and overseas non-government bonds, property, multi-strategy funds and hedge funds. The purpose of these investments is to deliver a relatively high return in a diversified and risk-controlled manner to remain within the Scheme's overall risk budget of 6% Funding-Ratio-at-Risk (i.e. the Scheme's investment strategy should not risk the funding ratio falling by more than 6% in a 1-in-20 downside scenario on a Gilts + 0.50% basis).

Over the course of the year, a number of changes were made to the investment strategy:

- **KKR** – The allocation to the portfolio increased by c.£55m as a result of four capital calls which were implemented in October 2018, February 2019, April 2019 and June 2019.
- **Allianz Global** – c.£55m was disinvested from the fund to meet the four KKR capital calls and c.£42m was disinvested to meet M&G capital calls.
- **M&G** – An allocation to the Multi-Dated Asset Fund (MDAF) of c.£42m as a result of five capital calls during May 2019, June 2019 and July 2019.
- **BlueBay** - In July 2019, to take advantage of a more strategic approach and lower fees, the Scheme transitioned the Multi-Class Credit mandate with BlueBay from the segregated mandate to a new pooled fund with BlueBay – the Leveraged Finance Total Return (LFTR) pooled fund.

Since 30 September 2019 there have been a number of further changes to the investment strategy as follows:

- **KKR** - in Q4 2019, a further c.£11.5m was invested in Opportunistic Illiquid Credit with KKR, funded from the Allianz Global Investors LIBOR Mandate and cash in the JPM Liquidity Fund.
- **M&G** - a further £30m was invested in the MDAF mandate, divesting from Allianz Global Investors LIBOR Mandate through capital calls in November and December.
- **LDI assets** – the Trustee has taken a decision to move the LDI assets from BlackRock so that they can be managed dynamically by Legal & General in order to implement the de-risking trigger strategy. This transition is expected to take place during Spring 2020.

The table below shows the Scheme's investment manager structure as at 30 September 2019:

Asset Class	Manager
Equities	State Street Global Equity
Credit	Allianz LIBOR +
	BlackRock Corporate Bonds
	BlueBay Global Multi-Asset Credit
	Wellington LIBOR +
Property	M&G Secured Leases
Multi Strategy	Invesco GTR
	Bridgewater DRP
	MAN DRP
Illiquid Credit	KKR
Liability Hedging	BlackRock LDI
	L&G Pensioner Buy-in
	JPM Liquidity Fund (cash)

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.

12. ASSET ALLOCATION

The table below shows the Scheme's investment allocation as at 30 September 2019 versus last year's asset allocation and target strategic allocation:

	30 September 2019	30 September 2018	Target asset allocation
Equity	10.2%	11.6%	10.0%
Credit	12.7%	13.9%	13.0%
Property	3.1%	3.5%	3.0%
Multi Strategy	15.2%	17.5%	15.0%
LIBOR+*	11.3%	15.1%	7.0%
Illiquid Credit*	3.4%	1.3%	8.0%
Liability Hedging Assets & Cash	44.0%	37.1%	44.0%

Figures subject to rounding

*The allocation to LIBOR+ is significantly higher in the reported allocations when compared with the target allocations whilst illiquid credit is lower. The LIBOR+ funds are being used to fund the capital calls for the illiquid credit funds and hence the target allocation assumes that the LIBOR+ funds will have been disinvested down to the target when illiquid credit is fully funded.

13. INVESTMENT PERFORMANCE

The table below shows the Scheme's return over various periods to 30 September 2019.

	1 Year	3 Years (p.a.)	5 Years (p.a.)
Scheme	19.9%	6.8%	10.4%
Change in value of liabilities*	19.0%	5.6%	11.0%

*Change in liabilities has been calculated on a Gilts +0.50% basis by the Actuary and the asset return uses performance data estimated by Redington and Cardano.

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 have been taken with a long-term view, and individual investment managers are therefore not intended to exactly match a liability-based benchmark.

14. INVESTMENT MANAGER FEES

All of the investment managers are remunerated on an ad valorem basis, i.e. fees are calculated based on the market value of the assets under their management. There are however additional performance-related fees in place for Wellington, KKR, and Bridgewater.

15. INVESTMENT POLICY

The Trustee makes all major decisions on the management of assets and liabilities based on investment advice. There is also an Investment Sub-Committee that has limited powers to make certain decisions as agreed and delegated by the Trustee. The Investment Sub-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 its policy on Responsible Ownership. The Trustee's policy is that Environmental, Social and Governance "ESG" issues are considered to be financially material to the investment portfolio over the Scheme's time horizon. The Trustee considers the long-term financial interests of the Scheme to be paramount, and, where appropriate and practical, requires its investment managers to:

- consider financially material ESG issues (including climate change risks), in investment decision making.
- practice good stewardship which includes engaging with issuers of debt or equity on financially material ESG issues.

Non-financial matters including ethical views of beneficiaries and members are not ordinarily taken into account in the selection, retention and realisation of investments.

The Trustee and Investment Adviser carry out research on ESG integration as a key element of fund manager selection and monitoring as follows:

- Manager Selection Process: each time a manager is selected or reviewed, ESG integration is one of the key selection factors considered by the Trustee and the Investment Adviser's manager research team
- Annual survey: The Investment Adviser's recommended managers are surveyed annually to ensure any changes to the ESG integration process are captured (e.g. data sources, reporting lines, etc).
- UN Principles for Responsible Investment "PRI" reporting: The Investment Adviser requests PRI assessment scores from all managers for funds in which clients are invested on an annual basis. The Investment Adviser reports Strategy & Governance scores as part of standard quarterly manager monitoring reports.

The global custodian, JP Morgan, is responsible for the safekeeping of the Scheme's directly held assets and performs the associated administrative duties.

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.

16. COVID-19

At the time of approval of the financial statements, the Covid-19 virus continues to develop and has been designated a global pandemic by the World Health Organisation. The Trustee has considered the impact of the Covid-19 virus on the assessment of the Employer's ability to support the Scheme as a going concern. In particular, the Trustee considered the potential impact of Covid-19 on the Scheme's investment strategy, the Employer's business and its ability to pay contributions to the Scheme, taking into account the Scheme's strong funding level, well diversified investment strategy and financial resources available to the Employer.

Having assessed the circumstances, the Trustee has determined there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and therefore believes it remains appropriate to prepare the financial statements on a going concern basis.

Signed on behalf of BAA Pension Trust Company Limited:

.....
Director

.....
Director

Date: 31 March 2020

The Compliance Statement on pages 48 to 49 forms part of this Trustee's Report.

BAA Pension Scheme
Independent Auditor's Report for the year ended 30 September 2019

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

Opinion

We have audited the financial statements of the BAA Pension Scheme for the year ended 30 September 2019 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2019, 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

BAA Pension Scheme
Independent Auditor's Report for the year ended 30 September 2019

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out in the Trustee's Report, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for 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 the Trustee either intends to wind up the Scheme or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with 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. Our audit 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 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's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP

Statutory Auditor

London

Date: 31 March 2020

BAA Pension Scheme
Fund Account for the year ended 30 September 2019

	Note	2019	2018
		£'000	£'000
Contributions and benefits			
Contributions receivable:	3		
Employer		50,271	49,363
Employee		2,468	4,810
Other income	4	2	-
		<u>52,741</u>	<u>54,173</u>
Benefits paid or payable	5	107,063	102,209
Payments to and on account of leavers	6	28	19
Individual transfers out to other plans		35,958	35,434
Administrative expenses	7	3,499	3,301
		<u>146,548</u>	<u>140,963</u>
Net withdrawals from dealings with members		<u>(93,807)</u>	<u>(86,790)</u>
Return on investments			
Investment income	8	82,515	76,951
Investment management expenses	9	(8,918)	(6,921)
Change in market value of investments	10	712,157	48,968
Net returns on investments		<u>785,754</u>	<u>118,998</u>
Net increase in the fund during the year		691,947	32,208
Net assets of the Scheme at 1 October		<u>3,950,886</u>	<u>3,918,678</u>
Net assets of the Scheme at 30 September		<u>4,642,833</u>	<u>3,950,886</u>

The notes on pages 16 to 35 form part of these financial statements

BAA Pension Scheme
Statement of Net Assets (available for benefits) as at 30 September 2019

	Note	2019 £'000	2018 £'000
Investment assets			
Equities	10	8	1,052
Bonds	12	3,765,317	3,478,333
Pooled Investment vehicles	13	1,795,300	1,363,162
Derivatives	14	129,584	69,376
Insurance policies	15	342,800	324,900
AVC Investments	16	1,304	1,265
Other investment balances	17	240,511	251,842
		6,274,824	5,489,930
Investment liabilities			
Derivatives	14	(55,342)	(101,364)
Other investment balances	17	(1,590,158)	(1,452,395)
		(1,645,500)	(1,553,759)
Total net investments		4,629,324	3,936,171
Current assets	21	19,357	19,276
Current liabilities	22	(5,848)	(4,561)
Total net assets as at 30 September		4,642,833	3,950,886

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 Report on Actuarial Liabilities on page 5 of the Trustee's Report and these financial statements should be read in conjunction with this report.

The financial statements were approved by the Directors of BAA Pension Trust Company Ltd on 31 March 2020.

Director

Director

The notes on pages 16 to 35 form part of these financial statements

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

1. BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis in accordance with the Occupational Pension Plans (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 ("FRS 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 2015) ("the Revised SORP").

As stated in the Statement of Trustee's Responsibilities on page 7, the Trustee is responsible for preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue on this basis. As disclosed in the Trustee's Report on page 11 under the heading Covid-19, the Trustee has undertaken an assessment in relation to going concern and have considered such matters as the potential impact on the Scheme's investment strategy, the Employer's business and its ability to pay contributions to the Scheme, taking into account the Scheme's strong funding level, well diversified investment strategy and financial resources available to the Employer. The Trustee Board has determined that whilst there is uncertainty over the impact on the Employer's financial performance and resources, there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and the Trustee therefore believes it remains appropriate to prepare the financial statements on a going concern basis.

2. ACCOUNTING POLICIES

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

a) Contributions

- (i) Employee contributions, including AVCs and added years, are accounted for by the Trustee when they are deducted from pay by the Employer.
- (ii) Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions in force during the year.
- (iii) Augmentation contributions are paid from time to time by the employer to fund benefit improvements on the terms agreed with the Trustee. These are accounted for on an accruals basis.
- (iv) Deficit contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions under which they are paid.

b) Benefits Payable and Payments to Leavers

- (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, on the date of retiring or leaving.
- (iii) 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.

c) Expenses

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

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

2. ACCOUNTING POLICIES (continued)**d) Investment Income**

- (i) Investment income from bonds 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 receivable from pooled investment vehicles is recognised on an accruals basis. Income from accumulating pooled investment vehicles is reinvested by fund managers and is reflected within their change in market value.
- (iv) Deposit and other income receivable is accounted for on an accruals basis.
- (v) Receipts from the Buy-In insurance policy are accounted for as annuity income on an accruals basis.

e) Change in market value of investments

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.

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

- Listed securities are valued at bid price as at the year-end date.
- Pooled investment vehicles are valued at the bid market values at the year-end date 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.
- 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 futures contracts that are assets, market value will be unrealised profit at the quoted bid price of the contract at the year end. For futures contracts that are liabilities, market value will be the unrealised loss at the quoted offer price of the contract at the year end.
- Amounts due to or 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.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

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) Insurance policies

- The buy-in policy is included in these financial statements at the same amount as the related obligation, determined using the most recent Plan Funding valuation assumptions and methodology. The buy-in valuation is provided by the Scheme Actuary.

(viii) Repurchase Agreements

- Bond investments are sold subject to contractual agreements ('Repurchase Agreements') for the repurchase of equivalent securities. The securities sold are stated at bid prices where available and accounted for within their respective investment classes. The contracts to buy back the equivalent securities, the Repurchase Agreements, are an investment liability and amounts payable under the repurchase agreements are stated at the value of contracted obligation.
- Bond investments are bought subject to contractual agreements ('Reverse Repurchase Agreements') for the resale of equivalent securities. The securities bought are excluded from their respective investment classes. The contracts to sell back the equivalent securities, the Reverse Repurchase Agreements, are an investment asset and the Market Value reported is the cash paid to the counterparty at inception of the Agreements.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

ACCOUNTING POLICIES (continued)g) Currency

The Scheme's functional and presentational currency is pounds Sterling (GBP).

3. CONTRIBUTIONS RECEIVABLE

	2019 £'000	2018 £'000
Employer		
Normal	26,143	25,289
Augmentations	1,128	1,074
Deficit funding	23,000	23,000
	50,271	49,363
Employee		
Normal	2,359	4,682
Additional voluntary contributions	27	27
Additional contributions to purchase added years	82	101
	2,468	4,810
	52,739	54,173

Augmentations include £1.128m (2018: £1.074m) in respect of the reimbursement by the Employer of discretionary Unfunded Unapproved Retirement Benefits schemes (UURBS) pensions paid by the Scheme and included in pensions payable in note 5.

Deficit funding contributions of £23m p.a. were payable by the Employer in monthly instalments until 30 September 2019. From 1 October 2020 deficit funding contributions reduced to £20m p.a. in accordance with the Recovery Plan agreed with the Trustee as part of the 30 September 2018 actuarial valuation.

The Employer implemented a salary sacrifice arrangement with effect from 1 October 2018, therefore since this date, contributions received via salary sacrifice are included within employer normal contributions.

4. OTHER INCOME

	2019 £'000	2018 £'000
Sundry income	2	-

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

5. BENEFITS PAID OR PAYABLE

	2019	2018
	£'000	£'000
Pensions	97,037	93,461
Lump sum death benefits	211	25
Commutations and lump sum retirement benefits	9,808	8,697
Taxation on lifetime or annual allowance exceeded	7	26
	<hr/> 107,063	<hr/> 102,209

6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019	2018
	£'000	£'000
Refund on leaving	-	1
Refund on death	-	16
State scheme premiums	28	2
	<hr/> 28	<hr/> 19

7. ADMINISTRATIVE EXPENSES

	2019	2018
	£'000	£'000
Actuarial fees	499	666
Legal and professional fees	504	696
Investment adviser fees	669	651
Independent Trustee fees	72	79
PPF levy and other regulatory levies	621	113
Audit fee	68	70
Scheme administrative costs	1,066	1,026
	<hr/> 3,499	<hr/> 3,301

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

8. INVESTMENT INCOME

	2019	2018
	£'000	£'000
Dividends from equities	-	3
Income from bonds	66,540	57,362
Income from pooled investment vehicles	6,352	5,029
Income from swap contracts	7,367	16,939
Income from Insurance policies	13,631	3,364
Interest on cash deposits	9	5
Net interest on cash instruments	(11,384)	(5,751)
	<hr/> 82,515	<hr/> 76,951

9. INVESTMENT MANAGEMENT EXPENSES

	2019	2018
	£'000	£'000
Administration, management and custody	9,072	7,298
Investment managers fee rebate	(154)	(377)
	<hr/> 8,918	<hr/> 6,921

Included within investment management expenses is irrecoverable VAT amounting to £0.5m (2018: £0.6m).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

10. RECONCILIATION OF INVESTMENTS

	Value at 30 September 2018	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Value at 30 September 2019
	£'000	£'000	£'000	£'000	£'000
Equities	1,052	259	(1,258)	(45)	8
Bonds	3,478,333	988,082	(1,304,412)	603,314	3,765,317
Pooled investment vehicles	1,363,162	600,799	(218,758)	50,097	1,795,300
Derivative contracts	(31,988)	365,799	(290,961)	31,392	74,242
Insurance policies	324,900	-	-	17,900	342,800
AVC investments	1,265	28	(25)	36	1,304
	5,136,724	1,954,967	(1,815,414)	702,694	5,978,971
Cash deposits & other investment balances	(1,200,553)			9,463	(1,349,647)
	<u>3,936,171</u>			<u>712,157</u>	<u>4,629,324</u>

Purchases and sales include £306.3m in respect of an in-specie transition of assets from the BlueBay segregated portfolio to the BlueBay Leveraged Total Return Pooled Fund in July 2019.

Indirect costs are incurred through the bid offer spread on investments within pooled investment vehicles and charges made within those vehicles.

Transaction costs are included in the cost of purchases and deducted from the sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Separately identifiable direct transaction costs during the year amounted to £232,045 (2018: £385,870) based on global custodian records.

11. Concentration of investments

Except as noted below, no investments represented more than 5% of the Scheme's assets.

Holding	2019 £'000	2019 %	2018 £'000	2018 %
Insurance policy - Legal & General Assurance Society	351,800	7.6	324,900	8.2
BlueBay Leveraged Finance Total Return Fund	309,804	6.7	-	-
Invesco Global Targeted Returns Fund	300,545	6.5	300,446	7.6
State Street MPF North America Equity 75% Hedged Fund	302,973	6.5	286,716	7.3
MAN Diversified Risk Premia Mutual Fund	-	-	200,271	5.1

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

12. Bonds

	2019	2018
	£'000	£'000
Bonds		
Fixed interest securities	1,467,758	1,617,749
Index linked securities	2,297,559	1,860,584
Total Bonds	3,765,317	3,478,333

13. Pooled investment vehicles

	2019	2018
	£'000	£'000
Equity funds	473,119	458,390
Credit funds	-	22,190
Property fund	145,194	136,958
Multi strategy funds	1,058,002	693,708
Illiquid credit fund	118,985	51,916
Total pooled investment vehicles	1,795,300	1,363,162

The illiquid credit fund relates to the Credit Opportunities portfolio managed by KKR, which invests in a diversified portfolio of corporate bonds and debt-related financial instruments such as secured bank loans and private credit.

The underlying assets in the Credit funds consist primarily of higher yielding fixed income securities.

Multi strategy funds contain a range of asset classes with different characteristics, predominantly UK and overseas equities, currencies, and derivatives.

14. Derivative contracts

		2019		2018	
		£'000		£'000	
		Assets	Liabilities	Assets	Liabilities
Futures	14(a)	1,263	(677)	1,496	(1,782)
Forward foreign exchange contracts	14(b)	11,599	(13,661)	8,086	(6,339)
Swaps	14(c)	113,717	(39,063)	59,730	(92,851)
Options	14(d)	-	-	64	(44)
Bond forwards	14(e)	3,005	(1,941)	-	(348)
		129,584	(55,342)	69,376	(101,364)

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

14(a) 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 reduces the risk that the counterparty does not fulfill their side of the contract.

Open futures contracts at the year-end, all of which expire within one year are as follows:

Nature	Economic Exposure Value (asset)	Economic Exposure Value (liability)	Market Value (asset)	Market Value (liability)
	£'000	£'000	£'000	£'000
UK Bonds	120,547	(32,083)	580	(370)
Overseas Bonds	155,948	(178,142)	682	(303)
UK Equity	-	(5,708)	-	(3)
Overseas Equity	-	(4,409)	1	(1)
Total	276,495	(220,342)	1,263	(677)
30 September 2019	276,495	(220,342)	1,263	(677)
30 September 2018	189,827	(495,920)	1,496	(1,782)

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.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

14(b) Forward Foreign Exchange Contracts

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.

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

Country of currency underlying forward foreign exchange contracts	Gross amount at inception (asset) £'000	Gross amount at inception (liability) £'000	Market Value (asset) £'000	Market Value (liability) £'000
USA	680,367	(1,464,825)	7,037	(10,684)
Europe	114,547	(228,906)	2,767	(461)
Japan	59,534	(12,610)	81	(917)
Others	135,832	(151,231)	1,714	(1,599)
30 September 2019	990,280	(1,857,572)	11,599	(13,661)
30 September 2018	767,865	(1,747,107)	8,086	(6,339)

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

14(c) Swaps

The Scheme has entered into a series of interest rate, inflation and total return primarily to hedge against long term interest rate and inflation rate movements.

Swap contracts in place as at 30 September 2019 are as follows:

Expiration	Nominal Principal £'000	Market Value (asset) £'000	Market Value (liability) £'000
Up to 2020	118,399	52,963	-
2021 to 2030	1,099,647	43,840	(17,668)
After 2030	342,481	16,914	(21,395)
30 September 2019	1,560,527	113,717	(39,063)
30 September 2018	1,960,635	59,730	(92,851)

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

14(c) Swaps (continued)

Types of swaps	Nominal Principal £'000	Market Value (asset) £'000	Market Value (liability) £'000
Inflation swaps	283,460	3,833	(2,125)
Interest rate swaps	430,721	1,802	(7,556)
Overnight index swaps	552,546	23,053	(29,382)
Total return swaps	293,800	85,029	-
30 September 2019	1,560,527	113,717	(39,063)
30 September 2018	1,960,635	59,730	(92,851)

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 14(f).

14(d) Options

The Scheme is able to enter 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 Contract	Nominal amount of contract £'000	Market value (asset) £'000	Market value (liability) £'000
30 September 2019	-	-	-
30 September 2018	25,431	64	(44)

The notional amount represents the value of underlying stocks subject to the option contracts. Included in options are swaptions with a value of £Nil (2018: £831).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

14(e) 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 amount at inception (asset)	Gross amount at inception (liability)	Market value (asset)	Market value (liability)
	£'000	£'000	£'000	£'000
Overseas	4,366	-	3,005	(1,941)
Total 30 September 2019	4,366	-	3,005	(1,941)
30 September 2018	21,935	-	-	(348)

14(f) Collateral

During the year collateral was received and pledged in respect of non-centrally cleared swaps, bond forward contracts and repurchase agreements. At the year end the collateral received/pledged was as follows:

	2019 £'000	2018 £'000
Collateral Received		
Stock equivalents	144,614	1,099
Cash equivalents	68,606	827
	<u>213,220</u>	<u>1,926</u>
Collateral Pledged		
Stock equivalents	(12,863)	(75,712)
Cash equivalents	(492)	(31,238)
	<u>(13,355)</u>	<u>(106,950)</u>

15. Insurance policy

In June 2018 the Trustee purchased a bulk annuity buy-in policy with Legal & General Assurance Society Limited. The policy insures the benefits of approximately 1,300 pensioner members of the Scheme. The value of the policy, as disclosed in Note 10, has been calculated by the Scheme Actuary on a Technical Provisions basis as at 30 September 2019.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

16. AVC investments

	2019 £'000	2018 £'000
Santander	272	267
Utmost Life Insurance (formerly Equitable Life Insurance)	133	140
Friends Life	899	858
	1,304	1,265

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.

17. Cash deposits and other investment balances

	2019 £'000		2018 £'000	
	Investment Assets	Investment Liabilities	Investment Assets	Investment Liabilities
Repurchase agreements	-	(1,531,752)	-	(1,414,039)
Investment income receivable	4,765	-	10,871	-
Cash deposits and liquidity funds	48,459	-	127,446	-
Short term investments	127,063	-	79,079	-
Cash due to/from Broker	2,266	(429)	4,024	(96)
Outstanding trades	57,958	(57,977)	30,422	(38,260)
	240,511	(1,590,158)	251,842	(1,452,395)

18. Repurchase Agreements

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

Under 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 2019 the market value of securities included was £1,674.29m (2018: £1,413.05m).

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.

Under reverse repurchase agreements, the financial statements recognise the cash delivered to the counterparty as an asset.

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

19. Fair value determination

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 30 September 2019				
Equities	-	-	8	8
Bonds	3,112,253	653,064	-	3,765,317
Pooled investment vehicles	-	1,271,373	523,927	1,795,300
Derivatives	586	73,656	-	74,242
Insurance policies	-	-	342,800	342,800
AVC investments	-	48	1,256	1,304
Cash deposits & other investment balances	(1,349,647)	-	-	(1,349,647)
	1,763,192	1,998,141	867,991	4,629,324

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 30 September 2018				
Equities	1,044	-	8	1,052
Bonds	2,466,493	1,011,840	-	3,478,333
Pooled investment vehicles	-	917,984	445,178	1,363,162
Derivatives	(286)	(31,702)	-	(31,988)
Insurance policies	-	-	324,900	324,900
AVC investments	-	54	1,211	1,265
Cash deposits & other investment balances	(1,200,553)	-	-	(1,200,553)
	1,266,698	1,898,176	771,297	3,936,171

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

20. Investment Risks

Financial Reporting Standards (FRS) 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

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

Market risk: this comprises currency risk, interest rate risk and other price risk as follows:

Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates;

Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates; and

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

The Scheme has exposure to the above risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks within agreed risk limits, taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment agreements in place with the Scheme's investment managers and they are monitored by the Trustee in regular reviews of the investment portfolio.

The following table summarises the extent to which the various classes of investments are affected by investment risks:

	Credit risk	Market risk			2019	2018
		Currency	Interest rate	Other price	£m	£m
Liability Driven Investments						
Bonds	●	○	●	●	3,112.3	2,466.5
Derivatives	●	●	●	●	75.0	(33.3)
Insurance policies	●	○	○	○	342.8	324.9
Cash and Other investment assets and liabilities	●	●	●	○	(1,510.5)	(1,311.5)
Return Seeking Investments						
Equities	○	●	●	●	-	1.1
Bonds	●	●	●	○	665.2	1,011.8
Pooled investment vehicles	●	●	●	●	1,795.3	1,363.1
<i>Bond funds (direct and indirect risk)</i>					298.9	22.1
<i>Other funds (direct risk only)</i>					1,481.4	1,341.0
Derivatives	●	●	●	●	(0.8)	1.3
Cash and Other investment assets and liabilities	●	●	●	○	148.7	111.0
Total (excluding AVCs)					4,628.0	3,934.9

In the above table, the risk noted affects the asset class [●] significantly, [●] partially or [○] hardly/not at all.

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

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

Investment Strategy

The Trustee determines investment strategy after taking advice from a professional investment adviser. The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which, together with future contributions, will generate investment returns to meet the benefits of the Scheme payable under the Trust Deed and Rules, as they fall due. Further details of the Trustee's investment strategy are set out in the Trustee's report on page 7.

Credit Risk

The Scheme is subject to credit risk because it invests directly in bonds and over-the-counter ("OTC") derivatives and because it holds cash balances as well as a bulk annuity insurance contract. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. In addition, the Scheme is indirectly exposed to credit risks arising from some of the financial instruments held by the pooled investment vehicles.

Credit risk arising from bonds held directly is mitigated by the appointment of investment managers with the appropriate skill and processes to manage these assets. These managers are also set limits and guidelines including restriction on the credit quality of the investment they purchase for the Scheme. These portfolios are very well diversified and the risk from any individual security or issuer is kept at an appropriate level given the credit worthiness of that security or issuer. For example, the Scheme may hold significant positions in UK Government Bonds as the credit risk associated with the UK Government is small.

Credit risk arising from OTC derivatives is mitigated by collateral arrangements (see note 14f).

Credit risk arising from cash balances is mitigated by transacting with governments and financial institutions which are investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by: the underlying assets of the pooled arrangements being ring-fenced from the pooled fund manager; the regulatory environments in which the pooled managers operate; diversification of the investments amongst a number of pooled arrangements; and investment due diligence checks carried out by the investment advisors appointed by the Trustee on the appointment of new pooled investment managers and on an ongoing basis thereafter. Direct credit risk also arises from the bulk annuity policy the Scheme has in place with Legal & General Investment Management which is used to hedge longevity, interest rate and inflation risk of the insured pensioner population.

Credit risk arising from the insurance policy held with Legal & General Assurance Society Limited is mitigated through the use of a provider with the appropriate skill, processes and size to manage these assets. In addition, the Scheme is protected by the Financial Services Compensation Scheme.

Indirect credit risk arising from pooled investment vehicles is mitigated by the investment restrictions in place for each of the pooled investment vehicles, and varies depending on the nature of the underlying assets (see note 13).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

A summary of exposures to credit risk at both the current and previous year end is given in the following tables:

2019

£m	Investment Grade	Non- Investment Grade	Unrated	Total
Bonds	3,525.0	252.5		3,777.5
Equities	-	-	-	-
Insurance Policies	-	-	342.8	342.8
Pooled investment vehicles	-	-	1,795.3	1,795.3
Derivatives	74.2	-	-	74.2
Cash and Other investment assets and liabilities	(1,361.8)	-	-	(1,361.8)
Total (excluding AVCs)	2,237.4	252.5	2,138.1	4,628.0

2018

£m	Investment Grade	Non- Investment Grade	Unrated	Total
Bonds	3,212.5	265.8	-	3,478.3
Equities	1.1	-	-	1.1
Insurance Policies	-	-	324.9	324.9
Pooled investment vehicles	-	-	1,363.1	1,363.1
Derivatives	(32.0)	-	-	(32.0)
Cash and Other investment assets and liabilities	(1,200.5)	-	-	(1,200.5)
Total (excluding AVCs)	1,981.1	265.8	1,688.0	3,934.9

Currency Risk

The Scheme is subject to currency risk because some investment are denominated in overseas currencies.

A number of the managers hold bonds for the Scheme which are denominated in overseas currencies. The currency risk from the bonds is mitigated by the managers who use currency forwards to offset the majority of currency exposure. Any remaining exposure is held to achieve improved returns and the risk from these positions is carefully managed.

All pooled funds are reported in GBP so there is no direct currency risk from the pooled investment vehicles. Indirect currency risk from pooled investment vehicles is mitigated by investing in currency hedged share classes where available. Whilst KKR is based in USD, the Scheme is fully currency hedged to mitigate this risk.

A summary of exposures to currency risk at both the current and previous year end is given in the following table:

2019	Investments	Currency Contracts	Total
	£m	£m	£m
US Dollar	724.2	(788.1)	(63.9)
Euro	118.9	(112.1)	6.8
Japanese Yen	-	46.1	46.1
Other overseas currency	12.2	(15.3)	(3.1)
Total overseas exposure	855.3	(869.4)	(14.1)

Unhedged exposure (1.6%)

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

2018	Investments	Currency Contracts	Total
	£m	£m	£m
US Dollar	762.7	(750.1)	12.6
Euro	192.1	(220.9)	(28.8)
Japanese Yen	15.0	7.7	22.7
Other overseas currency	8.2	(14.2)	(6.0)
Total overseas exposure	978.0	(977.5)	0.5

Unhedged exposure % 0.05%

Interest Rate Risk

The Scheme is subject to interest rate risk on the LDI investments, comprising government bonds, interest rate and inflation swaps and cash, as well as the bulk annuity insurance contract.

Interest rate risk is mitigated by aligning the sensitivity of the LDI investments with that of the Scheme's long term liabilities. Under this strategy, if interest rates fall, the value of LDI investments will rise to match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value as will the actuarial liabilities because of an increase in the discount rate. The valuation of the bulk annuity policy that the Scheme has will be impacted by interest rates as it is used to hedge the liabilities of the insured pensioner population.

At the year-end the LDI portfolio represented 27.4% of the total assets (2018: 31.1%).

The value of the insurance policy held with Legal & General Assurance Society Limited is affected by interest rates, which are used to set the discount rate used when valuing. The interest rate risk is mitigated as the value of the asset and the value of the liabilities for those members covered by the insurance policy are opposite and equal.

Other Price Risk

The Scheme is subject to other price risk in relation to the return seeking investments which include equities, non-gilt bonds, property funds, diversified growth funds and hedge funds.

Other price risk is mitigated by constructing a diverse portfolio of investments across various markets and managers.

At the year-end these represented 72.6% of the total assets (2018: 68.9%).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

21. CURRENT ASSETS

	2019	2018
	£'000	£'000
Debtors		
Investment management fee rebates receivable	-	91
Contributions due from the Principal Employer in respect of reimbursement of UURBS pensions	188	89
Prepayments	563	20
Due from Employer – VAT	124	217
Bulk annuity income receivable	-	60
	<hr/> 875	<hr/> 477
Cash balances:		
Cash at bank	18,482	18,799
	<hr/> 19,357	<hr/> 19,276

The contributions due from the Principal Employer as at 30 September 2019 were in respect of discretionary UURBS pensions paid by the Scheme and were received by the Scheme in accordance with the timescale set out in the Schedule of Contributions.

22. CURRENT LIABILITIES

	2019	2018
	£'000	£'000
Creditors		
Administration and investment management expenses	4,090	2,980
Due to HMRC	1,176	1,221
Benefits payable	582	360
	<hr/> 5,848	<hr/> 4,561

23. 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 (2018: £120,000). Independent Trustee fees are also disclosed in Note 7.

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 £1,128,126 (2018: £1,074,080). 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.

24. CAPITAL COMMITMENTS

As at 30 September 2019 the Scheme had a commitment to invest in the KKR Private Credit Opportunities Partners II L.P. fund of US\$92.6m (2018: US\$163.3m).

BAA Pension Scheme
Notes to the Financial Statements for the year ended 30 September 2019

25. GMP EQUALISATION

On 26 October 2019, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes.

The Trustee of the Scheme is aware that the issue will affect the Scheme and will be further considering this at future meetings when decisions will be made as to the next steps. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

26. POST YEAR END EVENTS

At the time of approval of the financial statements, the Covid-19 virus continues to develop and there has been a negative impact on investment values post year-end. This impact has been partially mitigated due to the use of liability matching assets. The Trustee is continuing to monitor the situation.

BAA Pension Scheme
Independent auditor's statement about contributions

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

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the BAA Pension Scheme, for the Scheme year ended 30 September 2019 which is set out on page 37.

In our opinion contributions for the Scheme year ended 30 September 2019 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 Scheme Actuary on 31 August 2018.

Basis of opinion

Our objective is to obtain sufficient evidence 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.

Responsibilities of the Trustee

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 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.

Auditor's responsibilities for the statement about contributions

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

Use of our statement

This statement 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 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 opinion we have formed.

Crowe U.K. LLP
Statutory Auditor

Date: 31 March 2020

BAA Pension Scheme
Independent auditor's statement about contributions

Trustee's summary of contributions payable during the Scheme year ended 30 September 2019

Contributions payable to the Scheme in accordance with the Schedule of Contributions in respect of the year ended 30 September 2019 were as follows:

	2019 £'000
Employer normal contributions	26,143
Employer deficit funding contributions	23,000
Employer augmentations	1,128
Member normal contributions	2,359
 Total contributions paid under the Schedule of Contributions	 <hr/> 52,630
 Member additional voluntary contributions	 27
Member additional contributions to purchase added years	82
 Contributions disclosed in the financial statements	 <hr/> 52,739 <hr/>

For and on behalf of the BAA Pension Trust Company Limited

Director

Director

Date: 31 March 2020

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

BAA Pension Scheme

Status of this document

This Schedule has been prepared by the Trustee of the BAA Pension Scheme ("the Trustee") to satisfy the requirements of section 227 of the Pensions Act 2004, after obtaining the advice of Chris Sheppard, the actuary to the Scheme appointed by the Trustee.

This document is the 8th Schedule of Contributions put in place for the Scheme. It supersedes all earlier versions.

After discussions, a pattern of contributions was agreed by the Trustee and the Employer, LHR Airports Limited, on [date agreed] 2018.

The Trustee and the Employer have signed this Schedule on page 4 to indicate that it represents an accurate record of the agreed pattern of contributions.

The schedule is effective from the date it is certified by the Scheme Actuary on page 5.

Contributions to be paid to the Scheme from 1 September 2018 to 31 August 2023

Members' contributions

Active members shall pay contributions monthly on the following basis:

Category of Member	Contribution rate as a percentage of Shift Inclusive Salaries
Special Fire Service Members	
- Closed Section	7.5
- Open Section	6.5
Fire Service Members	
- Closed Section	7.0
- Open Section	6.0
Other Members	
- Closed Section	6.0
- Open Section	5.0

These contributions will be deducted from salary by the Employer and paid towards the Scheme by the 19th of the following month.

BAA Pension Scheme Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS Page 2

It is recognised that, by agreement between the Employer and members of the Scheme, these members' contributions will be based on Pensionable Salary and Shift Pay subject to an increase cap of 2% per annum.

This schedule does not cover the Employer's commitment to pay across to the Trustee additional voluntary contributions made by members.

With effect from 1 September 2018 the Employer will introduce "Pensions Plus", a pensions salary sacrifice arrangement. Where an active member participates in Pensions Plus, the active member shall not be required to contribute.

Employer's contributions in respect of future accrual of benefits

The Employer will normally pay contributions as set out below but can, where agreed with the Trustee, pay contributions earlier than indicated.

The Employer shall pay contributions no less frequently than monthly of at least 23.0% of Basic Salary plus Shift Pay

In addition, the Employer shall pay the member's contributions due in respect of any active member who participates in Pensions Plus at the rates summarised under Members' contributions.

Between 30 September 2015 i.e. the date of the last formal funding valuation and 30 June 2016 the Employer paid contributions at a rate of 33.3% of Basic Salary plus Shift Pay. The Employer has paid at the rate set out above since 1 July 2016.

Contributions shall fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier if appropriate and, if so, the date of payment will become the due date.

Employer's contributions in respect of the shortfall in funding as per the recovery plan of 29 June 2016

To correct the shortfall, the Employer will pay a contribution of at least £23m p.a. until 30 September 2022.

Annual contributions will be paid monthly. These contributions shall normally fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier than their due dates if appropriate and, if so, the date of payment will become the due date.

BAA Pension Scheme

Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

Page 3

Between 30 September 2015 i.e. the date of the last formal funding valuation and 30 June 2016 the Employer paid contributions at a rate of £27m per annum. The Employer has paid at the rate set out above since 1 July 2016.

Employer's contributions in respect of benefit augmentations

In addition, the Employer shall pay the cost, as determined by the Scheme Actuary, of any benefit augmentations in all circumstances, including those payments required by reason of redundancy, requested by the Employer and approved by the Trustee. These amounts shall be paid to the Scheme within one month of the later of the date of granting the augmentation and the date on which the Employer agrees the accuracy of the calculation of such costs, as presented by the Trustee.

Salary definitions

For the purposes of this schedule, Shift Inclusive Salaries are defined as Pensionable Salary plus an annual rate of Shift Pay. Basic Salaries means the total basic fixed annual salary of members and Shift Pay is the annual rate of shift pay applicable to each member

For Open Section Members, Pensionable Salary is Basic Salary plus other allowances declared by LHR Airports Limited to be Pensionable less the Lower Earnings Limit. For Closed Section Members, Pensionable Salary is Basic Salary plus other allowances declared by LHR Airports Limited to be Pensionable.

Employee monthly contributions are calculated using monthly capped Shift Inclusive Salaries determined as one-twelfth of the annual amounts.

Employer monthly contributions, in respect of future accrual of benefits, are calculated using monthly uncapped Basic Salary plus uncapped Shift Pay determined as one-twelfth of the annual amounts.

For Employer monthly contributions in respect of future accrual of benefits for those members either on maternity, paternity or sick leave, Basic Salary is deemed to be paid at the rate applicable at the commencement of maternity, paternity or sick leave (but increased in line with any salary increases awarded to the member during such leave and uncapped) irrespective of actual amounts paid to the member.

For the purposes of determining members' contributions, increases in Pensionable Salary and Shift Pay have been agreed, between members and the Employer, to be capped at 2% per annum. For the purposes of determining Employer contributions, it has been agreed that increases in Pensionable Salary and Shift Pay will not be capped.

Arrangements for other parties to make payments to the Scheme

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

Page 4

Payments towards the Scheme may be paid by any participating Employer or any of their subsidiaries or any other party as agreed by LHR Airports Limited and the Trustee, in lieu of contributions otherwise due from LHR Airports Limited.

Dates of review of this Schedule

This Schedule of Contributions will be reviewed by the Trustee and the Employer no later than 15 months after the effective date of each actuarial valuation, due every three years.

Employer and Trustee agreement

This Schedule of Contributions has been agreed by the Employer, LHR Airports Limited, and the Trustee of the BAA Pension Scheme.

Signed on behalf of LHR Airports Limited



Name

JAVION UZUNOV

Position

DIRECTOR

Date of signing

31 AUGUST 2018

Signed on behalf of the Trustee of the BAA Pension Scheme



Name

ANNE HURN

Position

TRUSTEE DIRECTOR

Date of signing

31 AUGUST 2018

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate



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 2015 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 29 June 2016.

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

31 August 2018

Name of employer

Address

Mercer Limited
 One Christchurch Way
 Woking
 Surrey
 GU21 6JG



Mercer Limited is authorised and regulated by the Financial Conduct Authority
 Registered in England No. 904275 Registered Office: 1 Tower Place West
 Tower Place, London EC2R 5BU



Classification: Confidential

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

BAA Pension Scheme

Status of this document

This Schedule has been prepared by the Trustee of the BAA Pension Scheme ("the Trustee") to satisfy the requirements of section 227 of the Pensions Act 2004, after obtaining the advice of Chris Sheppard, the actuary to the Scheme appointed by the Trustee.

This document is the 9th Schedule of Contributions put in place for the Scheme. It supersedes all earlier versions.

After discussions, a pattern of contributions was agreed by the Trustee and the Principal Employer, LHR Airports Limited, on 25 July 2019.

The Trustee and the Principal Employer have signed this Schedule on page 4 to indicate that it represents an accurate record of the agreed pattern of contributions.

The schedule is effective from the date it is certified by the Scheme Actuary on page 5.

Contributions to be paid to the Scheme from 1 October 2019 to 30 September 2022

Members' contributions

Active members shall pay contributions monthly on the following basis:

Category of Member	Contribution rate as a percentage of Shift Inclusive Salaries
Special Fire Service Members	
- Closed Section	7.5
- Open Section	6.5
Fire Service Members	
- Closed Section	7.0
- Open Section	6.0
Other Members	
- Closed Section	6.0
- Open Section	5.0

These contributions will be deducted from salary by the Employer and paid towards the Scheme by the 19th of the following month.

BAA Pension Scheme

Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS

Page 2

It is recognised that, by agreement between the Employer and members of the Scheme Effective from 1 October 2015), these members' contributions will be based on Pensionable Salary and Shift Pay subject to an increase cap of 2% per annum.

This schedule does not cover the Employer's commitment to pay across to the Trustee additional voluntary contributions made by members.

The Employer operates "Pensions Plus", a pensions salary sacrifice arrangement. Where an active member participates in Pensions Plus, the active member shall not be required to contribute.

Employer's contributions in respect of future accrual of benefits

The Employer will normally pay contributions as set out below but can, where agreed with the Trustee, pay contributions earlier than indicated.

The Employer shall pay contributions no less frequently than monthly, at least on the following basis:

- Periods up to 30 September 2019 23.0% of Basic Salary plus Shift Pay
- Periods from 1 October 2019 25.6% of Basic Salary plus Shift Pay

In addition, the Employer shall pay the member's contributions due in respect of any active member who participates in Pensions Plus at the rates summarised under Members' contributions.

Contributions shall fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier if appropriate and, if so, the date of payment will become the due date.

Employer's contributions in respect of the shortfall in funding as per the recovery plan of 15 October 2019.

To correct the shortfall, the Employer will pay a contribution of at least as follows:

- Between 1 October 2018 and 30 September 2019 £23m p.a.
- Between 1 October 2019 and 30 September 2022 £20m p.a.

Annual contributions will be paid monthly. These contributions shall normally fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier than their due dates if appropriate and, if so, the date of payment will become the due date.

BAA Pension Scheme

Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS
Page 3

Employer's contributions in respect of benefit augmentations

In addition, the Employer shall pay the cost, as determined by the Scheme Actuary, of any benefit augmentations in all circumstances, including those payments required by reason of redundancy, requested by the Employer and approved by the Trustee. These amounts shall be paid to the Scheme within one month of the later of the date of granting the augmentation and the date on which the Employer agrees the accuracy of the calculation of such costs, as presented by the Trustee.

Salary definitions

For the purposes of this schedule, Shift Inclusive Salaries are defined as Pensionable Salary plus an annual rate of Shift Pay. Basic Salaries means the total basic fixed annual salary of members and Shift Pay is the annual rate of shift pay applicable to each member.

For Open Section Members, Pensionable Salary is Basic Salary plus other allowances declared by LHR Airports Limited to be Pensionable less the Lower Earnings Limit. For Closed Section Members, Pensionable Salary is Basic Salary plus other allowances declared by LHR Airports Limited to be Pensionable.

Employee monthly contributions are calculated using monthly capped Shift Inclusive Salaries determined as one-twelfth of the annual amounts.

Employer monthly contributions, in respect of future accrual of benefits, are calculated using monthly uncapped Basic Salary plus uncapped Shift Pay determined as one-twelfth of the annual amounts.

For Employer monthly contributions in respect of future accrual of benefits for those members either on maternity, paternity or sick leave, Basic Salary is deemed to be paid at the rate applicable at the commencement of maternity, paternity or sick leave (but increased in line with any salary increases awarded to the member during such leave and uncapped) irrespective of actual amounts paid to the member.

For the purposes of determining members' contributions, increases in Pensionable Salary and Shift Pay have been agreed, between members and the Employer, to be capped at 2% per annum. For the purposes of determining Employer contributions, it has been agreed that increases in Pensionable Salary and Shift Pay will not be capped.

Arrangements for other parties to make payments to the Scheme

Payments towards the Scheme may be paid by any participating Employer or any of their subsidiaries or any other party as agreed by LHR Airports Limited and the Trustee, in lieu of contributions otherwise due from LHR Airports Limited.

BAA Pension Scheme

Schedule of Contributions and Actuarial Certificate

SCHEDULE OF CONTRIBUTIONS
Page 4

Dates of review of this Schedule

This Schedule of Contributions will be reviewed by the Trustee and the Employer no later than 15 months after the effective date of each actuarial valuation, due every three years.

Employer and Trustee agreement

This Schedule of Contributions has been agreed by the Employer, LHR Airports Limited, and the Trustee of the BAA Pension Scheme.

Signed on behalf of LHR Airports
Limited

Name

JAVIER ECHAVE

Position

DIRECTOR

Date of signing

15/10/2019

Signed on behalf of the Trustee
of the BAA Pension Scheme

Name

PHILIP G. WILBRAHAM

Position

CHAIRMAN TRUSTEES

Date of signing

15/10/19

BAA Pension Scheme
Schedule of Contributions and Actuarial Certificate



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 2018 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 15 October 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.

Signature

Scheme Actuary

Chris Sheppard

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

15/10/2019

Name of employer
Address

Mercer Limited
 One Christchurch Way
 Woking
 Surrey
 GU21 6JG

BAA Pension Scheme Compliance Statement

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 Trustee's opinion is that there is no reason to believe this approval/registration may be prejudiced or withdrawn.

2. Employer Related Investments

The Scheme did not hold any direct investments in the Employer 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

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

**BAA Pension Scheme
Compliance Statement**

COMPLIANCE STATEMENT (continued)

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