



**The BAA Pension Scheme  
Report & Accounts  
for the year ended 30 September 2013**

**THE BAA PENSION SCHEME**

**Report and Accounts  
for the year ended 30 September 2013**

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

**BAA Pension Trust Ltd  
c/o Equiniti Paymaster  
Sutherland House  
Russell Way  
Crawley,  
West Sussex  
RH10 1UH  
T: 01293 604180**



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

\*Ms A Hurn  
(appointed 23 November 2013)

# Mr M Gorman  
(appointed 23 November 2013)

### **Independent Trustee**

\*+Mr M Chatterton (LDPTC)

\*+Mr J Nestor (LDPTC)

### **Secretary to the Trustee**

#\*+Mr A Knowles

+member of the Audit Committee

\* member of the Investment Committee

# member of the Administration Committee

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

## **ADVISERS**

<b>Actuary</b>	C Sheppard FIA, Mercer Limited
<b>Auditor</b>	Crowe Clark Whitehill LLP
<b>Administrators</b>	Equiniti Paymaster (formerly Xafinity Paymaster)
<b>Bankers</b>	Lloyds TSB
<b>Custodian</b>	JP Morgan Chase. Assets are held in the name of 'Chase Nominees'.
<b>Investment Managers</b>	BlackRock Investment Management (UK) Limited Baring Asset Management (appointed December 2013) BlueBay Asset Management LLP Brevan Howard Fund Ltd Lazard Asset Management Ltd M&G Asset Management (appointed December 2012) Rogge Investment Management Royal London Asset Management Ltd (until September 2013) Standard Life Investments Ltd (until January 2014) State Street Global Advisors Ltd Westwood Holdings Group (appointed November 2013)
<b>Investment Consultants</b>	Cardano
<b>Legal Adviser</b>	CMS Cameron McKenna LLP

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

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

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

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

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

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

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

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

### **Investment Committee**

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

### **Audit Committee**

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

### **Administration Committee**

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

### **Trustee Training**

All newly appointed Trustee Directors are required to attend suitable training. Subsequently, during their term of office or on reappointment, Trustee Directors are encouraged to identify their own training needs and attend appropriate courses. In addition a formal half day's training is organised every November.

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

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

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

On 28 February 2013 STAL was sold by a subsidiary of the Employer to MAG. Active members of the Scheme whose contracts of employment transferred to MAG could elect to transfer their accrued service benefits to a new, wholly independent scheme established by MAG.

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

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

During the year, the Trustee transferred the legacy Royal London Asset Management and Wellington government bond and derivative positions to Rogge.

The Trustee also appointed M&G to run a Long Lease Property mandate, the monies for which were sourced from the LIBOR+ portfolio and hedging assets with Rogge and cash available at JP Morgan. Approximately half of the £100m allocation was funded at the year-end.

The Trustee switched £75m of the SSgA Global Equity Fund assets to the SSgA Emerging Market Equity Fund, with £25m funded at each quarter end over a 9 month period from 30 September 2012.

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

### **(a) Investment Manager Changes**

The Trustee funded a £100m mandate with Westwood International Advisors in November 2013, using the proceeds from the SSgA Emerging Market holdings and a small portion of Lazard's global equity portfolio.

The Trustee agreed to replace one of their Macro Oriented fund managers, Standard Life, with Baring Asset Management at the end of 2013.

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

	<b>30 September 2013</b>	<b>30 September 2012</b>
(a) Active Members	4,887	6,146
(b) Pensioners		
Former Members	6,811	6,688
Dependants	1,698	1,696
(c) Deferred Pensioners	5,055	4,946
Total	<u>18,451</u>	<u>19,476</u>

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

The Trustee undertakes a full valuation every three years. This is in line with the requirement of the Pensions Act 2004 that there should be full valuations at intervals no greater than three years. A full valuation of the BAA Pension Scheme was carried out as at 30 September 2010 and determined a shortfall of £275m (equal to a funding level of 89%).

This was the second 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 has decided on a funding objective, including a set of actuarial assumptions, and agreed it with the Employer. This is set out in the Statement of Funding Principles.

The Trustee and Employer have agreed a Recovery Plan that sets out how the shortfall of £275m is to be addressed. Under the Recovery Plan, the Trustee and Employer have agreed that £24m p.a. will be paid for 9 years, from 1 January 2012 to 31 December 2020. 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, following the Scheme's next valuation as at 30 September 2013.

As a result of the 2010 valuation, the Trustee and Employer agreed that regular Employer contributions of £73.0m p.a. would be paid from 1 January 2012, in addition to the deficit reduction contributions of £24.0m p.a., to meet the cost of the future accrual of benefits. This total contribution of £97.0m p.a. was an increase from the £80.0m p.a. being paid prior to 1 January 2012.

Following the sales of Edinburgh and Stansted airports, and the subsequent bulk transfer of those active members employed at these airports, regular Employer contributions decreased to £70.1m with effect from 1 January 2013 and then to £63.1m p.a. with effect from November 2013. In addition, Employer deficit funding contributions have remained at £24.0m per annum.

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

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

Employees' and Employers' contributions are due monthly by the 19<sup>th</sup> day of the following month to which contributions relate. Contributions relating to benefit augmentations are due within one month of the later of the date granting of the augmentation and the date on which the Employer received details of the costs from the Trustee.

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

To satisfy the requirements of section 224 of the Pensions Act 2004, the Trustee will undertake the next full valuation of the Scheme as at 30 September 2013.



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

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of The Pensions Act 1995. The Fund Account shows in detail the financial development of the assets of the Scheme over the year to 30 September 2013.

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

	<b>Year to 30 September 2013 £'000</b>	<b>Year to 30 September 2012 £'000</b>
Income	143,840	120,128
Expenditure	(200,012)	(143,646)
Net withdrawals	(56,172)	(23,518)
Net return from investments	223,238	195,956
Net increase	167,066	172,438
Net assets at beginning of year	2,670,920	2,498,482
<b>Net assets at end of year</b>	<b>2,837,986</b>	<b>2,670,920</b>

## **7. PENSION INCREASES**

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

Both the "Plc Section" basis and the "Group Section" basis are determined in accordance with the relevant version of the Trust Deed and Rules (as amended) that applies to particular members. Under the version of the Rules in place as at 30 September 2013, pensions are increased with effect from 1 October in line with the proportionate increase in the Government's Index of Retail Prices during the year ending in the preceding August. For the Group Section basis only, increases are capped at 5% per year. Deferred pensions have increased in accordance with the Scheme's Trust Deed and Rules.

Pensions payable under the version of the Trust Deed and Rules that were in place as at 30 September 2013 were increased on 1 October 2012 by 3.3% for the Plc section and 3.3% for the Group section (in line with RPI for the year to August 2013). There were no discretionary increases.

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

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



## **9. TRUSTEE GOVERNANCE MATTERS**

### **Risk Management**

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

### **Pensions Act 2004**

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

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

## **10. SUMMARY FUNDING STATEMENT**

The Scheme provides members with an annual statement summarising the funding position under the Scheme. The statement for the year ended 30 September 2013 was sent to members in Spring 2014.

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

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

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

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

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report. Where breaches of the Scheme occur, the Trustee is required by law to consider making reports to the Pensions Regulator and the members.

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

The Trustee is responsible under pension legislation for ensuring that there is prepared, maintained and from time to time revised, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer, in accordance with the schedule of contributions.

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.

## BAA Pension Scheme Investment Report

### 1. INVESTMENT STRATEGY

There is a degree of delegation of responsibility for investment decisions. The investment strategy is agreed by the Trustee (or the Investment Committee) after taking appropriate advice. The day-to-day management of the Scheme's asset portfolio, which includes full discretion for stock selection, is the responsibility of the investment managers.

Over the course of the year, a number of changes were made to the strategy including the partial funding of the M&G property mandate and the removal of Royal London and Wellington legacy cash & high quality bond portfolios, as all positions were consolidated at Rogge under one Liability Driven Investment (LDI) mandate. During the year, the Scheme also took advantage of a rise in interest rates to increase the level of interest rate protection within this LDI mandate by c.10%.

Furthermore, Westwood were selected to manage a £100m emerging market equity mandate and Baring Asset Management were selected to replace Standard Life's macro oriented allocation.

The table below shows the Scheme's investment manager structure and strategic target asset allocations, as at 30 September 2013:

Equity 21.0%	Credit 20.0%	Property 4.0%	Macro Orientated 9.0%	LIBOR+ 22.0%	Cash & High Quality Bonds 24.0%
State Street Passive	BlackRock Global Screened Corporate Bond Fund	M & G Long Lease	Brevar Howard	Rogge Short-dated Credit Mandate	Rogge LDI
State Street Currency Hedge	BlackRock Credit Screened 5+ Strategy		Standard Life	Wellington LIBOR +	JPMorgan
Lazard	Bluebay Global High Yield Fund		Barings		
Westwood					

#### Notes

1. Cash and High Quality Bonds also includes the use of inflation and interest rate swaps and other capital efficient liability hedging strategies
2. Whilst there is a strategic allocation to Property of 4%, which is specifically allocated to Long Lease Property, as at 30 September 2013 the M&G allocation had not been fully drawn down by the manager
3. The £100m allocation to Westwood (from State Street and Lazard) took place in November 2013
4. The allocation with Standard Life was fully transferred to Barings in January 2014

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

## 2. ASSET ALLOCATION

The table below shows the Scheme's investment allocation as at 30 September 2013 versus last year's asset allocation and target strategic allocation:

	30 September 2013	30 September 2012	Target asset allocation
Equity	20.4%	20.0%	21.0%
Credit	18.6%	19.8%	20.0%
Property	1.7%	0.0%	4.0%
Macro Orientated	9.0%	9.2%	9.0%
LIBOR+	20.9%	23.5%	22.0%
Cash & High Quality Bonds*	29.4%	27.5%	24.0%

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

A Statement of Investment Principles (SIP), which reflects the Trustee's investment approach, has been produced and is periodically reviewed and updated. Since the year-end the SIP has been amended to reflect the Scheme's current investment objectives and strategy.

## 3. INVESTMENT PERFORMANCE

The table below shows the Scheme's return over various periods to 30 September 2013.

	1 Year	3 Years (p.a.)	5 Years (p.a.)
Scheme	8.6%	7.8%	6.0%
Change in value of liabilities*	9.2%	6.6%	8.7%

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

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

As at 30 September 2013, all of the investment managers were performing within acceptable tolerances of their individual objectives.

## 4. INVESTMENT MANAGER FEES

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

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

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

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

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

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

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

The Trustee's Statement of Investment Principles (SIP) sets out their policy on Responsible Ownership.

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

Signed on behalf of BAA Pension Trust Company Limited:



Director



Director

Date: 24 March 2014

**BAA Pension Scheme**  
**Fund Account for the year ended 30 September 2013**

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

We have audited the financial statements of the BAA Pension Scheme for the year ended 30 September 2013 which comprise the Fund Account, the Net Assets Statement and the related Notes set out on pages therein.

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

This report is made solely to the Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Trustees and auditors**

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

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

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

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

**Opinion**

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme for the year ended 30 September 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

**Crowe Clark Whitehill LLP**  
Statutory Auditor  
London

26 March 2014



**BAA Pension Scheme**  
**Fund Account for the year ended 30 September 2013**

	<b>Note</b>	<b>2013</b>	<b>2012</b>
		<b>£'000</b>	<b>£'000</b>
<b>Contributions and benefits</b>			
Contributions receivable	3	143,107	119,297
Transfers in	4	733	831
		<u>143,840</u>	<u>120,128</u>
Benefits payable	5	(91,369)	(85,677)
Payments to and on account of leavers	6	(105,701)	(55,459)
Administrative expenses	7	(2,942)	(2,510)
		<u>(200,012)</u>	<u>(143,646)</u>
<b>Net (deductions) from dealings with members</b>		<u>(56,172)</u>	<u>(23,518)</u>
<b>Return on investments</b>			
Net investment income	8	35,533	43,751
Investment management expenses	9	(5,448)	(5,327)
Change in market value of investments	10(a)	193,153	157,532
<b>Net returns on investments</b>		<u>223,238</u>	<u>195,956</u>
<b>Net increase in the Fund during the year</b>		<u>167,066</u>	<u>172,438</u>
<b>Net assets of the Scheme at the start of the year</b>		<u>2,670,920</u>	<u>2,498,482</u>
<b>Net assets of the Scheme at the end of the Year</b>		<u>2,837,986</u>	<u>2,670,920</u>

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



**BAA Pension Scheme**  
**Net Assets Statement as at 30 September 2013**

	Note	2013 £'000	2012 £'000
Investment assets	10(b)	3,192,209	3,063,679
Investment liabilities	10(c)	(297,170)	(367,585)
Net investments	10(a)	2,895,039	2,696,094
Current assets	11	49,384	29,303
Current liabilities	12	(106,437)	(54,477)
<b>Net assets of the Scheme at the year end</b>		<b>2,837,986</b>	<b>2,670,920</b>

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

The financial statements were approved by the Directors of BAA Pension Trust Company Ltd on 24 March 2014.

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

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

## **1. BASIS OF PREPARATION**

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

## **2. ACCOUNTING POLICIES**

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

### **a) Investments**

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

- Listed securities are valued at bid market values for the year ended 30 September 2013.
- Pooled investment vehicles are valued at the bid market values for the year ended 30 September 2013 for funds with bid/offer spreads, or a single price where there are no bid/offer spreads, as provided by the relevant fund managers on the last dealing day prior to the year-end date.
- The Macro Orientated Funds are valued at fair value either using a swinging single price or the net asset value at the year-end.
- Investments held in foreign currencies are valued as above and translated into sterling at the relevant spot rates ruling at the year-end date.
- Investments are included in the financial statements at fair value. In the absence of a liquid market for certain securities, these fair values may differ from their realisable value.

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

##### **Futures**

- Open futures contracts that are exchange traded are included in the net asset statement at market value. For future contracts that are assets, market value will be unrealised profit at the current bid quoted price of the contract for the year ended 30 September 2013. For futures contracts that are liabilities, market value will be the unrealised loss at the current offer quoted price of the contract for the year ended 30 September 2013.
- Amounts due from brokers are included within cash deposits and other investment balances and represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker.
- The amounts included in change in market value are the realised and unrealised gains or losses on open and closed futures contracts.

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

### **(iii) Swaps**

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

### **(iv) Options**

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

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

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

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

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

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

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

## **b) Contributions Receivable**

Contributions receivable are included on an accruals basis.

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

### **c) Investment Income**

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

### **d) Transfers in**

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

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

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

### **f) Expenses**

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

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

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**3. CONTRIBUTIONS RECEIVABLE**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Employer		
Normal - future service	70,831	74,776
Augmentations	4,556	2,834
Deficit funding	24,000	18,000
Other – Commutation Payment*	34,933	13,433
Member		
Normal	8,448	9,866
Additional Voluntary Contributions	77	72
Additional Contributions to purchase added years	262	316
	<u>143,107</u>	<u>119,297</u>

Augmentations were receivable during the year in respect of unreduced pensions, payable on redundancy. Future service cost contributions of £73.0m per annum were payable from 1 January 2012, reducing to £70.1m per annum from 1 January 2013. In addition, Employer deficit funding contributions of £24.0m per annum were paid in accordance with the Schedule of Contributions.

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

**4. TRANSFERS IN**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Individual transfers in from other schemes	<u>733</u>	<u>831</u>

**5. BENEFITS PAYABLE**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	78,866	75,102
Lump sum death benefits	848	871
Lump sum retirement benefits	11,650	9,704
Spouse's commutations	5	-
	<u>91,369</u>	<u>85,677</u>

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

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

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Refunds to members leaving service	4	6
Individual transfers out to other schemes	2,681	4,705
Group transfer out*	103,016	50,748
	<hr/> 105,701	<hr/> 55,459

\* During the year ended 30 September 2013 there was a bulk transfer of assets amounting to £103.0m in respect of past service liabilities to a new pension scheme established for Stansted Airport Ltd employees. During the year ended 30 September 2012 there was a bulk transfer of assets amounting to £50.7m in respect of past service liabilities to a new pension scheme established for Edinburgh Airport Ltd employees.

**7. ADMINISTRATIVE EXPENSES**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Actuarial fees	597	578
Legal and professional fees	405	260
Investment adviser fees	570	418
Independent Trustee fees	89	59
PPF levy	399	169
Audit fee	67	56
Scheme administration costs	815	970
	<hr/> 2,942	<hr/> 2,510

**8. NET INVESTMENT INCOME**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Income from fixed interest securities	28,854	33,228
Income from index-linked securities	5,278	5,218
Dividends from equities	7,677	7,606
Income from pooled investment vehicles	534	72
Interest on cash deposits	31	23
Interest receivable on swap contracts	7,513	2,762
Interest payable on swap contracts	(14,195)	(5,368)
Net interest on cash instruments	(229)	74
Income from stock lending	70	136
	<hr/> 35,533	<hr/> 43,751

Income from pooled investment vehicles relates to investment fee rebates.

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

**9. INVESTMENT MANAGEMENT EXPENSES**

	2013 £'000	2012 £'000
Administration, management and custody	5,448	5,327

Included within investment management expenses is irrecoverable VAT amounting to £736k.

**10. INVESTMENTS**

**10(a) Investment Movements Table**

	Value at 30 September 2012	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in Market Value	Value at 30 September 2013
	£'000	£'000	£'000	£'000	£'000
Fixed Interest & Index					
Linked Securities	1,389,981	1,210,773	(1,197,051)	7,781	1,411,484
Equities	328,870	23,856	(43,805)	39,900	348,821
Pooled Investment					
Vehicles	768,651	117,278	(86,276)	38,124	837,777
Derivative Contracts	308,547	279,495	(510,597)	106,957	184,402
AVC Investments	1,540	77	(232)	121	1,506
	<u>2,797,589</u>	<u>1,631,479</u>	<u>(1,837,961)</u>	<u>192,883</u>	<u>2,783,990</u>
Cash Deposits & Other					
Investment Balances	(101,495)			270	111,049
	<u>2,696,094</u>			<u>193,153</u>	<u>2,895,039</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.

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

Assets held with Lehman Brothers amounting to £5.9m for which recoverability is uncertain were written down to nil value in the previous years. The provision as at 30 September 2013 has been adjusted to £5.5m to reflect a partial settlement of £0.4m that was received by the Scheme after the year-end.



**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

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**10. INVESTMENTS (continued)**

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

	Note	2013 £'000	2012 £'000
<b>Fixed interest securities</b>			
UK Quoted – Public Sector		65,938	68,756
UK Quoted – Other		145,745	88,144
Overseas Quoted – Public Sector		48,108	25,216
Overseas Quoted – Other		578,836	669,787
		<b>838,627</b>	<b>851,903</b>
<b>Index Linked Securities</b>			
UK Quoted – Public Sector		572,857	538,078
		<b>572,857</b>	<b>538,078</b>
<b>Total Fixed Interest &amp; Index Linked Securities</b>		<b>1,411,484</b>	<b>1,389,981</b>
<b>Equities</b>			
UK Quoted		26,302	30,957
Overseas Quoted		322,519	297,913
		<b>348,821</b>	<b>328,870</b>
<b>Pooled Investment Vehicles</b>			
Overseas Managed Funds		837,777	768,651
		<b>837,777</b>	<b>768,651</b>

The investment managers of the pooled investment vehicles in which the Scheme has invested are registered in the UK, except for Brevan Howard which is registered in the Cayman Islands and Bluebay which is registered in Luxembourg.

**Derivative Contracts**

Futures	10(e)	343	758
Forward Foreign Exchange Contracts	10(f)	44,892	20,469
Swaps	10(g)	169,650	473,378
Options	10(h)	151	85
Bond Forwards	10(k)	293	28
		<b>215,329</b>	<b>494,718</b>
Totals carried forward		<b>2,813,411</b>	<b>2,982,220</b>

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

**10. INVESTMENTS (continued)**

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

	Note	2013 £'000	2012 £'000
Totals brought forward		<u>2,813,411</u>	<u>2,982,220</u>
<b>Cash Deposits and Other Investment Assets</b>			
Investment income receivable		12,438	12,666
Cash deposits and liquidity funds		349,254	42,524
Short term investments		670	-
Investment fee rebates receivable		-	121
Cash due from broker		4,928	3,915
Outstanding trades		10,002	20,693
		<u>377,292</u>	<u>79,919</u>
<b>AVC Investments</b>	10(d)	<u>1,506</u>	<u>1,540</u>
<b>Total Investment Assets</b>		<u>3,192,209</u>	<u>3,063,679</u>
 <b>10(c) <u>Investment Allocation – Liabilities</u></b>			
<b>Derivative contracts</b>			
Futures	10(e)	(2,182)	(826)
Forward Foreign Exchange Contracts	10(f)	(6,999)	(9,103)
Swaps	10(g)	(21,439)	(176,149)
Options	10(h)	(27)	(28)
Bond Forwards	10(k)	(280)	(65)
		<u>(30,927)</u>	<u>(186,171)</u>
<b>Other Investment Liabilities</b>			
Amounts payable under repurchase agreements	10(l)	(245,306)	(148,043)
Other		(3,576)	(3,231)
Outstanding trades		(17,361)	(30,140)
		<u>(266,243)</u>	<u>(181,414)</u>
<b>Total Investment Liabilities</b>		<u>(297,170)</u>	<u>(367,585)</u>
<b>Total Investments</b>	10(a)	<u>2,895,039</u>	<u>2,696,094</u>

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

	30 September 2013	
	£'000	%
JP Morgan Liquid Capital cash fund	314,589	11.09
BlackRock Global Screened Corporate Bond Fund	210,757	7.43
Standard Life Global absolute Return Strategic fund	142,644	5.03

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

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**10. INVESTMENTS (continued)**

**10(d) AVC Investments**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
Abbey National Bank	470	449
Equitable Life Insurance	206	189
Friends Provident	830	902
	<u>1,506</u>	<u>1,540</u>

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

**10(e) Futures**

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

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

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

<b>Investment Underlying Future</b>	<b>Economic Exposure Value (asset)</b>	<b>Economic Exposure Value (liability)</b>	<b>Market Value (asset)</b>	<b>Market Value (liability)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
UK Fixed Interest	41,778	(27,937)	21	(127)
Overseas Fixed Interest	50,542	(369,764)	322	(2,055)
<b>Total</b>	<u><b>92,320</b></u>	<u><b>(397,701)</b></u>	<u><b>343</b></u>	<u><b>(2,182)</b></u>

**Expiration**

Less than one year	72,510	(362,263)	322	(2,162)
More than one year	19,810	(35,438)	21	(20)
<b>Total 30 September 2013</b>	<u><b>92,320</b></u>	<u><b>(397,701)</b></u>	<u><b>343</b></u>	<u><b>(2,182)</b></u>
 30 September 2012	 <u>174,274</u>	 <u>(362,701)</u>	 <u>758</u>	 <u>(826)</u>

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

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

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

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

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

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

<b>Country of currency underlying forward foreign exchange contracts</b>	<b>Gross amount at inception (asset)  £'000</b>	<b>Gross amount at inception (liability)  £'000</b>	<b>Market Value (asset)  £'000</b>	<b>Market Value (liability)  £'000</b>
USA	323,655	(931,522)	28,241	(3,692)
Europe	82,332	(338,488)	7,632	(454)
Japan	2,054	(66,035)	2,806	(88)
Others	107,156	(213,498)	6,213	(2,765)
<b>Total 30 September 2013</b>			<b>44,892</b>	<b>(6,999)</b>
30 September 2012			20,469	(9,103)

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

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

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

Swap contracts in place as at 30 September 2013 are as follows:

<b>Expiration</b>	<b>Nominal Principal £'000</b>	<b>Market Value (asset) £'000</b>	<b>Market Value (liability) £'000</b>
Up to 2020	1,351,593	17,239	(13,726)
2021 to 2030	1,022,173	15,470	(4,336)
After 2030	1,313,015	136,941	(3,377)
<b>Total</b>	<b>3,686,781</b>	<b>169,650</b>	<b>(21,439)</b>

## 10. INVESTMENTS (continued)

### 10(g) Swaps (continued)

Types of swaps	Nominal Principal £'000	Market Value (asset) £'000	Market Value (liability) £'000
Interest rate	2,496,243	123,828	(8,641)
Inflation	753,339	33,149	(6,404)
Credit default	-	-	-
Total return	437,200	12,673	(6,394)
<b>Total 30 September 2013</b>	<b>3,686,782</b>	<b>169,650</b>	<b>(21,439)</b>
30 September 2012	3,372,778	473,378	(176,149)

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

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

### 10(h) Options

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

Investment underlying option Contract	Nominal amount of contract £'000	Market value (asset) £'000	Market value (liability) £'000
Overseas fixed Interest purchased - Puts	30,619	65	-
Overseas fixed interest purchased - Calls	5,124	86	-
Overseas fixed interest written - Calls	(5,041)	-	(27)
<b>Total 30 September 2013</b>	<b>30,702</b>	<b>151</b>	<b>(27)</b>
30 September 2012	18,765	85	(28)

The notional amount represents the value of underlying stocks subject to the option contracts. Included in options are swaptions with a value of £44,000 (2012: £25,000)

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

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**10(i) Collateral**

During the year collateral was received and pledged in respect of swaps, bond forward contracts and forward foreign exchange contracts. As at 30 September 2012 the collateral received/pledged was as follows:

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Collateral Received</b>		
Stock Equivalents	33,510	5,645
Cash Equivalents	128,162	360,279
	<u>161,672</u>	<u>365,924</u>
 <b>Collateral Pledged</b>	 <b>£'000</b>	 <b>£'000</b>
Stock Equivalents	(694)	(59,048)
Cash Equivalents	(12)	-
	<u>(706)</u>	<u>(59,048)</u>

**10(j) Stock Lending**

During the year the Fund lent some of its investments under a stock lending agreement. The titles to the investments that have been lent remain with the Fund and dividends paid during the year in respect of stock lent by the Fund are paid to the Fund. Collateral is received by the Fund in excess of the market value of the stock lent. At 30 September 2013 the position was as follows:

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Stock Lending</b>		
Fixed Interest	22,886	31,487
Equities	10,896	8,192
	<u>33,782</u>	<u>39,679</u>
 <b>Collateral</b>	 <b>£'000</b>	 <b>£'000</b>
Fixed Interest	8,471	7,368
Equities	6,329	3,450
Cash Equivalents	20,052	30,228
	<u>34,852</u>	<u>41,046</u>
	 <b>£'000</b>	 <b>£'000</b>
Income for the year (note 8)	<u>70</u>	<u>136</u>

**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

**10. INVESTMENTS (continued)**

**10(k) Bond Forward Contracts**

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

	Gross amount at inception (asset)	Gross amount at inception (liability)	Market value (asset)	Market value (liability)
	£'000	£'000	£'000	£'000
UK	5,310	(7,150)	89	(54)
Overseas	10,809	(23,946)	204	(226)
<b>Total 30 September 2013</b>	<b>16,119</b>	<b>(31,096)</b>	<b>293</b>	<b>(280)</b>
30 September 2012	13,669	(34,378)	28	(65)

**10(l) Repurchase Agreements**

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

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

The securities are included in the financial statements as assets of the Scheme at their market value. At 30 September 2013 the market value of securities sold under repurchase agreements was £247.2m (2012: £144.4m).

Cash received from counterparties in respect of the securities that have been sold is used by the investment manager to purchase additional securities to meet desired exposure levels. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Scheme's financial statements under other investment liabilities. At 30 September 2013 this amounted to £245.6m including accrued interest (2012: £148.0m).



**BAA Pension Scheme**  
**Notes for the Financial Statements for the year ended 30 September 2013**

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**11. CURRENT ASSETS**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Debtors</b>		
Contributions due from Heathrow Express Operating Company Ltd	-	1
Contributions due from the Principal Employer in respect of augmentations	3,052	1,235
Contributions due in respect of sale of Stansted/Edinburgh Airport	34,933	13,433
Prepayments	48	-
Due from HMRC – VAT	258	72
	<u>38,291</u>	<u>14,741</u>
<b>Cash balances:</b>		
Current Account	11,093	14,562
	<u>49,384</u>	<u>29,303</u>

The contributions due from the Principal Employer and Heathrow Express Operating Company Ltd at the year-end were received in accordance with the timescales set out in the Schedule of Contributions.

**12. CURRENT LIABILITIES**

	<b>2013</b>	<b>2012</b>
	<b>£'000</b>	<b>£'000</b>
<b>Creditors</b>		
PPF levy payable	(268)	(131)
Administration and investment management expenses	(1,492)	(1,816)
Due to HMRC	(1,042)	(1,006)
VAT owed to Principal Employer	-	(211)
State Scheme premiums payable	(9)	(15)
Benefits payable	(603)	(531)
Sundry creditors	-	(19)
Group transfer payable in respect of the sale of Stansted/Edinburgh Airports	(103,023)	(50,748)
	<u>(106,437)</u>	<u>(54,477)</u>

**13. RELATED PARTY TRANSACTIONS**

LHR Airports Ltd provides certain administration and other services to the Scheme. The costs of these services are recharged to the Scheme and are included within administrative expenses disclosed in Note 7. During the year these costs amounted to £120,000 (2012: £120,000).

LHR Airports Ltd is responsible for certain discretionary payments of pension benefits. The actual payment of these amounts is made by the Scheme and reimbursed by LHR Airports Ltd. During the year such payments amounted to £963,517 (2012: £936,814). Apart from the above, and transactions and balances with the Principal Employer shown in the Financial Statements and notes thereto, there were no other related party transactions.

**14. CAPITAL COMMITMENTS**

At the year-end the Scheme had undrawn commitments to the M&G Secured Property Income Fund of £65.9m (2012: nil) and the Westwood Emerging Markets Fund of £100m (2012: nil).

## **BAA Pension Scheme Summary of Contributions**

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

We have examined the summary of contributions payable to the BAA Pension Scheme for the year ended 30 September 2013 which is set out on page 30.

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

### **Respective responsibilities of Trustees and auditors**

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

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

### **Scope of work on Statement of Contributions**

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

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

Except for the contributions paid to the Scheme after the due date as detailed on page 30, in our opinion contributions for the Scheme year ended 30 September 2013 as reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 21 December 2011.

**Crowe Clark Whitehill LLP**  
Statutory Auditor  
London

Date: 26 March 2014

**BAA Pension Scheme  
Summary of Contributions**

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**TRUSTEE'S SUMMARY OF CONTRIBUTIONS PAYABLE DURING THE SCHEME YEAR  
ENDED 30 SEPTEMBER 2013**

Contributions payable to the Scheme in accordance with the Schedules of Contributions in respect of the year ended 30 September 2013 were as follows:

	<b>2013 £'000</b>
Employer normal contributions	70,831
Employer deficit funding contributions	24,000
Employer augmentations	4,556
Member normal contributions	8,448
Total contributions paid under the Schedule of Contributions	<u>107,835</u>
Employer other contributions in respect of the sale of Stansted Airport	34,933
Member additional voluntary contributions	77
Member additional contributions to purchase added years	262
Contributions disclosed in the financial statements	<u><u>143,107</u></u>

Employer contributions in respect of augmentations amounting to £2,828,159 for the quarter ended 30 June 2013 were due to be paid to the Scheme under the Schedule of Contributions by 18 July 2013 (within one month of the Employer being notified of the amount due), but were not received until 19 November 2013.

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

For and on behalf of the BAA Pension Trust Company Limited

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

Date: 24 March 2014

## CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

**Name of Scheme**

BAA Pension Scheme

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 September 2010 to be met by the end of the period specified in the recovery plan.

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

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

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

**Signature**

**Scheme Actuary**

Chris Sheppard

**Qualification**

Fellow of the Institute and Faculty of Actuaries

**Date of signing**

21.12.2011

**Name of Employer**

Mercer Limited

**Address**

Riverside Court  
Guildford Road  
Leatherhead  
Surrey KT22 9DF

## **COMPLIANCE STATEMENT**

### **1. Tax Status**

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

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

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

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

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

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

### **4. Complaints**

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

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

11 Belgrave Road  
London

SW1V 1RB

Tel: 0845 601 2923

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

**COMPLIANCE STATEMENT (continued)**

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

11 Belgrave Road  
London  
SW1V 1RB  
Tel: 0207 834 9144  
[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

**5. The Pensions Regulator**

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

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW  
Tel: 0870 6063636  
[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)