BAA

Focus

The BAA Pension Scheme Newsletter

Summer 2008

In this issue

Chairman's introduction

This edition of Focus reports on the Scheme year ending on 30th September 2007. This edition is being issued later in the year than in previous years as we have been waiting for the outcome of the Company's discussions with the Unions regarding the closure of the Scheme to new members and an opportunity to update you on the Refinancing Proposals.

Scheme closure to new members

Since the end of the Scheme year, with effect from 16th June 2008 the Scheme was closed to new members. The Trust Deed & Rules will now be updated to reflect the Company's commitment to make no change to the current arrangements for the provision of Final Salary benefits for at least six years, and this commitment will be extended for a further six years so long as the Scheme deficit remains below £250 million (calculated on the methodology agreed between the Trustees and the Company as part of the normal valuation process). The Company has also stated it has no plans to change the Scheme even after the 12 year commitment period.

The changes to investments

The changes to investments implemented during the year have reduced the risk in the Scheme, which should provide improved security for the benefit of all members.

Refinancing of BAA's debt

You may also remember that, at the time of BAA's takeover by the ADI Consortium, the Trustees negotiated a £300 million security package for the Scheme as part of the purchase agreement.

This edition of Focus reports on the Scheme year ending on 30th September 2007.

Recently, BAA Ltd has been trying to re-finance its debt (raise new money/arrange additional loans at a better interest rate to pay off the existing debt). The pension scheme is an important part of this refinancing because of the security and Company contribution rates agreed at the time of the takeover. So the Trustees have been discussing the proposals with the Company and have reached an agreement that will further improve the security of your benefits following the refinancing.

Your new member-nominated Trustee

We have recently completed the election process for a new member-nominated Trustee and Dean Tully has recently joined the Trustee Board. There will be further elections later this year. To help you understand more about the Trustees' roles and responsibilities in relation to the Scheme, we have included additional information in this newsletter.

Focus is your newsletter, designed to update you on the Scheme's progress and help you understand any issues faced by the Trustees and their advisers. So, if you have any comments or questions, please let us know by writing to BAA Pensions, Saxley Court, 121-129 Victoria Road, Horley, Surrey RH6 7AS or you can email **pensions@baa.com.**

Stuart Condie
Chairman
On behalf of the Trustees of the BAA Pension Scheme

Representing *your* interests

Pensions have become one of the hottest topics in current affairs, with politicians, pundits and interested parties from all sides debating the way forward for UK retirement provision.

As a member of the BAA Pension Scheme, you may not have much influence on the pensions world in general, but you can get involved in the running of your Scheme by becoming a Member Nominated Trustee.

The BAA Pension Scheme is run by BAA Pension Trust Company, which is quite separate from BAA Ltd. Once contributions have been paid into the Scheme by BAA, they are legally 'owned' by the trust company and are held entirely separately from BAA's funds. The directors of the trust company – the Trustees – are responsible for managing the Scheme, investing the contributions and ensuring the Scheme is run in a professional and business-like manner, keeping pace with the latest thinking and industry best practice. They have an obligation to act honestly and prudently, representing the interests of members of the Scheme.

By Law, at least one-third of the Trustees must be nominated by contributing/employed members and pensioners and the remainder are appointed by the Company. In the case of the BAA Scheme, 50% of the Trustees are currently nominated by you, the members, giving you an even greater say. The Company has also appointed an Independent Trustee, who brings a wealth of specialist knowledge, skills and experience to the trustee board.

Your Trustees

Member-Nominated Trustees are voted for by members to serve a three-year term. The election for a new Member-Nominated Trustee for Scotland is underway and the new Trustee will be appointed from 1st October 2008. Further elections will need to be held as another two of the Member-Nominated Trustees complete their three-year term at the end of March 2009.

10 Things that Trustees are expected to do:

For many people the term ‘Trustee’ conjures up an image of worthy, if rather dull, committee types doing good work in a well meaning but rather amateurish way. But, if there was ever any truth to that particular stereotype, those days have long gone. Nowadays a pension fund is ‘big business’ and being one of the Trustees responsible for running a pension scheme is a serious and demanding job, and getting more so almost day by day. Ten of the key roles and responsibilities of trustees are detailed alongside.

1. Make themselves familiar with the scheme rules and its investments.
2. Carry out their duties as conscientious, honest and prudent people would in dealing with their own affairs.
3. Act at all times in the best interests of all scheme beneficiaries.
4. Represent the interests of all members (employed, deferred and pensioners).
5. Not delegate their duties (except where specifically permitted by law or allowed by the scheme rules).
6. Seek expert advice in areas where this is appropriate or required by law (trustees are not expected to be experts in all aspects of running a scheme).
7. Take steps to collect all money owing to the scheme.
8. Hold the scheme’s assets for the benefit of its beneficiaries and not pay benefits to other persons.
9. Record the transactions and proceedings of the scheme and keep proper accounts of the scheme.
10. Communicate with members, including providing a minimum level of information as required by law.

The Trustees are not expected to be experts in everything they have responsibility for, so they seek professional advice to help them. Details of the appointed professional advisers are shown below:

Actuarial Advisers and Investment Consultants	Mercer Limited
Scheme Actuary	Mr C Sheppard of Mercer Limited
Solicitors	CMS Cameron McKenna LLP
Auditors	Mazars LLP, Chartered Accountants
Bankers	Barclays Bank Plc
Custodian	JP Morgan Chase
Investment Managers	Lazard Asset Management Ltd State Street Global Advisors (SSgA) Capital International Ltd Goldman Sachs Asset Management Ltd (removed 31st January 2008 and assets transferred to SSgA) Aberdeen Asset Management Rogge Investment Management Royal London Asset Management
Investment Performance Measurement	The WM Company

Investing the Scheme's assets

At 30th September 2007 the Scheme held the following investments:

Assets	£m	%
Bonds	1,317.2	60
Global equities	881	40

Bonds – loans to a company or government for a set period of time in return for a fixed rate of interest.

Equities – company shares quoted on stock exchanges around the world. If they are sold for more money than they cost to buy, a profit is made. Equities can also make payments to their owner called a dividend.

As we confirmed in last year's Focus, the proportion of the Scheme's assets invested in equities was reduced to 40% following the change in ownership of BAA, with a corresponding increase made to the amount invested in bonds.

A further change was made to the Statement of Investment Principles in June 2007, detailing how this incresed bond allocation should be managed with the aim of reducing the impact of fluctuations in the market on the funding of the Scheme. Under the new approach, all equities are to be managed on a 'global basis'. As a result, the Scheme switched its investments from UBS Global Asset Management and Fidelity Pensions Management Limited who had UK-specific mandates, and appointed Lazard Asset Management to run a global mandate alongside Capital International. In addition, State Street Global Advisors were required to change the way they invest the Scheme's assets. Finally, three new managers – Aberdeen Fund Management, Royal London Asset Management and Rogge Global Partners – were appointed to invest in bonds for the Scheme.

The table below shows the different investment managers as at 30th September 2007, and the sort of investments that each manager

Investment Manager	Mandate
Aberdeen Fund Management	Bonds and swap overlay
Capital International	Global equities
Goldman Sachs Asset Management	Currency management
Lazard Asset Management	Global equities
Rogge Global Partners	Bonds
Royal London Asset Management	Bonds
State Street Global Advisors	Global equities (incl. UK) derivatives & swaps

Since 30th September 2007, the Trustee has removed Goldman Sachs Asset Management as the Scheme's active and passive currency manager. The passive currency hedging is now carried out by one of the Scheme's other asset managers, State Street Global Advisors. The assets that were being used to actively manage currencies are currently being held in cash with the custodian whilst a review of alternatives is being carried out.

Markets & performance

Looking back – the year to 30th September 2007

All major equity markets produced strong returns over the twelve month period to 30th September 2007, with the exception of the Japanese equity market. In the UK, the FTSE All-Share Index returned 12.2% over the year. Of the major markets, Asia Pacific (ex-Japan) provided the highest returns over the year, returning 40.3%. Bonds and gilts had mixed results. UK bonds and gilts generally produced positive returns while overseas bonds provided negative returns over the year.

The Scheme's investments increased in value by 13.2%, in line with the scheme-specific target (benchmark) return, resulting in an average annual return of 14.1% over 5 years. In last year's report we said that the outlook for the next 12 months depended largely on movements in interest rates and inflation. These have indeed been key with rates rising in all developed economies. This resulted in falls in most major investment markets, with volatility increasing markedly. As explained below, this volatility has continued since 30th September 2007 with particular concerns about the stability of global finanical institutions, the 'credit crunch'.

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Markets & performance continued...

Investment markets since 30th September 2007

It will not have escaped your attention that the financial markets have been in turmoil over the past few months. The financial figures shown in this publication relate to the Scheme's position at the end of September but most of the market problems started later. So what has happened and how is the Scheme affected?

The first signs of market turmoil appeared as problems with sub-prime mortgage debt in the US started to surface. These mortgages had been packaged and sold in "bond" form that appeared to offer additional yield with the security of asset backing and investment grade status from credit rating agencies. A number of structured products based on sub-prime mortgages and other lower quality debt were both highly geared and difficult to value but had attracted investment from a wide range of financial institutions.

Exposure was surprisingly widespread. Small regional banks in as diverse locations as Germany and Australia were discovered to have been heavily exposed to the sub-prime market. Credit conditions began to tighten, and interbank lending rates became very volatile, as concerns about the strength of counterparties' balance sheets began to circulate. This resulted in the run on Northern Rock, and its rescue by the government.

The uncertainty caused by these events caused investors across the world to move their assets to investments that are regarded as "safe", such as government bonds. Consequently, equity and corporate bond markets have generally had negative returns since 30th September 2007 while government bond markets have had positive returns.

How does the Scheme's investment performance affect you?

The fixed contributions you pay into the Scheme go towards the cost of your benefits with the Company paying the balance. All these contributions are paid into a fund within the Scheme which is held and invested by the Trustees with the aim of gaining sufficient investment returns to pay for the benefits earned by members.

Investment performance is just one of the factors which has an impact on the contributions from the Company required to pay members' benefits. However, if investment performance is poor, then the Scheme may not have sufficient assets to pay for the benefits earned by members (known as a 'deficit') and the Trustees may need to ask the Company to pay higher contributions. The volatility of stockmarkets in recent years is one of the key factors that have led to the majority of final salary pension schemes falling into deficit.

As agreed with the ADI Consortium as part of the acquisition of BAA, and outlined in the last edition of Focus, revisions were made to the Statement of Investment Principles (which details how the Scheme is invested) with the aim of reducing the key financial risks of the Scheme. This change has already been a positive one for the Scheme, as it means that the credit crunch has had less of an impact on the Scheme than it would have done otherwise. Closing the Scheme to new members will also reduce the risks to your benefits and enable further switching to safer less volatile investments.

Full valuations (financial assessments) of the Scheme are carried out every three years with interim annual reviews, so that the Company and the Trustees can make sure that the value of the Scheme's assets and contributions paid in keep pace with the cost of members' benefits. The latest full valuation (as at 30th September 2007) is being worked on at present and the results if finalised by then will be included in your annual Summary Funding Statement – to be issued in September 2008.

Retirement planning takes forward thinking

No-one likes to think they will not have enough money to enjoy their retirement. So, when planning your retirement there are several key questions you need to ask yourself.

What is your target pension?
How much money do you think you'll need for a comfortable retirement? What's the minimum income you'll require to enable you to do all the things you'd like to do?

While you'll probably save on certain items, such as the cost of travelling to work, and you may have paid off your mortgage, you'll still have bills to pay and you need to bear in mind the effects of inflation – the rising costs of goods and services will have an impact on the purchasing power of your savings over time.

At what age do you want to retire?
You may be thinking about retiring early but you need to remember that the earlier you retire the lower your pension is likely to be. This is because, as your pension is likely to be paid for longer, each monthly payment is lower to help balance out the longer payment period.

Will you earn any income during retirement?
You may decide to take on some part-time work and the money you earn will help boost your monthly retirement income.

Remember, it's never too early to start planning for your retirement.

Your company pension may not be your only source of pension income. You should look at the latest statements and illustrations of all your possible pensions, as well as other long-term savings and investments you may have.

The State pension is unlikely to give you enough to live on in retirement, but it will be an extra contribution to your finances. You can usually ask for a forecast of your likely State benefits by completing form BR19 available at your local Social Security office or by applying online at: **http://www.thepensionservice.gov.uk/atoz/atozdetailed/rpforecast.asp**

Please note: due to reorganisation within the Pension Service, the forecasting service is unlikely to be available until later this year. We'll give you further news when we can.

What impact will retirement have on your family?
Once you've retired your dependants will lose the lump sum life assurance cover payable from the Scheme should you die in the Company's service before you retire. However, pensions will be paid to your spouse or partner and children if you die during retirement.

Protection for your family

Nobody likes to dwell too long on the subject of death, but if the worst does happen it's good to know that your family and dependants will be financially secure.

The Scheme provides a package of benefits designed to help provide financial security for your dependants in the event of your death. So, it is worth spending a little time reviewing the Scheme booklet to make sure both you and your dependants understand the circumstances in which benefits are payable. This could save a lot of confusion and misunderstanding at a difficult time.

In summary, if you die as a member of the Scheme:

- your spouse or registered civil partner will receive a pension, payable for the rest of his or her life. If you are not married, the Trustees have the discretion to pay the pension to a dependant;
- if you are still employed by the Company, your dependants will normally receive a cash lump sum. To avoid inheritance tax, the lump sum is payable at the Trustees' discretion. This means they have the final say over who receives the lump sum. Normally they will follow your wishes provided they have been notified of them beforehand.

Express your wishes

It's important that you let the Trustees know your wishes. You can do this by completing an Expression of Wish form. The form is used to indicate to the Trustees who you would like to receive any lump sum or dependant's pension payable. It's particularly important that you complete a form if you don't have a spouse but do have someone living with you and who is financially dependent on you. The Trustees will take this into account in their decision making process.

Remember also to keep your form up to date if your circumstances change – for example, if you get married or have children.

Expression of Wish forms are available on request from the Pensions Department.

Technology rules...ok

These days, hand-written letters and hard copy files have given way to emails and computer records. Much of the information held about us from credit card details to telephone bills and even pension scheme rights – is kept on computer. We'd all like to think this modern way of storing data is 100% safe and reliable but, as one large well-known retailer found to its cost, computers can go missing.

You may remember hearing about the problems that one company had when one of its laptops was stolen. Unfortunately the laptop held the personal details of many of the company's employees who, naturally enough, were concerned about who might have access to their private information and what they might use it for.

And then we had the loss of HM Revenue & Customs (HMRC) computer discs containing the child benefit records of millions of claimants. Apparently proper security procedures weren't followed.

In February this year, an MOD laptop was stolen that contained personal details of 600,000 recruits and potential recruits, including their passport numbers, National Insurance numbers and bank details.

What about our Scheme?

To administer the Scheme efficiently, the Trustees need to hold information about you and your entitlements. Without this information we may not be able to make sure you and your family get the benefits you're entitled to when payment time comes.

All the information we collect from you is kept fully secure and is only released to others who need to use it for valid reasons, such as:

- our pensions administrators – who set up your pension;
- future employers – when you change jobs.

Holding sensitive information about you

As Trustees, we are registered under the Data Protection Act 1998. This Act treats personal information as 'sensitive' which means that it can't be disclosed to anyone not authorised to have it. We can only disclose personal data we hold on our records to other authorised parties.

By 'sensitive information' we mean things like:

- your age and date of birth;
- whether you are married or in a civil partnership;
- your salary information;
- your National Insurance number.

How we aim to protect your data

To minimise the risk of loss, theft or unauthorised access of your personal details and individual records, software security systems are in place to prevent anyone hacking into systems from outside the Company and all BAA computers and laptops have secure password protection.

Introducing the BAA Pension Scheme website

The Trustees are currently developing an internet site for the Scheme, which members and pensioners will be able to access to find out the latest information about the Scheme including:

- up-to-date news about your pension scheme;
- Scheme facts & figures;
- the latest edition of Focus;
- copies of the pension Scheme booklets;
- copies of the Expression of Wish form and Added Years form that you can print, complete and return should you wish to make changes.

The site is scheduled for launch towards the end of 2008 and we will be in touch with you with further details and information as to how to access the site in the run up to the launch.

Figuring it out

Financial highlights as at 30th September 2007

Income	(£000s)
Contributions from members	£15,466
Contributions from Company	£70,717
Transfers in	£4,992
Investment income	£64,281
Total	**£155,456**

Spending	(£000s)
Pensions	£51,233
Payments for leavers	£2,909
Lump sums (on retirement or death)	£28,714
Admin expenses and fees	£8,849
Total	**£91,705**

What it's all worth	(£000s)
Value of Scheme assets as at 30th September 2006	£2,087,456
Income – spending	£63,751
Change in market value of assets	£46,378
Value of Scheme as at 30th September 2007	**£2,197,585**

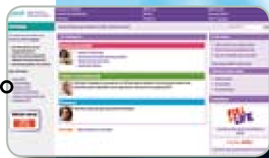
Membership at 30th September 2007

Active members	Pensioners	Deferred members
9,510 = 47.1%	7,140 = 35.3%	3,554 = 17.6%

Take a walk on the webside

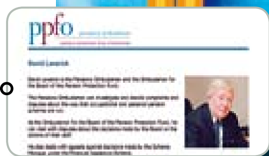
You can get useful information about pensions and retirement planning from the following websites:

www.dwp.gov.uk – for government initiatives and information about retirement and pension benefits.



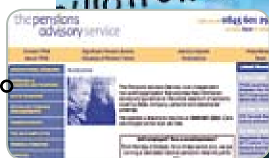
www.pensionsadvisoryservice.org.uk – the website for The Pensions Advisory Service (TPAS); contains free help and advice about all types of pension arrangement.

www.pensions-ombudsman.org.uk – the Ombudsman investigates complaints and disputes that scheme members cannot resolve with their trustees.



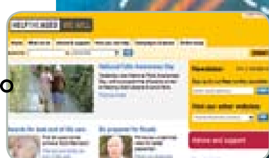
www.thepensionsregulator.gov.uk – the site of the regulator of work-based pension schemes in the UK.

www.thepensionservice.gov.uk – visit this site for all you ever wanted to know about the State scheme. You can also get help finding pension schemes you have belonged to in the past, through the Pension Tracing Service.



www.ageconcern.org.uk – a useful website for those who have retired; contains all sorts of information and opportunities.

www.helptheaged.org.uk – with advice on finances, healthcare, age discrimination issues and a free telephone helpline, this is another website dedicated to the needs of those who have retired.



www.ifap.org.uk – use this site to find a local Independent Financial Adviser.

A note for pensioners and deferred members:

Closing the Scheme – what does it mean for me?

As detailed in the Chairman's introduction, the Scheme has now been closed to new members. While the Company discussed this proposal with Unions and current employees, as a deferred member or pensioner, you were not involved in the Company's consultation.

We would like to reassure you that closing the Scheme to new members will have no impact on the benefits paid to anyone who is currently a member or pensioner of the Scheme. The pensions paid to current pensioners are not paid for by contributing members of the Scheme. When you were employed you and the Company contributed to the Scheme with the aim of building up enough money to pay your pension in retirement. If there is insufficient money to pay for the pensions that have been promised (for example as a result of falls in stockmarkets) the Company has to meet the additional cost.

The Trustees' powers have not been changed as a result of the Scheme closure and the Trustees will continue to take whatever action is appropriate, in both the short and the longer term, to maintain the security of your pension benefits. In the light of the Scheme closure, the Trustees are currently reviewing the investment strategy and considering any impact in relation to the actuarial valuation as at 30th September 2007, which is currently underway.

Any questions?

If you would like to find out more about anything covered in this issue, or have any questions about your individual benefits, you should contact the Pensions Team.

The Pensions Team can also supply you with copies of any of the Scheme's official documents (for example, the Report and Accounts, Statement of Investment Principles or Trust Deed and Rules).

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