

**THE PILKINGTON SUPERANNUATION SCHEME**

**ANNUAL REPORT – YEAR ENDED 31 DECEMBER**  
**2014**

# THE PILKINGTON SUPERANNUATION SCHEME

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## 1. Trustee and Advisers

**Trustee Company** Pilkington Brothers Superannuation Trustee Limited ('the Trustee')

**Registered Office** Prescott Road, St. Helens, Merseyside WA10 3TT

The Trustee is not a subsidiary of the Principal Employer (see below) or any of its subsidiaries. The shares in the Trustee are registered in the names of various directors of the Trustee.

In accordance with the provisions of paragraph 1(1)(a) of Schedule 36 of the Finance Act 2004, the Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004. Its Pension Scheme Tax Reference number is 00274753RW and Pension Schemes Registry number is 10110999.

The Principal Employer ("the Company") is Pilkington Group Limited.

At 31 December 2014 the Allied Companies with employees contributing to the Scheme were:-

Pilkington Automotive Limited  
Pilkington Retirement Services Limited  
Pilkington Technology Management Limited  
Pilkington United Kingdom Limited  
Waterside Training Limited

There are 14 Directors on the Board of the Trustee Company. The Chairman, Keith Greenfield, having been a Director since 2012 assumed the Chairmanship on 1 January 2014. The Employer Directors elected an independent trustee, BESTrustees (represented at meetings or Committees of the Board by Peter Thompson or Rachel Tranter), as an Employer Director with effect from 1 January 2014 and elected Phil Wilkinson as an Employer Director with effect from 25 March 2014.

Overall there are 7 Employer Directors and 7 Employee Directors, the latter being elected by the membership – 4 by the active members and 3 by the pensioner members.

### **Directors of the Trustee (as at 31 December 2014):**

#### **Employer Directors**

R.E.K. Greenfield (Chairman) 2  
S.M. Gange\*1  
R.P. Hemingway\* 1  
B.J. Kay^2  
J. McKenna\* 1  
P. Wilkinson ^2  
BESTrustees 2

#### **Employee Directors**

##### **Directors elected by active members**

N.J. Ellison 2  
D.P. Gilchrist 2  
J. Mafi 1  
K.W. McKenna 1,2

##### **Directors elected by pensioner members**

S.J. Beesley\* 1  
D. Corf\* 1  
G. Sayers\* 2

#### **Secretary to the Trustee Company**

J.P. Halligan

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The Directors asterisked are in receipt of pensions from the Scheme calculated in accordance with the Rules. All the Employee Directors elected by the active members and the Employer Directors marked ^ are contributors accruing pension in accordance with the Scheme Rules.

The suffix '1' denotes the Director was a member of the Audit and Risk Committee; and '2' a member of the Investment Committee, in each case at the year end. Any two or more Directors (being at least one Employer and one Employee) can constitute an Ill Health or Death Benefit Committee.

The Trustee's Articles of Association provide that the Trustee Board is to comprise Employer Directors and Employee Directors, with the latter to include those nominated and if necessary elected by each of the Active member and Pensioner member constituencies. Employer Directors are elected by the existing Employer Directors and there are no provisions for removal.

## **Changes to the Board**

There have been no changes to the Board during 2014 save as mentioned above.

**Consulting Actuaries** Aon Hewitt Limited

**Scheme Actuary** J. Curtis FIA of Aon Hewitt Limited

**Investment Consultant** Towers Watson Limited

**Investment Managers** State Street Global Advisors Limited  
Rogge Global Partners plc (until 18 December 2014)  
PIMCO Global Advisors (Ireland) Limited (until  
11 December 2014)  
CBRE Global Collective Investors UK Limited  
Legal & General Assurance (Pensions Management) Limited  
Henderson Global Investors Limited  
Nephila Capital Limited  
Insight Investment Management (Global) Limited

**Investment Adviser** H. Smart

**Financial Advisers** Gazelle Corporate Finance Limited

**Legal Advisers** Hogan Lovells International LLP

**Independent Auditors** PricewaterhouseCoopers LLP

**Bankers** National Westminster Bank plc

**Custodian** J P Morgan Chase Bank

**Administration** Group Pensions Department, Pilkington Group Limited

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**Enquiries** about the Scheme should be addressed to:

Group Pensions Department  
Pilkington Group Limited  
Prescot Road  
St Helens, WA10 3TT      Fax 01744 737336

or by email to: [Pensions.Administration@nsg.com](mailto:Pensions.Administration@nsg.com)

## **Board and Sub-Committee Activity**

The Trustee Board met five times during 2014. The attendance of Directors at Board and Committee meetings is registered. All Directors attended the five Board meetings except Mrs. Mafi, and Messrs. Gilchrist, Kay and K. McKenna who each attended four of the five.

The year saw a rationalising of the number of investment managers employed by the Trustee and a reduction in the allocation of the Scheme's assets to corporate bonds. The level of liability hedging was broadly maintained at around 81-84% to try to insulate the Scheme against a large proportion of the volatility associated with interest rates and inflation.

The Trustee continues to monitor the Employer covenant closely. The Company senior management present the annual and half-year results of the NSG Group and of NSG UK Enterprises Limited, the UK holding company, to the Trustee Board to assist the Board and Gazelle Corporate Finance Limited in the assessment of the covenant.

The Audit and Risk Committee met four times in 2014 with its primary concerns being risk management for the Scheme through the application of the Governance Policy and the monitoring and review of the Risk Register. It was also responsible for the completion of the Annual Report and Accounts and its submission to the Board for approval in timely fashion to enable a revised s179 valuation of the Scheme to be completed by 31 March 2014. The completion and submission of this valuation secured a reduction in the levy payable to the Pension Protection Fund. In addition the Audit and Risk Committee approved the reports from Group Internal Audit and from the external auditors, PricewaterhouseCoopers ('PwC'). The Audit and Risk Committee also fully reviews and, where appropriate, revises the Audit Plan, the Risk Review Profile and the Business Continuity Plan and reports its conclusions to the Trustee Board.

During 2014 this Committee, together with the Company's Group Internal Audit, PwC and Group Pensions Department, began the process of risk mapping to underpin the Risk Register and enable the Trustee to more efficiently monitor the effectiveness of the assurance controls.

The Investment Committee met on four occasions during 2014 to review and monitor investment performance and to consider the appropriate implementation of the de-risking policy which is in place. In addition there was one day during which the whole Board had the opportunity to meet representatives from each of the active fund managers and the liability hedging manager who are responsible for the investments of the Scheme. This year, the Board also heard a presentation from its Custodian, JPMorgan Chase Bank, which outlined the procedures

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undertaken by them to secure the Scheme's assets. It gave the Board the opportunity to interrogate the robustness of the processes employed to ensure security for the assets.

The Trustee Board's Ill Health Committee met four times in 2014. The Death Benefit Committee did not meet as there was no requirement for it.

Following the Budget in 2014 in which the Chancellor announced proposals to change radically the options available for members of defined contribution pension schemes, a working party of representatives of the Trustee Board and the Company was established to consider the potential impact of the proposals on PSS. This joint working party met twice and the respective actuarial advisers of the Trustee and the Company were present. Ultimately it was decided to write to members who would potentially be affected explaining very broadly the proposals and the possible options which they may afford to the member. The Administration team have been monitoring and continue to monitor whether there has been or is any discernible change in behaviour of members in respect of trivial commutation or transfers which are the main areas of concern for the Trustee. To date the proposals have had little if any impact on Pilkington Superannuation Scheme ('PSS').

In the later part of the year, the Trustee established a Valuation Committee which is authorised to negotiate with the Company about the valuation due as at 31 December 2014. Training has been given to the whole Board about the valuation process and about the assumptions and relative sensitivities of these to the outcome.

The Trustee Board undergoes training on a regular basis. In addition, Trustee Directors are requested and encouraged to complete the Pension Regulator's online training. During 2014 the sessions before the Board meetings covered death benefits and calculations from different member status; Legal update; Disregard; Employer Covenant; Valuation Process; Revaluation and Swaps. In addition, an aspect of the administration of the Scheme's benefits is explained in detail to the Board as part of the pre-meeting training to increase understanding of the calculations and processes of the administrators. A programme of training has been proposed for 2015 with further additional training available on request.

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### 2. Membership

	Active	Deferred	Member Pensioners	Dependent Pensioners
31 December 2013	1,248	3,160	8,180	2,939
Adjustments	-	(1)	(8)	(39)
	<u>1,248</u>	<u>3,159</u>	<u>8,172</u>	<u>2,900</u>
Deaths	-	(8)	(300)	(190)
Dependent Child ceased	-	-	-	(1)
Serious ill health commutation	-	-	(1)	-
Retirements/New Dependents	(54)	(82)	136	152
No further liability e.g. CETV	-	(24)	-	-
Members leaving pensionable service prior to retirement	(121)	121	-	-
31 December 2014	<u>1,073</u>	<u>3,166</u>	<u>8,007</u>	<u>2,861</u>

The high number of adjustments to the membership as at 31 December 2013 is due to the removal of records relating to pensioners of other schemes who are paid through the PSS payroll.

### 3. Deeds Executed During 2014

An updated Trust Deed and Rules was executed on 18 December 2013. The first Amending Deed was executed on 3 June 2014. This covered the provisions of the Marriage (Same Sex Couples) Act 2013 and also a refinement to the treatment of the recent salary cap. No further deeds have been executed by the Trustee during 2014.

### 4. Scheme Funding Position

#### **Valuation of the Scheme as at 31 December 2011**

This Valuation was completed in early 2013. The Technical Provisions were valued at £1.601bn. This does not include any allowance for non-statutory increases to pensions in payment. It does, however, reflect on a very cautious basis, the potential impact of the fact that, subsequent to the Valuation date, the Company implemented a cap on pensionable salary for PSS active contributing members. Since the introduction of the cap, at 30 April 2013, few members have opted out and to the extent active members have remained active there will be an improvement of the overall funding position from the impact of the salary cap which may be recognized in the future.

The value of the Scheme's assets at the Valuation date was £1.312bn resulting in a deficit of £289m and a funding level of 82%. This is a very similar position to that disclosed by the 2008 Valuation, largely due to the impact of lower gilt yields on

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the valuation of the liabilities and despite the injection of approximately £100m by the Company in the intervening period.

A recovery plan has been agreed which continues cash contributions at the previously agreed levels through 2018. The Company and the Trustee share the ambition that the Scheme becomes more self-sufficient and less reliant on the Company. To this end, the parties have agreed a derisking plan for the Scheme which aims to reduce risk gradually as the funding position improves. The plan contains trigger points, being different funding levels assessed on a gilts only basis – i.e. more prudent than the Technical Provisions or ongoing basis – and once a trigger is hit then the portfolio of assets is reviewed and revised to target a lower level of overall expected return and therefore run a lower level of risk.

Since the derisking plan was put in place there have been several trigger points hit such that the original portfolio target return of Gilts +2.5% per annum has been reduced to a target return of Gilts +1.25% per annum. This has helped to reduce the volatility of the Scheme's funding position from earlier levels. It is also indicative of how the funding level has improved on the various bases since the Valuation date.

Between the Valuation date and 31 December 2012 the funding position had improved on the Technical Provisions (or ongoing) basis from 82% to 88% funded. At 31 December 2013 the 'roll forward' of Scheme assets and liabilities carried out by the Scheme Actuary showed further that the position had improved to 95% on the Technical Provisions (or ongoing) basis.

As at 31 December 2014 the roll forward indicates that the picture remains stable at 95% on the Technical Provisions (or ongoing) basis. On the solvency basis - i.e. looking at how much additional money is required to buy out the liabilities with an insurance company - the funding position has improved from 65% funded (deficit of £698m) at the Valuation date to 76% at 31 December 2014 (deficit of £522million).

Each of the Trustee and the Company seeks stability for the Scheme and the derisking plan results from this strategy. The funding position of the Scheme during 2014 has remained quite steady despite some volatility in the economic conditions and this greater stability is the result of the liability hedging programme in place for the Scheme's assets.

### **5. Increases in pensions**

During 2014, only statutory increases to pensions in payment were awarded. These are made to pension accrued after 5 April 1997. In 2014 such pension received an increase of 1.6% with pension which had commenced in payment since 30 June 2013 receiving pro-rata increases. These increases were based on the Consumer Prices Index ('CPI') over the year to March 2014. The caps of 5% for pension derived from service from 6 April 1997 until 30 April 2005 and 2.5% for pension derived from service after 30 April 2005 continue to apply but did not have any impact in 2014.

There was also a statutory increase of 2.7% to post 5 April 1988 guaranteed minimum pension ('GMPs') in accordance with The Guaranteed Minimum Pension Increase Order 2014.



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Apart from these said GMPs, pensions in payment which accrued before 6 April 1997 are awarded a non-statutory increase under the provisions of the Trust Deed only where 'in the opinion of the Actuary the financial state of the Scheme so permits ...'. During 2014, whilst the overall funding position of the Scheme improved there remained a deficit and the Scheme Actuary formally advised that in her opinion, the financial state of the Scheme did not permit a non-statutory increase in 2014.

Paid up pensions, when becoming payable, are revalued in accordance with annual Revaluation Orders as required by legislation. In the case of paid up pensions coming into payment from 1 January 2014 this was by reference to the increases in the RPI up to September 2009 and in the CPI thereafter over the number of complete years in deferment subject to a maximum. The maximum is 5% per annum over the entire revaluation period for pension accrued before 6 April 2009 and 2.5% in the case of pension accrued after 5 April 2009.

## **6. Transfer Payments**

Transfer payments made to other occupational schemes, qualifying registered overseas pension schemes, deferred annuity policies or personal pension contracts on behalf of members withdrawing from the Scheme during 2014 were calculated in accordance with factors set by the Trustee on the advice of the Actuary as being consistent with the requirements of Section 97 of the Pension Schemes Act 1993. The basis was amended in early 2011 to allow for revaluations to be linked to long-term assumptions for CPI rather than those for RPI. The factors used since 1 July 2003 do not include an allowance for discretionary pension increases in payment. Inasmuch as pension increases on benefit accrued before 6 April 1997 are subject to the Actuary certifying the Scheme has an adequacy of resources, this constitutes a discretionary benefit.

The rules of the Scheme allow for transfers in from other schemes by active contributing members during their first year of membership. Since the Scheme closed to new entrants after 30 September 2008, there can no longer be transfers in to the Scheme.

## **7. Pensions Act Compliance and Governance**

A copy of the Actuarial Certificate dated 19 March 2013 confirming the adequacy of the contribution rates is included at page 20.

The Accounts forming part of this Report (at pages 29 - 40) have been prepared and audited in accordance with regulations made under Sections 41(1) and 41(6) of the Pensions Act 1995.

The Trustee has a formal Internal Disputes Resolution Procedure, which is available on request, and on the website ([www.superpilk.com](http://www.superpilk.com)).

The Trustee continues to retain Gazelle Corporate Finance Limited ('Gazelle') to monitor the strength of the employer covenant and to report formally to the Trustee twice a year on this issue. During the 2011 valuation discussions, an information protocol was updated and is in place between the Company and Trustee to ensure that the Trustee and Gazelle have access to the information required to make a full assessment of the financial position of the sponsor. The

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Trustee continues to receive a presentation of full and half year results from a senior member of the finance function of the Company.

The Trustee has produced a Statement of Investment Principles ('SIP') as required by Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004) and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee reviewed its SIP during the year and consulted with the Company in relation to the various changes made. The SIP in force at year end was approved by the Trustee Board in September 2014. The SIP is regularly reviewed by the Investment Committee throughout the year and changes are approved by the Board, subject to or following consultation with the Company.

A copy of the SIP is posted at [www.superpilk.com](http://www.superpilk.com) and is available on request from the Group Pensions Department, Pilkington Group Limited.

Amongst the issues considered in the SIP are the Trustee's approaches to socially responsible investment and corporate governance. The Trustee has delegated decisions on both such issues to its investment managers. Social, environmental and ethical considerations are among the factors which the Trustee expects to be evaluated when an active investment manager is making decisions on the purchase, retention or sale of holdings.

Now, as from the end of 2014, all of the Scheme's assets being in either gilts or pooled funds, the ability of the Trustee to influence the investment managers about socially responsible investment and related matters is limited.

The Trustee has developed a Statement on the UK Stewardship Code and this has been registered and is available to view on the website of the Financial Reporting Council.

The Trustee expects its investment managers to vote the Scheme's equity holdings, where practical, and to advise it, quarterly, of issues on which they have voted against companies' managements.

The Trustee has adopted and implemented a Governance Policy together with a Business Plan as recommended by the Pensions Regulator. It regularly assesses the performance of its advisers and of itself and makes changes where this is considered appropriate. The Board and Advisers also assess the performance of the Chairman and the Scheme Secretary.

The Trustee has a Conflict of Interests Policy and Register which are reviewed at least annually and has adopted a policy to identify and deal with any notifiable events or reportable breaches that might need to be reported to the Pensions Regulator.

The Trustee has developed and continues to review and update a Risk Register. Responsibility for this Register has been delegated to the Audit and Risk Committee which reviews it regularly with each of Group Internal Audit and PwC, the Scheme's external auditors. These parties, together with Group Pensions Department, have been developing a more detailed risk and assurance mapping process to ensure there is adequate assurance that the controls are in place and operating fully.

A full pensioner existence check is carried out annually on UK based pensioners and every 18 months for pensioners who are based overseas.

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## 8. Investment Management

As at 31 December 2014 the Scheme's investments were managed as follows:-

- i) UK equities (except venture capital/private equity – see below); North American equities; European (ex UK) equities and Sterling Corporate Bonds by State Street Global Advisors Limited ('SSgA') on a passive basis.
- ii) Japanese, Asia Pacific (ex Japan), Emerging Market Equities and Infrastructure Equities, by Legal & General Assurance (Pensions Management) Limited ('L&G') on a passive basis.
- iii) Long dated sterling corporate bonds by Henderson Global Investors Limited ('Henderson') on an active basis.
- iv) Strategic currency hedging by SSgA on a passive basis.
- v) European property via property funds by CBRE Global Collective Investors UK Limited ('CBRE') on an active basis.
- vi) Reinsurance via a pooled fund by Nephila Capital Limited ('Nephila') on an active basis.
- vii) A Liability Driven Investment portfolio, including fixed interest gilts, index linked gilts, Network Rail bonds, cash and derivative instruments (such as interest rate swaps, inflation swaps and gilt repurchase agreements), by Insight Investment Management (Global) Limited ('Insight') on a passive basis.

During the course of 2014, the holding in real estate via CBRE has been reduced and the active corporate bond managers, PIMCO Global Advisers (Ireland) Ltd. ('PIMCO') and Rogge Global Partners plc ('Rogge') have had their respective mandates terminated. The Trustee decided that the overall allocation to credit was too high so a reduction was undertaken. Having considered how to achieve this reduction, and having regard to the major changes in personnel at PIMCO and Rogge, the Trustee determined that the termination of those mandates was the most appropriate action to take. The monies disinvested were largely added to the liability-driven investment portfolio managed by Insight though with a small increase in the equity portfolio to retain the same return expectation.

A small amount of equity and venture capital investments previously managed by the in-house team and with no book value are still in the course of being liquidated.

Towers Watson Limited is the investment consultant of the Trustee.

At the beginning of 2014 the Scheme benchmark was 21% return seeking and 79% liability matching investments. In February 2014 the benchmark moved to 19% return seeking and 81% liability matching. At the end of 2014 the benchmark was 20%/80% return seeking/liability matching.

Further detail of the Scheme's investments as at 31 December 2014 is given below:

### **Equities**

The passive index tracking equity funds (including Infrastructure Equities) managed by SSgA and L&G each have a target return (before fees) equivalent to the relevant FTSE index.

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## **Corporate Bonds**

The sterling corporate bonds managed by SSgA are in a passive index tracking fund with a target return (before fees) equivalent to the relevant index.

The bonds which are actively managed by Henderson form part of their Long Dated Credit Fund which is a pooled fund. The target return is to outperform the iBoxx Sterling Non-Gilts 15+ years index by 1% per annum (before fees).

## **Liability Driven Investment**

The Trustee has an Investment Management Agreement with Insight under which it will not only manage fixed interest and index-linked gilts and Network Rail bonds but also enter into and manage a portfolio of derivative instruments such as interest rate and inflation swaps and repurchase agreements on behalf of the Trustee. In order to enter into the swaps, the Trustee has completed a series of International Swaps and Derivatives Association ('ISDA') Agreements with different banks with which Insight may now transact on behalf of the Trustee. In addition, and to afford the opportunity to enter into more cost effective arrangements to transact the desired interest rate and inflation hedging arrangements, the Trustee has also entered Global Master Repurchase Agreements ('GMRA') with a number of banks. These facilitate the use of gilt repurchase transactions as an alternative to interest rate and inflation swaps.

In using ISDA or GMRA arrangements collateral is posted by each party to reduce overall risk in the event of any default. Insight manages the collateral arrangements on behalf of the Trustee.

## **Property**

The Trustee has had a mandate with CBRE since April 2008 to manage a pan-European portfolio of pooled property funds. The target return for CBRE is to outperform RPI +5% per annum over a rolling 3 year period net of all fees, expenses, costs and taxes.

## **Reinsurance**

The Trustee holds this investment as a diversifying asset in order to replace a part of the equity risk premium with insurance risk premium. These two risks have little correlation. The Trustee's mandate for reinsurance is with Nephila.

The fund into which the Trustee invested offers investors diversified exposure to natural catastrophe insurance risk through insurance-linked securities (e.g. catastrophe bonds) and direct reinsurance contracts. The fund is designed to have a similar expected return to a pooled catastrophe bond portfolio over a full market cycle but lower downside risk as a result of the greater diversification across risks. The fund targets performance of 3 month Treasury bills + 4 to 6% per annum.

## **Longevity swap**

The Trustee entered into a longevity insurance contract with Legal & General Assurance Society Limited to cover the majority of pensioners at the end of 2011. The arrangement covered approximately 11,500 pensions and liabilities to a value of approximately £800m on the Scheme's Technical Provisions basis. It protects the Scheme from the financial risk of pensioners living longer than expected and is

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intended to reduce the overall level of risk of the Scheme. It fixed the cost of liability for the pensioners covered by the contract at an assumed level of life expectancy. To the extent people live longer, L&G cover the cost of additional pension payments. To the extent members die before the assumed time, L&G benefit from the insurance contract.

A collateral pool of assets backing the swap was set up in January 2012 and is managed for the Trustee by Insight.

### General

There was no direct employer-related investment during the year although certain of the pooled funds hold Nippon Sheet Glass Co. Limited ('NSG') shares (as detailed in note 12).

The majority of the government bonds and corporate bonds are easily bought or sold. The unitised vehicles in which the Scheme invests, with the exception of certain property funds and the re-insurance funds, deal regularly and are easily bought or sold. The property funds are recognised as being less liquid. The re-insurance fund was subject to a three year lock in period from the date of investment and a 180 day notice period. The lock-in period expired at 31 March 2014.

The Scheme bears the cost of purchasing and realising assets within the portfolio. The total net cost of investment manager and custodial fees charged to the Scheme in 2014 was £1,917,000 (2013: £2,613,000). This figure includes the payments for the past year to the investment managers, which are largely calculated on the value of funds under management for the Trustee. The figure also includes the fees for custodial services from JP Morgan Chase Bank. A contribution towards administration costs is paid by the Company.

The review of investment performance in 2014 is set out on page 16.

### 9. Additional Voluntary Contributions

The Scheme offered contributory members the following choices regarding the payment of additional voluntary contributions during 2014:-

- to purchase additional service according to a formula determined in accordance with the provisions of Rule 21(a) of the Scheme's Rules, and/or
- to have contributions invested in with profits and/or unit linked funds offered by Prudential.

As at 31 December 2014 the number of contributors to each of the AVC options was:-

- |                      |    |
|----------------------|----|
| • Additional service | 35 |
| • Prudential         | 7  |

From 6 April 2006 the maximum contribution to the Scheme AVC option, whichever is selected, has been 10% of pensionable salary.

Some members retain an investment with Equitable Life but this is no longer offered as an option for those investing in AVCs.

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## 10. Scheme developments

This table records the movements in various key Scheme values in the period from 2010-2014, to illustrate the Scheme's development.

	<b>2014</b> <b>£'000</b>	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Contributions and benefits					
Deficit contributions	<b>25,166</b>	23,000	23,000	40,000	55,321
Other Contributions receivable	<b>11,780</b>	12,110	19,063	15,462	18,806
	<b>36,946</b>	35,110	42,063	55,462	74,127
Benefits payable	<b>77,916</b>	83,054	78,431	70,702	77,347
Payments to and on account of leavers	<b>2,743</b>	1,943	1,237	1,155	564
	<b>80,659</b>	84,997	79,668	71,857	77,911
<b>Net withdrawals from dealings with members</b>	<b>(43,713)</b>	(49,887)	(37,605)	(16,395)	(3,784)
<b>Returns on investments</b>					
Investment income*	<b>24,955</b>	26,451	24,377	20,640	14,973
Change in market value of investments	<b>256,532</b>	11,975	127,536	44,195	108,353
Net investment management expenses	<b>(1,917)</b>	(2,613)	(3,187)	(3,202)	(1,925)
<b>Net returns on investments</b>	<b>279,570</b>	35,813	148,726	61,633	121,401
<b>Net change in the Scheme value during the year</b>	<b>235,857</b>	(14,074)	111,121	45,238	117,617
<b>Net assets of the Scheme brought forward</b>	<b>1,408,949</b>	1,423,023	1,311,902	1,266,664	1,149,047
<b>Net assets of the Scheme carried forward</b>	<b>1,644,806</b>	1,408,949	1,423,023	1,311,902	1,266,664

\* No income is received from the managed funds held with SSgA, UOB Global Capital (Dublin) Limited, whose mandate was terminated on 12 April 2012, L&G or Nephila. Investment returns from these funds are included in the change in market value.

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## **Investment Report**

### **11. Strategy Update**

The Statement of Investment Principles ('SIP') sets out the objectives and long term policy of the Trustee with regard to investment together with its asset allocation policy. These policies are closely linked to the de-risking plan agreed with the Company as part of the 2011 valuation. The SIP is available to download from [www.superpilk.com](http://www.superpilk.com).

The detail of the asset allocation from time to time is set out in a document entitled 'Asset allocation, benchmark indices and performance objectives'. This document acknowledges the expectation that the allocation will change over time according to which de-risking triggers are met. It includes the target return for the portfolio described within the document. It too is available from the website and was updated in December 2014 after the termination of the PIMCO and Rogge mandates.

The Trustee intends that the portfolio remains within a reasonable tolerance of that set out in this asset allocation document. It would consider rebalancing if the portfolio deviated materially but only if to do so would be consistent with movement towards the next portfolio planned with the de-risking strategy. It is unlikely that re-risking would take place if the portfolio were to fall below the appropriate return target.

2014 proved to be a period of consolidation for the Scheme after significant de-risking during 2013 which had been linked to funding improvements throughout that year. The Investment Committee considered what will be the shape of the portfolio once derisking has been achieved to a level considered appropriate and full funding or self sufficiency reached. In doing so the Committee made recommendations to the Board regarding the portfolio and the Board acted upon these.

Overall by the end of 2014 the benchmark split between return-seeking and liability matching was 20/80% respectively but within those blocks there had been significant movements.

CBRE, the manager of the property fund in which the Trustee has invested, was asked in 2013 to reduce the mandate by 25%. It achieved this by the end of 2014 through ceasing to re-invest the monies which were realised as different funds matured. There was no forced selling. Looking further forward, the Board has decided that this practice should continue and as funds mature the proceeds will be returned to the Trustee. Mindful of the illiquid nature of the property investment, and the moderate performance, it was decided that this property investment will not be an appropriate constituent in the ultimate portfolio. Consequently the gradual reduction as funds mature is the most efficient manner to disinvest so no loss will be incurred by being obliged to sell at a discount to meet time constraints.

The other major move during 2014 has been to significantly reduce the proportion of the Scheme's assets held as corporate bonds. At the start of the year the amount of corporate bonds held in the portfolio represented approximately 30% of the Scheme's benchmark. These were managed by SSgA in a passive pooled fund; Henderson and PIMCO in actively managed pooled funds and Rogge which actively managed a segregated portfolio. These holdings had provided good returns and, as the strategy for employing different managers to diversify risk had led initially to PIMCO and Rogge being taken on at the same time because their respective styles were seen as complementary (and having regard to the major changes in personnel at PIMCO and Rogge), the Board



## THE PILKINGTON SUPERANNUATION SCHEME

decided to end each mandate at the same time also. This leaves the Scheme with corporate bond holdings at around 16% of the Scheme's benchmark split between a passive tracking fund managed by SSgA and an active pooled fund managed by Henderson.

The Scheme has increased the overall amount of the liability-driven investment portfolio managed by Insight to replace the hedging effect previously gained by holding the corporate bonds. It has also slightly increased the equity holdings to replace the return-seeking element of some of the corporate bonds sold.

The return target remains at gilts +1.25% per annum although market movements mean that the predicted return, given the current portfolio, may be closer to gilts +1% per annum, but neither the Trustee nor the Company wishes to re-risk at this stage. The hedging programme has proved valuable in the later months of 2014 when the impact can be seen clearly keeping the movement of the assets and liabilities consistent and removing much of the volatility from the overall funding position. The level of hedging at the end of 2014 was around 83% on a gilts only basis.

The Scheme retains the reinsurance investment managed by Nephila as a diversifier. In addition the fund of equities of infrastructure companies has performed well over the year and also diversifies from market cap index replicating equity tracker funds.

The next de-risking move would occur if the Scheme's funding position reaches 94% on a gilts only basis before 31 December 2015. The portfolio is currently expected to generate a return of gilts +1.17% per annum; the target at the next trigger point is to generate a return of gilts of 1.00% per annum. The Investment Committee and the Board will continue to monitor the managers closely. Each time a de-risking trigger is met the return target for the portfolio and consequently the level of risk being undertaken is reduced.

Performance overall in 2014 was 20.4% at total Scheme level. The benchmark for 2014 was 20.7% (investment income and change in market value) so the Scheme underperformed the benchmark by 0.3%. The value of the Scheme assets at 31 December 2014 was £1,645m against £1,409m the previous year. Within these amounts are the cash withdrawals to pay benefits, monthly contributions and deficit repair contributions received from the Company.

The three and five year performance figures are as follows:-

	<b>Scheme</b>	<b>Benchmark</b>	<b>Difference</b>
	<b>%</b>	<b>%</b>	<b>%</b>
3 year annualised	10.7	10.9	(0.2)
5 year annualised	10.0	10.2	(0.2)

The Investment Committee continues to monitor the performance of the managers against the return requirements of the Scheme and the target return for their respective asset classes.

In addition the full membership of the Board has the opportunity to meet the managers each year and did so in 2014. At this meeting the Board has the chance to question them about past performance, strategy and changes to their organisation or investment philosophy or practice. This meeting was well attended by the Directors and does assist in maintaining the knowledge of the full Board, especially those not on the Investment



# THE PILKINGTON SUPERANNUATION SCHEME

Committee, about the features of the different investments and in maintaining the relationships between the Board and its investment managers.

## **12. Remuneration of Investment Managers**

The remuneration of SSgA for the passively managed funds is calculated as 0.03% per annum.

The remuneration of SSgA in respect of the currency hedging is calculated as 0.03% per annum of the notional portfolio net asset value from time to time with a minimum annual fee of £50,000 per annum. At 31 December 2014 the value of the notional portfolio was circa £90million.

The remuneration of L&G is calculated as a percentage per annum of the assets under management and the charges vary between the five funds.

For the L&G Japan Equity Index Fund, the fees are 0.125% per annum of the value of assets under management.

For the L&G Japan Equity Index Fund (GBP Currency hedged) the fees are 0.150% per annum of the value of assets under management.

For the L&G Asia Pacific (ex Japan) Equity Index Fund the fees are 0.125% per annum of the value of assets under management.

For the L&G World Emerging Markets Equity Index Fund the fees are 0.3% per annum of the value of assets under management with a minimum fee of £80,000 per annum.

For the L&G Infrastructure Equity Fund the fees are structured according to the holdings of all Towers Watson clients. Until 2 November 2014 fees were 0.38% per annum for the first £250 million, 0.305% for the next £100 million, 0.245% for the next £650 million, 0.221% for the next £200 million and 0.216% thereafter. From 3 November 2014 the rates reduced to 0.30% for the first £350 million, 0.24% for the next £650 million and 0.216% thereafter. For the two months ended 31 December 2014 the Scheme's fee was 0.253% of the average value of assets under management.

The remuneration of Rogge was calculated as a fee of 0.20% per annum of the value of assets under management.

The remuneration of PIMCO was a performance related fee arrangement of 0.25% per annum basic fee +15% performance fee (above index + basic fee) on a 3 year rolling basis and capped at 0.60% per annum. Administrative costs were payable in addition and were capped at 0.1%.

The remuneration of Henderson is calculated as a base fee of 0.12% per annum, together with a performance fee calculated at 13% per annum on the excess return over the benchmark index net of the base fee with positive performance over benchmark capped at 2% per annum. Any negative performance in the prior year(s) is offset against the positive excess before the performance fee is calculated. No performance related fee was incurred during the year.

## THE PILKINGTON SUPERANNUATION SCHEME

The remuneration of CBRE is 0.25% per annum of the net asset value. In addition a performance related fee may be payable. No such performance related fee was paid in 2014.

The remuneration of Nephila until 31 March 2014 was approximately 1% per annum of the net asset value on an annualised basis. Thereafter the remuneration was 0.7% per annum of the net asset value.

Up to 30 June 2014 the remuneration of Insight was 0.06% per annum on the holding in the liquidity fund, 0.05% per annum on the market value of the overlay benchmark and on the value of cash collateral received from counterparties, and 0.03% per annum on the value of the remaining assets under management. During the year the portfolio was re-structured and with effect from 30 June 2014 the 0.05% per annum fee applied only to the market value of swaps, gilts subject to repurchase agreements and the value of cash collateral received from counter parties. The other fees remained unchanged. Insight also receives a fee of £25,000 per annum for managing the collateral movements required in respect of the longevity insurance policy.

### **13. Custodianship**

The Trustee has appointed a single custodian for the Scheme's assets managed on a segregated basis (rather than in pooled funds), J P Morgan Chase Bank, thereby separating investment settlement procedures from the managers' decisions to make or realise investments. The assets which are managed in pooled funds have the following custodians:

SSgA managed funds	State Street
Henderson managed fund	BNP Paribas Securities Services
L&G managed funds	Citibank
Nephila	Bank of New York Mellon

### **14. Performance Measurement**

The Trustee has appointed State Street Investment Analytics (formerly known as WM Performance Services) to provide independent analysis on the performance of the Scheme's investments and investment managers over the short and the longer term.

# THE PILKINGTON SUPERANNUATION SCHEME

## 15. Analysis of Investment Management Expenses

	2014 £'000	2013 £'000
External Investment Managers		
L&G	248	194
SSgA	124	129
CBRE	120	145
Rogge	117	234
Insight	363	317
PIMCO performance fee	170	98
PIMCO product fee	543	578
PIMCO rebate	(251)	(263)
Henderson product fee	712	777
Henderson rebate	(542)	(578)
JPMAAM product fee	-	328
JPMAAM rebate	-	(74)
Nephila	238	296
	<b>1,842</b>	<b>2,181</b>
Custodial Fees	89	97
Contribution from Pilkington Group Ltd towards expenses	(518)	(503)
Investment advice	312	538
Irrecoverable VAT	172	270
Other expenses	20	30
Net expenses	<b>1,917</b>	<b>2,613</b>

## 16. Allocation Benchmarks as at 31 December 2014

Asset Class and Investment Manager	Strategic Asset Allocation (%)	Tolerance Range
<i>Return-seeking assets</i>	<i>20.00</i>	<i>-6.5% / +2.5%</i>
UK equities (SSgA)	1.50	-1.5% / +1.5%
North America equities (SSgA)	5.00	-2.5% / +2.5%
Europe (ex UK) equities (SSgA)	2.00	-1.0% / +1.0%
Asia Pacific (inc Japan) equities (LGIM)	1.50	-0.75% / +0.75%
Emerging market (EM) equities (LGIM)	1.75	-0.75% / +0.75%
Property (CBREGI)	3.00	-1.5% / +1.5%
Listed infrastructure (LGIM)	3.25	-1.5% / +1.5%
Reinsurance (Nephila)	2.00	-2.0% / +2.0%
<i>Liability matching assets</i>	<i>80.00</i>	<i>-2.5% / +6.5%</i>
UK corporate bonds (over 15 years) (Henderson)	8.00	-8.0% / +2.5%
UK corporate bonds (all stocks) (SSgA)	8.00	-8.0% / +2.5%
LDI portfolio* (Insight)	63.00	-2.5% / +17.0%
Cash (JP Morgan)	1.00	-1.0% / +4.0%

### Notes:

The benchmark will change over time in line with the Trustee's de-risking plan.

# THE PILKINGTON SUPERANNUATION SCHEME

## PILKINGTON SUPERANNUATION SCHEME CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

### Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2011 to be met by the end of the period specified in the recovery plan dated 19 March 2013.

### Adherence to statement of funding principles

I certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 19 March 2013.

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

*J. E. M. Curtis*

Date 19 March 2013.

Name

Jane Curtis

Qualification

Fellow of the Institute and Faculty of Actuaries

Address

Verulam Point  
Station Way  
St. Albans  
AL1 5HE

Name of employer

Aon Hewitt Limited

# THE PILKINGTON SUPERANNUATION SCHEME

## PILKINGTON SUPERANNUATION SCHEME

### SCHEDULE OF CONTRIBUTIONS

#### Introduction

This schedule of contributions is required by section 227 of the Pensions Act 2004. It comes into effect on the date of its certification by the Scheme Actuary and covers the period to 31 October 2021. The Trustee is responsible for preparing a revised schedule no later than 31 March 2016.

#### Participating Employers

This schedule covers contributions to the Scheme from all employers who participate in the Scheme from time to time.

#### Employer Contributions

The participating employers will contribute to the Scheme as follows:

Type	Amount
Regular	<ul style="list-style-type: none"> <li>▪ 16.0% of Pensionable Salaries in respect of Higher Accrual Members</li> <li>▪ 12.5% of Pensionable Salaries in respect of Lower Accrual Members</li> </ul> <p><i>Note: The above contributions are payable in respect of all members (including PEPS members, for whom the contributions below are payable in addition).</i></p>
PEPS top-up	<p>Over the period to 31 March 2013:</p> <ul style="list-style-type: none"> <li>▪ 7.1% of Pensionable Salaries in respect of PEPS Members</li> </ul> <p>Over the period from 1 April 2013:</p> <ul style="list-style-type: none"> <li>▪ 7.4% of Pensionable Salaries in respect of PEPS Members</li> </ul>
Additional contributions to satisfy the recovery plan dated 19 March 2013	<ul style="list-style-type: none"> <li>▪ £23M per annum, payable in equal half yearly instalments on 1 April and 1 October each year, commencing on 1 April 2013 with the last payment due on 1 October 2018</li> </ul> <p>In addition, in the event that the letter of credit for £120 million is not extended beyond its current expiry on 28 February 2014, the following contributions are payable:</p> <ul style="list-style-type: none"> <li>▪ £2M per annum, payable in equal half yearly instalments on 1 April and 1 October each year, commencing on 1 April 2014 with the last payment due on 1 October 2016.</li> </ul>

With the exception of the recovery plan contributions shown above, which are payable on or before the dates shown, the participating employers will ensure that the Trustee receives these contributions within 19 days of the end of the calendar month to which the contributions relate.

#### Employee Contributions

Employees who are active members of the Scheme will contribute to the Scheme as follows:

Type	Amount
Regular	<ul style="list-style-type: none"> <li>▪ 8.0% of Pensionable Salaries in respect of Higher Accrual Members</li> <li>▪ 5.5% of Pensionable Salaries in respect of Lower Accrual Members</li> </ul>

These amounts do not include members' Additional Voluntary Contributions.

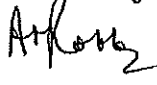
# THE PILKINGTON SUPERANNUATION SCHEME

The employers will ensure that the Trustee receives the contributions payable by their employees within 19 days of the end of the calendar month in which the contributions were deducted from the employees' salaries.

## Expenses

The costs of administration, professional fees and the Pension Protection Fund levy are met directly by the employers and do not appear on this schedule.

Signed on behalf of Pilkington Brothers Superannuation Trustee Limited

Name: 

A. M. ROBB

Position: DIRECTOR

Date: 19 MARCH 2013



REX GREENFIELD

DIRECTOR

19 MARCH 2013

Signed on behalf of Pilkington Group Limited

Name: 

J. A. MASSA

Position: DIRECTOR

Date: 19 MARCH 2013

*Note: Pilkington Group Limited has been nominated as the employers' representative for this purpose.*

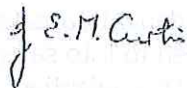
# THE PILKINGTON SUPERANNUATION SCHEME

## Appendix 6: Certificate of technical provisions

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

### Pilkington Superannuation Scheme ('the Scheme')

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2011 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 19 March 2013



Jane Curtis

Fellow of the Institute and Faculty of Actuaries

19 March 2013

Aon Hewitt Limited  
Verulam Point  
Station Way  
St Albans  
Hertfordshire  
AL1 5HE

# THE PILKINGTON SUPERANNUATION SCHEME

## Statement of Trustee's responsibilities

### Trustee's responsibilities in respect of the accounts

The accounts, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited accounts 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 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 the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee is responsible for supervising the preparation of the accounts and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements 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.

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 it 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 also responsible for the maintenance and integrity of the Pilkington Scheme website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

### Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, 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 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 adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme 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 to members.

25 March 2015

  
.....  
Directors of Pilkington Brothers Superannuation Trustee Limited  
Trustee of the Pilkington Superannuation Scheme



# THE PILKINGTON SUPERANNUATION SCHEME

## **Independent auditors' statement about contributions to the Trustee of the Pilkington Superannuation Scheme**

### **Statement about contributions**

#### **Our opinion**

In our opinion, the contributions required by the schedule of contributions for the Scheme year ended 31 December 2014 as reported in Pilkington Superannuation Scheme's summary of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the Scheme actuary on 19 March 2013.

#### **What we have examined**

Pilkington Superannuation Scheme's summary of contributions for the scheme year ended 31 December 2014 is set out on the following page.

### **Responsibilities for the statement about contributions**

#### **Our responsibilities and those of the Trustee**

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **What an examination of the summary of contributions involves**

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

We test and examine information, using sampling and other techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

25 March 2015

# THE PILKINGTON SUPERANNUATION SCHEME



## Summary of Contributions payable in the year

During the year, the contributions payable to the Scheme were as follows:

	Employees £'000	Employer £'000
<b>Required by the schedule of contributions</b>		
Normal contributions	2,957	6,252
Deficit funding	-	25,000
	<hr/>	<hr/>
<b>Total</b>	<b>2,957</b>	<b>31,252</b>
 <b>Other contributions payable</b>		
Augmentations of individual members' benefits	-	2,455
AVCs	116	-
Additional Deficit Funding	-	166
	<hr/>	<hr/>
<b>Total (as per Fund Account)</b>	<b>3,073</b>	<b>33,873</b>

The additional deficit funding relates to an amount paid by the Company to reflect the fact that the Letter of Credit expired one month before the first payment of deficit repair contributions at the higher rate of £25m as required by the Schedule of Contributions.

**Signed on behalf of the Trustee:**

**25 March 2015**

# THE PILKINGTON SUPERANNUATION SCHEME

## **Independent auditors' report to the Trustee of the Pilkington Superannuation Scheme**

### **Report on the Accounts**

#### **Our opinion**

In our opinion, Pilkington Superannuation Scheme's accounts:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2014, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the 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.

#### **What we have audited**

The Pilkington Superannuation Scheme's accounts comprise:

- the net assets statement as at 31 December 2014;
- the fund account for the year then ended; and
- the notes to the accounts, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the Trustee has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### **Responsibilities for the accounts and the audit**

#### **Our responsibilities and those of the Trustee**

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the accounts and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### **What an audit of accounts involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give

## THE PILKINGTON SUPERANNUATION SCHEME

reasonable assurance that the accounts 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 accounts.

We primarily focus our work in these areas by assessing the Trustee's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited accounts 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.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester

25 March 2015

# THE PILKINGTON SUPERANNUATION SCHEME

## **Fund Account**

### **for the year ended 31 December 2014**

	Notes	<b>2014 £'000</b>	2013 £'000
<b>Contributions and benefits</b>			
Contributions receivable	3	<b>36,946</b>	35,110
Benefits payable	4	<b>77,916</b>	83,054
Payments to and on account of leavers	5	<b>2,743</b>	1,943
		<b>80,659</b>	84,997
<b>Net withdrawals from dealings with members</b>		<b>(43,713)</b>	(49,887)
<b>Returns on investments</b>			
Investment income	7	<b>24,955</b>	26,451
Change in market value of investments	8	<b>256,532</b>	11,975
Net investment management expenses	9	<b>(1,917)</b>	(2,613)
<b>Net returns on investments</b>		<b>279,570</b>	35,813
<b>Net increase / (decrease) in the Scheme during the year</b>		<b>235,857</b>	(14,074)
<b>Net assets of the Scheme brought forward</b>		<b>1,408,949</b>	1,423,023
<b>Net assets of the Scheme carried forward</b>		<b>1,644,806</b>	1,408,949

The notes to the accounts on pages 31 to 40 form a part of these Accounts.

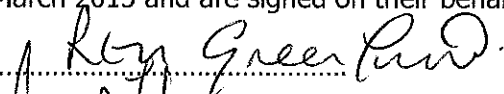
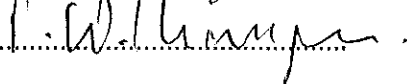
# THE PILKINGTON SUPERANNUATION SCHEME

## Net assets statement as at 31 December 2014

	Notes	2014 £'000	2013 £'000
<b>Investment assets</b>	8	<b>1,657,264</b>	1,446,798
<b>Investment liabilities</b>	8	<b>(12,189)</b>	(38,071)
		<b>1,645,075</b>	1,408,727
<b>Current assets</b>	10	<b>1,449</b>	1,744
<b>Current liabilities</b>	11	<b>(1,718)</b>	(1,522)
<b>Net assets of the Scheme carried forward</b>		<b>1,644,806</b>	1,408,949

The Accounts 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 section on the Actuarial Valuation on pages 7 to 8 and the statement by the Actuary on page 20 of the annual report and these Accounts should be read in conjunction with this information.

The Accounts on pages 29 to 40 were approved by the Trustee on 25 March 2015 and are signed on their behalf by:

  
.....  
  
.....

Directors of Pilkington Brothers  
Superannuation Trustee Limited

# THE PILKINGTON SUPERANNUATION SCHEME

## **Notes to the Accounts 31 December 2014**

### **1 Basis of preparation**

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

### **2 Accounting policies**

A summary of the more important accounting policies, which have been applied consistently, is set out below:

#### **(a) Investments and cash deposits**

- (i) Fixed interest securities, index-linked securities and UK equities and convertibles are valued at bid prices at the year end date. Accrued interest is excluded from the market value of fixed interest securities but is included in investment income receivable. Market values of investments listed in overseas currencies are translated into sterling at the rates of exchange ruling at the year end date.
- (ii) Pooled investment vehicles are valued at the most recently available bid prices, provided by the investment manager where an independent price feed is not available.
- (iii) Cash deposits in overseas currencies are translated into sterling at the relevant rates of exchange ruling at the year end date.
- (iv) Unlisted securities are valued at valuations provided by the investment managers.
- (v) Futures and options are valued at market prices at the year end and are reflected in the Accounts on the basis of net worth. Money market futures and short dated interest rate swaps have been valued using market values rather than notional (par) values.

The longevity insurance policy is valued as the difference between the projected payments on the fixed and variable legs discounted using assumptions advised by the Scheme Actuary and agreed by the Trustee, and accordingly the risk premium built into the product is effectively expensed on inception through the change in market value rather than spread over the potential life of the product, which is itself uncertain.

Future variations in the value of the longevity swap will be credited or expensed as they arise. This treatment accords with the guidance set out in the PRAG Insurance Working Party discussion paper "Accounting for New Risk Transfer Products" issued in March 2012.

Forward foreign currency contracts are included at market value. Surpluses and deficits arising are applied to increase or decrease the Scheme's accumulated fund.

Some of the overseas currency exposure is hedged via the purchase of forward currency contracts. Any unrealised profit or loss on these contracts at the year-end date, measured by the difference between the spot rate and the contract rate, is included in the change in market value of investments. Any realised

# THE PILKINGTON SUPERANNUATION SCHEME

gains and losses on forward contracts are also included in the change in market value of investments.

The fair value of the interest rate swaps is calculated using discounted cash flow pricing models based on the current value of future expected net cash flows arising over the swap, taking into account the time value of money, or the market price of comparable instruments at the year end date, if they are publicly traded. The amounts included in change in market value are the realised gains and losses on closed contracts and the unrealised gains and losses on open contracts.

## (b) **Income from Investments**

- (i) Income from cash and short term deposits is dealt with in these Accounts on an accruals basis.
- (ii) Income from any pooled investment vehicles which distribute income is accounted for on the date stocks are quoted ex-dividend/interest. 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 sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, change in market value also includes income, net of withholding tax, which is reinvested in the fund.
- (iii) Interest from fixed interest and index linked gilts is dealt with in these Accounts on an accruals basis.

## (c) **Benefits**

Deferred contribution return on death and single cash sums on retirement are accounted for on an accruals basis based on the date of death or retirement.

Retirement benefits where a member has, and has exercised, a choice of either a full pension or a lump sum plus reduced pension are accounted for on an accruals basis based on the later of the retirement date or the date the option was exercised.

## (d) **Contributions**

Current service and other contributions are accounted for on an accruals basis (see Notes 3 and 10). Augmentations and special contributions are accounted for in accordance with the agreement made with the Principal Employer under which they are being paid. Deficit funding contributions are accounted for in accordance with the agreement under which they are being made or, in the absence of an agreement, on a cash receipts basis.

## (e) **Investment management expenses**

Investment management expenses are accounted for on an accruals basis.

## (f) **Transfer values**

Transfer values represent the capital sums paid to the pension schemes of new employers for members who have left service.

Transfers from the Scheme are accounted for when the trustee of the receiving scheme has agreed to accept the liabilities in respect of the transferring members or payment is made to a personal pension.



## THE PILKINGTON SUPERANNUATION SCHEME

### (g) Foreign currencies

Income received in foreign currency is translated into sterling at the exchange rate ruling on the date of receipt. Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Surpluses and deficits arising on conversion or translation of investments are dealt with as part of realised and unrealised investment gains and losses.

### 3 Contributions receivable

	<b>2014</b>	2013
	<b>£'000</b>	£'000
<b>From employers</b>		
Normal	<b>6,252</b>	7,355
Augmentations	<b>2,455</b>	1,127
Deficit Funding	<b>25,166</b>	23,000
	<b>33,873</b>	31,482
<b>From members</b>		
Normal	<b>2,957</b>	3,481
Additional Voluntary Contributions		
- added years	<b>89</b>	112
- money purchase	<b>27</b>	35
	<b>3,073</b>	3,628
Total contributions	<b>36,946</b>	35,110

Contributions are being made by the employer in respect of augmentations of certain benefits to individuals.

The employer contribution described as "Deficit funding" relates to contributions made in accordance with the funding agreement between the Trustee and the Company dated 19 March 2013. Further deficit funding contributions of £25 million per annum from 2015 to 2016 and £23 million per annum from 2017 to 2018 are payable in equal half-yearly instalments on 1 April and 1 October each year.

Members are permitted to make additional voluntary contributions into money purchase type arrangements under which contributions received are invested on behalf of the individuals concerned to provide additional benefits within the overall limits laid down by the Scheme's Rules (see also note 8). Members are also entitled to purchase additional defined benefits under the provisions of the Scheme.

### 4 Benefits payable

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Pensions payable	<b>71,072</b>	70,020
Payments on retirement of members		
- commutations	<b>5,931</b>	12,054
Payments on death of members		
- lump sums	<b>913</b>	980
	<b>77,916</b>	83,054

# THE PILKINGTON SUPERANNUATION SCHEME

## 5 Payments to and on account of leavers

	2014 £'000	2013 £'000
Individual transfers to other schemes	2,743	1,943
	<u>2,743</u>	<u>1,943</u>

## 6 Administrative expenses

All costs of administration, other than Scheme investment expenses, were borne by Pilkington Group Limited.

## 7 Investment Income

	2014 £'000	2013 £'000
Income from fixed interest securities	10,982	11,910
Income from index-linked securities	5,469	5,403
Interest receivable on cash deposits	294	340
Distributions from pooled investment vehicles	8,214	9,237
	<u>24,959</u>	<u>26,890</u>
Class actions	25	9
Withholding tax adjustment	-	(2)
Financing cost for gilt re-purchase transactions	(29)	(446)
	<u>24,955</u>	<u>26,451</u>

## 8 Investments

	Market value at 1 Jan 2014 £'000	Purchases at cost and derivative payments £'000	Sales Proceeds and derivative receipts £'000	Change in market value £'000	Market Value at 31 Dec 2014 £'000
Fixed interest securities	272,865	90,003	(86,489)	59,669	336,048
Index linked securities	425,575	617	(3,235)	71,367	494,324
Pooled investment vehicles - managed and unitised funds	664,672	50,440	(208,909)	78,729	584,932
Derivatives	(6,299)	8,572	(11,876)	48,215	38,612
Longevity insurance policy	(9,000)	2,065	-	(1,465)	(8,400)
AVC investments	776	27	(197)	26	632
	<u>1,348,589</u>	<u>151,724</u>	<u>(310,706)</u>	<u>256,541</u>	<u>1,446,148</u>
Cash and cash equivalents	74,365			(9)	194,860
Investment creditor	(18,849)				-
Accrued investment income	4,622				4,067
	<u>1,408,727</u>			<u>256,532</u>	<u>1,645,075</u>

## THE PILKINGTON SUPERANNUATION SCHEME

The negative value of the longevity insurance policy reflects the fact that under current assumptions the payments made by the Scheme are expected to be higher than the claims received under the contract.

The preceding figures comprise:	<b>2014</b>	2013
	<b>£'000</b>	£'000
Fixed interest securities	<b>336,048</b>	272,865
Index linked securities	<b>494,324</b>	425,575
Pooled investment vehicles	<b>584,932</b>	664,672
Derivatives – assets	<b>42,401</b>	3,923
AVC investments	<b>632</b>	776
Cash and cash equivalents	<b>194,860</b>	74,365
Accrued investment income	<b>4,067</b>	4,622
	<hr/>	<hr/>
Investment assets	<b>1,657,264</b>	1,446,798
Investment creditor	-	(18,849)
Derivatives – liabilities	<b>(3,789)</b>	(10,222)
Longevity insurance policy	<b>(8,400)</b>	(9,000)
Investment liabilities	<b>(12,189)</b>	(38,071)
	<hr/>	<hr/>
Total market value of investments	<b>1,645,075</b>	1,408,727

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 sales 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. There were no transaction costs incurred during the year (2013: £NIL). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. Information about the amount of indirect costs is not separately provided to the Scheme.

<b>Fixed Interest Securities (held directly by the Scheme)</b>	<b>2014</b>	2013
	<b>£'000</b>	£'000
UK quoted	-	24,594
Overseas quoted	-	27,962
UK government	<b>336,048</b>	218,249
Overseas government	-	2,060
	<hr/>	<hr/>
	<b>336,048</b>	272,865
	<hr/>	<hr/>
<b>Index Linked Securities (held directly by the Scheme)</b>	<b>2014</b>	2013
	<b>£'000</b>	£'000
UK Government	<b>494,324</b>	424,339
UK quoted	-	620
Overseas quoted	-	616
	<hr/>	<hr/>
	<b>494,324</b>	425,575
	<hr/>	<hr/>

This includes £42,708,000 held as collateral for the longevity insurance policy which is therefore not liquid.

## THE PILKINGTON SUPERANNUATION SCHEME

<b>Pooled investment vehicles</b>	<b>2014</b>	2013
<b>- Managed and unitised funds</b>	<b>£'000</b>	£'000
<b>Bond based funds</b>		
SSgA managed – Sterling Corporate Bonds All Stocks	<b>134,067</b>	119,470
PIMCO managed - UK Corporate Bond Fund Institutional Accumulation	-	125,415
Henderson managed – Global Investors Long Dated Credit	<b>133,452</b>	133,993
	<b><u>267,519</u></b>	<u>378,878</u>
<b>Equity based funds</b>		
L&G Managed – Asia Pacific ex Japan Equity Index	<b>12,517</b>	11,588
L&G Managed –Japan Equity Index	<b>6,234</b>	5,767
L&G Managed –Japan Equity Index GBP Hedged	<b>6,363</b>	6,399
L&G Managed – World Emerging Markets Equity	<b>26,119</b>	24,235
L&G Managed – Infrastructure Equity	<b>55,555</b>	43,805
SSgA managed – UK Equity Index	<b>17,510</b>	21,758
SSgA managed – North American Index	<b>83,685</b>	62,327
SSgA managed – Europe ex UK Equity	<b>30,554</b>	30,608
	<b><u>238,537</u></b>	<u>206,487</u>
<b>Property based funds</b>		
Pooled Property Funds	<b>47,430</b>	50,912
<b>Reinsurance funds</b>		
Nephila managed – Iron Catastrophe Fund Class C	<b>31,446</b>	28,395
	<b><u>584,932</u></b>	<u>664,672</u>

All pooled investment vehicle managers are registered in the UK with the exception of PIMCO, which is registered in the Republic of Ireland, and Nephila, which is registered in Bermuda.

<b>Derivatives</b>	<b>2014</b>	2013
	<b>£'000</b>	£'000
Interest rate swaps	<b>41,022</b>	(9,073)
Inflation rate swaps	<b>(610)</b>	20
Futures - assets	-	331
Futures - liabilities	-	(92)
Derivatives excluding forward foreign exchange contracts	<b>40,412</b>	(8,814)
<b>Forward foreign exchange contracts</b>		
Contracts entered into for the purpose of hedging		
-assets	<b>1,379</b>	3,062
-liabilities	<b>(3,179)</b>	(787)
Contracts entered into for tactical purposes		
-assets	-	510
-liabilities	-	(270)
Forward foreign exchange contracts	<b>(1,800)</b>	2,515
Total Derivatives	<b><u>38,612</u></b>	<u>(6,299)</u>

All investments in derivatives are in order to contribute to a reduction of risks or to facilitate efficient portfolio management by the Scheme's investment managers within their delegated investment mandates (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk). The economic exposure represents the notional value of stock purchased under derivative contracts and therefore the value subject to market movements.

## THE PILKINGTON SUPERANNUATION SCHEME

The profit on derivatives during the year is due to the change in market value of the interest rate swaps (as a consequence of the market expectation that interest rates will remain at low levels for a longer period), which are designed to match the liabilities of the Scheme.

### Derivatives excluding forward foreign exchange contracts

Type of derivative	Expiration	2014 Economic exposure £'000	2014 Market Value £'000	2013 Economic exposure £'000	2013 Market Value £'000
Interest rate swaps	2019-2062	291,444	41,022	147,838	(9,073)
Inflation swaps	2032	3,732	(610)	3,322	20
Futures	Less than 1 year	-	-	44,127	239
		<b>295,176</b>	<b>40,412</b>	195,287	(8,814)

At 31 December 2014 the Scheme held 27 sterling denominated zero coupon floating for fixed interest rate swaps (2013: 20) which are analysed as follows:

Duration	2014 Notional Principal £'000	2014 Assets £'000	2014 Liabilities £'000	2013 Notional Principal £'000	2013 Assets £'000	2013 Liabilities £'000
0-10 years	88,549	2,096	-	45,489	-	(2,433)
10-20 years	136,836	10,753	-	72,479	-	(2,977)
20-30 years	101,844	13,040	-	59,508	-	(2,015)
30-40 years	53,352	8,654	-	86,022	-	(1,523)
40-50 years	39,097	6,479	-	39,097	-	(125)
	<b>419,678</b>	<b>41,022</b>	-	302,595	-	(9,073)

At 31 December 2014 the Scheme had one sterling denominated fixed (3.625%) for floating (UK RPI index) RPI swap with a notional principal of £6,200,000 and a value of negative £610,000.

### Currency Forward Contracts

#### Forward exchange contracts entered into for the purpose of hedging

Number of Contracts	Currency Bought '000	Currency Sold '000	2014 Net Asset £'000	2014 Net Liability £'000	2013 Net Asset £'000	2013 Net Liability £'000
3	EUR 13,853	GBP 10,490		(260)		(76)
7	USD 113,056	GBP 73,165	658			(698)
6	GBP 44,521	EUR 56,519	660		561	
12	GBP 139,261	USD 221,694		(2,919)	2,501	
1	GBP 1,680	SEK 18,097	61			(13)
			<b>1,379</b>	<b>(3,179)</b>	3,062	(787)

In order to reduce the Scheme's exposure to foreign currency risk, an amount of £108million of US dollars, Euro, Yen and Swedish Krona (representing approximately 49% of the Scheme's total exposure to assets denominated in currencies other than sterling) is hedged back to sterling. The US dollar, Euro and Swedish Krona exposures are hedged by means of foreign currency contracts, all of which are due to expire within 6 months. The yen exposure is hedged by investment in a hedged pooled fund.

## THE PILKINGTON SUPERANNUATION SCHEME

In accordance with individual mandates, one of the Scheme's investment managers was permitted to enter into forward currency contracts during the year for tactical purposes. At 31 December 2013 there were 44 such contracts open in 19 currencies, all expiring within 6 months. Unrealised gains on these contracts amounted to £510,000 with unrealised losses of £270,000. All contracts were closed out during the year and the mandate has now been terminated.

### Longevity Insurance Policy

The longevity insurance policy has been entered into in order to reduce the impact on the Scheme of pensioners living longer than forecast.

### AVC Investments

The Trustee holds assets invested separately from the main Scheme in the form of insurance policies (with-profits and/or unit-linked), securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Equitable Life Assurance Society	<b>221</b>	211
Prudential	<b>411</b>	565
	<b>632</b>	776
<b>Cash and cash equivalents</b>	<b>2014</b>	2013
	<b>£'000</b>	£'000
Sterling	<b>5,466</b>	4,113
Foreign currency	<b>2,346</b>	3,326
Sterling Term Deposits	<b>187,048</b>	66,926
	<b>194,860</b>	74,365

An elevated cash balance is intentionally being held as liability matching has been secured by swaps.

### 9 Investment Management Expenses

Investment management expenses include fees deducted directly from pooled funds, rebates received and the contribution towards expenses received from Pilkington Group Limited. A full breakdown is shown on page 19.

# THE PILKINGTON SUPERANNUATION SCHEME

## 10 Current assets

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Due from participating companies :-		
Contributions – Augmentations	<b>101</b>	260
Other	-	8
	<b>101</b>	268
Bank balance	<b>725</b>	724
Other debtors	<b>623</b>	752
	<b>1,449</b>	1,744

The contributions due at the year-end were subsequently received in accordance with the schedule of contributions.

## 11 Current liabilities

	<b>2014</b>	2013
	<b>£'000</b>	£'000
Unpaid benefits	<b>1,320</b>	1,066
Investment management expenses	<b>362</b>	385
Other	<b>36</b>	71
	<b>1,718</b>	1,522

## 12 Self-investment

There was no direct employer-related investment during the year. Exposure to NSG securities via pooled funds amounted to £4,000 at 31 December 2014 (2013 £5,000).

## 13 Concentration of investments

The following investments represent more than 5% of the net assets of the Scheme at the year end or prior year end:

	<b>2014</b>	2013
Henderson managed – Global Investors Long Dated Credit	<b>8.1%</b>	9.5%
PIMCO managed - UK Corporate Bond Fund Institutional Accumulation	-	8.9%
SSgA managed – Sterling Corporate Bonds	<b>8.2%</b>	8.5%
SSgA managed – North American Equity Index	<b>5.1%</b>	4.4%

## 14 Related party transactions

The Scheme has received contributions in respect of directors of the Trustee who are also contributing members of the Scheme.

The Scheme has paid benefits to directors of the Trustee who are also beneficiaries of the Scheme.

All of the above transactions are in accordance with the rules of the Scheme.

Administration and accountancy services were provided and paid for by Pilkington Group Limited. Pilkington Group Limited also contributed £518,000 (2013: £503,000) towards investment management expenses.

## THE PILKINGTON SUPERANNUATION SCHEME

Certain investment management expenses, incurred on behalf of the Scheme, were paid for by Pilkington Group Limited and subsequently recharged to the Scheme. There were no expenses charged during the year (2013: £nil), and no amount owed to Pilkington Group Limited at 31 December 2014 or 2013.

### **15 Contingent liabilities and Contractual Commitments**

Other than the liability to pay future pensions, there were no material contingent liabilities of the Scheme at 31 December 2014 or at 31 December 2013. As at 31 December 2014, the Scheme had commitments to the property funds managed by CBRE totalling £371,000 (2013 £1,764,000).