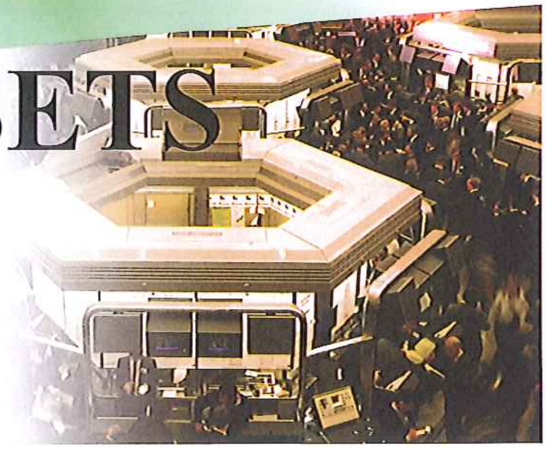
December 2010 THE SUPERANNUATION SCHEME

PILKINGTON
NSG Group Flat Glass Business

REFLECTIONS



SCHEME'S ASSETS PERFORMING POSITIVELY

says Chairman Andrew Robb

My last letter in Reflections, in February 2010, explained in some detail the process and the outcome of the Scheme valuation as at 31 December 2008. It was written whilst the global and national economies remained uncertain although it was hoped that some stability was returning. Since then it is fair to say there has continued to be much volatility in the stock markets around the world.

HOWEVER, IT IS ALSO TRUE that the markets generally are at a higher level now than they were 12 months ago and are generally well above their lowest points of Spring 2009. It remains unclear quite how long the global, regional and national economies will take to recover. Many governments are taking "austerity measures" and therefore we as individuals are facing difficult times ahead. Opinion is still divided amongst commentators whether the country is heading for a "double-dip" recession and the outlook, whilst probably more positive than earlier in the year, remains uncertain.

Against this backdrop therefore, I can report that the Scheme's assets are performing positively and at the end of October the Fund was worth £1.258bn. This is an increase of £111m or 10% from £1.147bn at the end of 2009 and approximately an increase of £223m from the value at 31 December 2008, the date of the last formal actuarial valuation.

The overall value of Scheme liabilities remains very similar to the 2008 level because the reduction arising from pensions paid in the intervening period has been offset by the impact of a fall in the level of gilt yields (liabilities are measured by discounting the estimated cost of future pension payments by the government bond or gilt yield rate and falling yields leads to a higher cost in present value terms).

The actuarial deficit at the end of October 2010 was approximately £82m, a net reduction of £203m from that reported in the formal valuation at 31 December 2008. This reduction has resulted from a combination of factors:-

	£m
Actuarial deficit at 31 December 2008	-285
Increase in liabilities accruing to active members and pensioners	-46
Interest cost on accrued liabilities	-118
'Normal' contributions	+29
'Extra' contributions from the Company under the Recovery Plan	+60
Investment returns	+278
Estimated actuarial deficit at 31 October 2010	**-82**

MEMBERSHIP

	31 Dec 2008	31 Dec 2009
ACTIVE MEMBERS	2544	1966
DEFERRED	3209	3429
PENSIONERS/SPOUSES	11620	11807

As part of the Recovery Plan, the Company has injected a total of £60m into the PSS and a further £40m will be due in 2011. This is a major contribution from the Company and it is important for the membership to be aware, apart from these deficit contributions, just how much the operation of the Scheme costs the Company on an annual basis. 'Normal' contributions from the Company cost approximately £9m p.a. In addition the budget for the administration of the Scheme including professional fees, staffing, training, IT etc comes to around £2m p.a. In addition to this, the Company meets the cost of the levy which has to be paid to the Pension Protection Fund. This amounts to approximately a further £1m each year. It has been as high as £1.2m or as low as £700,000 and is expected to be around £940,000 for 2011. The PSS is therefore a significant cost to the Company and it is obvious why the Company, as part of the discussions around the Valuation and Recovery Plan, sought the Trustee's agreement to instigate a de-risking programme.

The Trustee has always been mindful that its primary duty is to secure the assets of the Fund to meet existing liabilities. This has been reinforced by the events of the past couple of years and the severe and rapid impact on the Fund of the economic downturn. Consequently it is entirely appropriate that the Trustee ought also to wish to reduce the overall risk in the assets of the Scheme. A de-risking plan was agreed whereby assets would be moved from the return-seeking proportion (equities, property, hedge funds) to the liability-matching proportion (gilts, corporate bonds) if certain trigger funding targets are met or on a gradual basis over time.

Earlier in 2010 a trigger funding level target was met on two separate occasions so the Fund has moved assets from equities to bonds. These switches have led to a new asset allocation of 62% liability-matching and 38% return-seeking. The de-risking plan which is currently in place will eventually take the overall split to 70% liability-matching and 30% return-seeking. At these proportions the Trustee is advised by its Investment Consultants that once the Scheme returns to fully funded status on an ongoing basis, there is a realistic possibility that the fund could generate sufficient income to enable some non statutory annual increases to be paid over time.

The Trustee continues to look for ways of diversifying the assets which remain in return-seeking asset classes in order to reduce the overall level of risk being taken, whilst maintaining the level of investment return. More detail of what is being done in this regard is set out in the 'Investment Section' of this Newsletter. At the same time we are also investigating the possibility of reducing the risk to the Fund of the continuing rise in life expectancy of members by hedging this risk with third parties.

During the course of 2010 Peter Edholm, who had been a Trustee Director since 2007, left the Company and therefore resigned from the Trustee Board. I thank him for his contribution during his time on the Board. We are fortunate that other Member-Nominated Directors, whose term of office expired in 2010, chose to stand for re-election. Even with the three new candidates, there remain vacancies on the Board. Steven Jones from Greengate, Graham Ingle who is based at Pilkington Leeds and Gary Luck from AGR in Redditch were each nominated for election and have been appointed to the Trustee Board. David Pinder has been appointed as a Trustee Director by the Company. The remaining Directors welcome their new colleagues on behalf of the Scheme membership as a whole. The work of the Board requires a significant commitment in time and learning and it is greatly appreciated that we have individuals who are prepared to take on this increasingly demanding role.

The Board members undergo regular training and the new Trustees have all undertaken additional sessions to help them to become familiar with the more technical aspects of pensions and their duties as Trustee Directors.

One more recent retirement ought not to go unrecognised. John Gillespie, who had a long and successful career with Pilkington before his retirement in 1992, has been a Trustee

...continued on page 4

THE TRUSTEE BOARD

The Pilkington Superannuation Scheme is operated and managed by the Corporate Trustee – PILKINGTON BROTHERS SUPERANNUATION TRUSTEE LIMITED. This one Trustee is represented by its Board which can comprise up to 24 Directors. There are currently 21 Directors – one vacancy in the Employer-Nominated Directors and two in the Employee Member Nominated Directors.

As at 1 December 2010 the Directors of the Trustee were:-

Secretary: Miss J.P. Halligan

Pilkington Brothers Superannuation Trustee Limited, Group Pensions Department,
Prescot Road, St. Helens, Merseyside WA10 3TT
Tel. (01744) 692185 Fax. (01744) 737336

Note: 'E/ee' denotes the director is directly elected for a fixed term by the PSS members (where the abbreviation is 'E/ee P' by the pensioners)

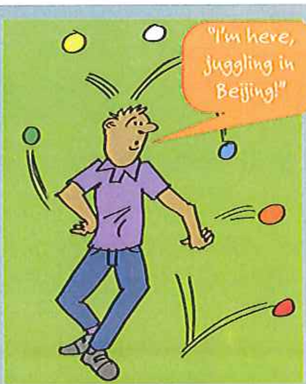
** denotes the director is in receipt of a PSS pension.*

ADVISERS

The Board of the Trustee has appointed the following advisers to support its work in administering and managing the PSS:-

Scheme Actuary:	Jane Curtis (FIA) of Hewitt Associates Ltd.
Investment Consultant:	Towers Watson Ltd
Auditors:	PricewaterhouseCoopers LLP
Lawyers:	Hogan Lovells LLP
Bankers:	National Westminster Bank plc
Investment Managers:	State Street Global Advisors Ltd. UOB Global Strategies Fund plc Rogge Global Partners plc PIMCO Europe Ltd CB Richard Ellis Investors Ltd Henderson Global Investors Legal & General Investment Management Ltd. JP Morgan Alternative Asset Management Inc
Custodian:	JP Morgan Chase Bank NA

WHERE ARE YOU?



Please let us know if you change your address. Otherwise it is very difficult for us to contact you and you risk missing information from us which could be important and potentially costly to you.

We need written confirmation of change of details but you can write to the address on the front page or forms are available to download on www.superpilk.com.

Also, if you move don't forget to update your details with Ruskin Leisure Limited if you participate in the Prize Draw – otherwise if you are successful they won't be able to get your prize to you which would be a shame!

ACTIVE MEMBER BENEFITS

Do you, as an active contributing member of PSS, know what Benefits the Scheme provides for you?

To judge from some of the queries received by Group Pensions Department it would seem that the answer to this question is quite often 'probably not' or at least perhaps not some of the benefits other than the member's own pension. So by way of simple explanation the Scheme provides benefits for Active members as follows:

A PSS pension calculated by reference to service, average salary and accrual rate ($^{1}/_{60}$th or $^{1}/_{80}$th per year of service). Age is also a factor if you apply to draw your pension before normal retiring age. (*PPS pensions are calculated separately*).

Converting some of your pension to a one-off lump sum payment (commutation) is allowed. This option only arises when your pension comes into payment.

If you die whilst an active contributing member a lump sum of 3.5 times normal salary at the date of death is payable.

The Scheme generally pays a spouse's pension of one-half of the member's uncommuted pension (subject to adjustment when there is a significant age difference). The spouse's own pension will begin from the following month.

A member's pension is guaranteed for 5 years once it is in payment. Therefore if the individual dies within that 5 year period the balance of his/her pension for the remainder of the 5 years is payable as a lump sum in accordance with their wishes on the Declaration Form (Declaration forms available from Group Pensions Department).

Ill heath early retirement pension – where an individual fulfils the requirements of the Scheme Rules – the Trustee may grant permission to retire early. In this case the ordinary pension payable will be that accrued to the date of retirement but not reduced for early payment. If an individual is totally incapacitated, meaning incapable of holding down any form of employment, not only that which (s)he does for Pilkington, then again that individual may be granted an early retirement pension.

All these benefits are governed by the Trust Deed and Rules and the details can be found in there or from Group Pensions Department, but this outline is hopefully helpful in realising the benefits which come from the Scheme.

In certain circumstances, where there is financial dependency, a dependents pension may be paid but these are subject to strict rules and details can be obtained from Group Pensions Department.

REMINDER

DECLARATION OF NAMED DEPENDANCY FORM – Dependant Pension

The Scheme generally pays a pension after your death, to the person to whom you are legally married, for the remainder of their life.

If you are not married but have a common-law-spouse or an individual who is fundamentally dependant on you whom you wish to be considered by the Trustee for a pension payment (in the event of your death) you must complete a 'Named Dependant' form.

The receipt of a completed form would enable the Scheme Trustee to exercise their discretion regarding the payment of a pension.

DECLARATION OF WISH FORM – Lump Sum Death Benefit

In the event of the death of a member it may be the case that a lump sum death benefit becomes payable. A beneficiary can be nominated by completing a 'Declaration of Wish' form.

The receipt of a completed form would enable the Scheme Trustee to exercise their discretion regarding the payment of a lump sum death benefit. The form does not bind the Trustee but it does enable the Trustee to take your wishes into account after your death when disposing of any death benefit.

Both forms can be obtained from and should be returned to Pilkington Group Pensions Department, Alexandra Park, Prescot Road, St Helens, Merseyside WA10 3TT

Circumstances change as life progresses; it is therefore important that you keep your beneficiary details up-to-date on such forms.

PENSION INPUT PERIOD

At the time the new tax regime was introduced in 2006 the Scheme's Pension Input Period was set at 6 April to 5 April. This is the period over which accruing benefits are measured against the Annual Allowance.

This period takes on an increased significance with the changes to the tax relief on high earners. However, please be advised that the Pension Input Period for PSS runs from 6 April each year to 5 April of the following year.

s251 PENSIONS ACT 2004

The Trustee is required to pass a resolution under section 251(3) of the Pensions Act 2004 in order to preserve its existing power to make payments to the employers if the Scheme is terminated. The Trustee intends to pass a resolution to take effect on 1 April 2011 in order to maintain the current position. The circumstances in which such payments could be made are actually strictly limited. In particular it is important to note that no surplus could be paid to any employer unless the Scheme is wound up and ALL members' benefits have been secured in full with a suitable insurer.

INVESTMENT SECTION

Whilst it has been customary to present an extract from the Investment Report in past issues of Reflections, such information has to be retrospective. In this issue we have written an article on how the investment portfolio is built and managed instead. The 2009 investment report is available as part of the annual report on www.superpilk.com by clicking on Financials then Annual Report.

An Investment portfolio is a collection of investments held by an institution e.g. the PSS. The first thing that must be done when deciding on what the portfolio will contain is to determine the objectives of the investment. In the case of the pension scheme, the investments must earn us enough money to meet the liabilities of the Scheme i.e. to pay the pensions.

In a simplified view of pension liabilities, these liabilities are a set of regular payments which are either fixed or linked to inflation. It would therefore be logical to invest our assets in bonds, which would provide regular income to match the outgoings, and indeed 62% of the Scheme's assets are currently held in such bonds.

So why are the assets not all invested in bonds? The principal reason that the Trustee does not hold all the assets in bonds is that the Scheme is not fully funded (i.e. the liabilities are greater than the assets at present). By holding some of the investments in asset classes with a higher predicted return it is expected that the funding level (the ratio of assets to liabilities) will be improved. The Trustee would like to see the funding level improved to the point where payment of non-statutory increases can be resumed. The Trustee also needs to create a safety margin to cover changes in liabilities due to changes in mortality rates – the increase in life expectancy has added greatly to the Scheme's liabilities over recent years.

If the assets are not held as bonds, where should they be invested? Traditionally all assets were held as either bonds or equity. Equity returns over time have been higher than bond yields, but their returns are more volatile (i.e. the value of the equities goes up and down more), as demonstrated in 2008/09, when the FTSE fell by over 40% in less than a year. So is there a better solution? Nowadays there are many possible asset classes to choose from, but they all have risks associated with them. The Trustee therefore tries to choose a selection of investments with different risks, so that they do not all suffer a negative impact at the same time.

As an example, imagine investing in an ice cream van. Income would be expected to be high on hot sunny days, but low on rainy days. If you invested in an umbrella shop you would expect the reverse to be true. Both investments may give a good overall return, but the income from each is volatile. If, however, both are bought then no matter what the weather one of the investments will earn money, and hence the overall income will be much smoother.

The Trustee therefore tries to incorporate assets with different risks into the portfolio, as it is unlikely that all different types of investment will lose value at the same time. The corporate bonds have a "credit risk" – the risk of the issuing company defaulting. The equities carry an "equity risk" – the risk of loss if the issuing company goes bankrupt. The equity risk is higher than the credit risk as bond holders must be paid out in full before equity holders are paid any return. The property portfolio carries an "illiquidity risk" - the risk that it may not be possible to sell the funds immediately. The fund of hedge funds, which forms 5% of the total portfolio, carries a significant "skill risk" as it relies heavily on the ability of the manager to select the best hedge funds to invest in, but so far has shown a good return.

The Trustee has now decided to further diversify the portfolio by transferring 3% of the asset value from UK equities to Emerging Market equities. This should reduce the volatility of the portfolio because equities in each market will be affected by the local economies (even although there is still a high degree of correlation between markets) and because it will reduce the investment in a small number of very large corporations which make up a large proportion of the UK index.

It has also been decided to invest 2% of the asset value in a re-insurance fund, providing insurance against natural disasters, extreme weather conditions, aviation disasters etc, which will have an "insurance risk". This should reduce the overall volatility of the portfolio, as the events which cause market losses are not usually related to those events which cause insurance losses.

Finally the Trustee is considering how it could use swaps – a form of derivatives – to further reduce the volatility in the Scheme's funding level. Swaps would allow the Scheme to "swap" one income stream for another. For example, the Scheme could enter into a swap to pay a bank a variable interest rate in exchange for receiving a fixed interest rate. This would be akin to swapping your bank savings account, which pays an interest rate that moves with the Bank of England base rate, to a fixed interest bond, but by using swap derivatives the interest rate can be fixed for 50 years.

The Trustee Directors have undergone, and continue to receive, training in this area. A working party has been meeting since July to consider the options available to use swaps to "fix" the rate of interest and inflation for the Scheme, and a different working party is reviewing the options to reduce the risk of changes in life expectancy by using longevity swaps.

As it takes a period of months to set up the framework necessary to use derivatives, the Trustee has decided to proceed with this now so that it is in a position to move quickly if and when it decides to use derivatives.

It will have become clear by now that the area of investments is very diverse and can be quite complicated. All the Trustee Directors undergo training about available asset classes and those on the Investment Committee have further sessions which go into more detail about the intricacies of classes in which the Trustee is contemplating an investment, the potential for return and the risk profiles. This is a major commitment from the Board and the Investment Committee in terms of time and energy to keep up to date with this ever changing environment.

TRUSTEE DIRECTORS

During 2010 there have been some changes in the membership of the Trustee Board. Peter Edholm who had been a Member Nominated Director for three years, retired from the Board upon leaving the Company. Nominations were sought for Member-Nominated Directors (MNDs) to fill the vacancies created both by retirements and by the terms of office of certain of the remaining MNDs coming to an end. We were fortunate that all the Directors whose term was ending chose to stand for re-election. In addition we received a further three applications from Steven Jones, Graham Ingle and Gary Luck.

All the nominees were appointed without the need for an election. Our new Directors have undergone training and have participated in several Board meetings already. A new Employer-Nominated Director has also been elected by his fellow Employer Directors. He is David Pinder, Managing Director of Building Products Southern European Region and UK Country Manager. He too has undergone training and has attended his first Board meeting recently.

The membership owes a debt of gratitude to these and all the Trustee Directors who work hard on their behalf in what is an increasingly complex area requiring training and knowledge of many different subjects which all come together in the operation of a pension scheme.


David Pinder


Gary Luck


Steven Jones

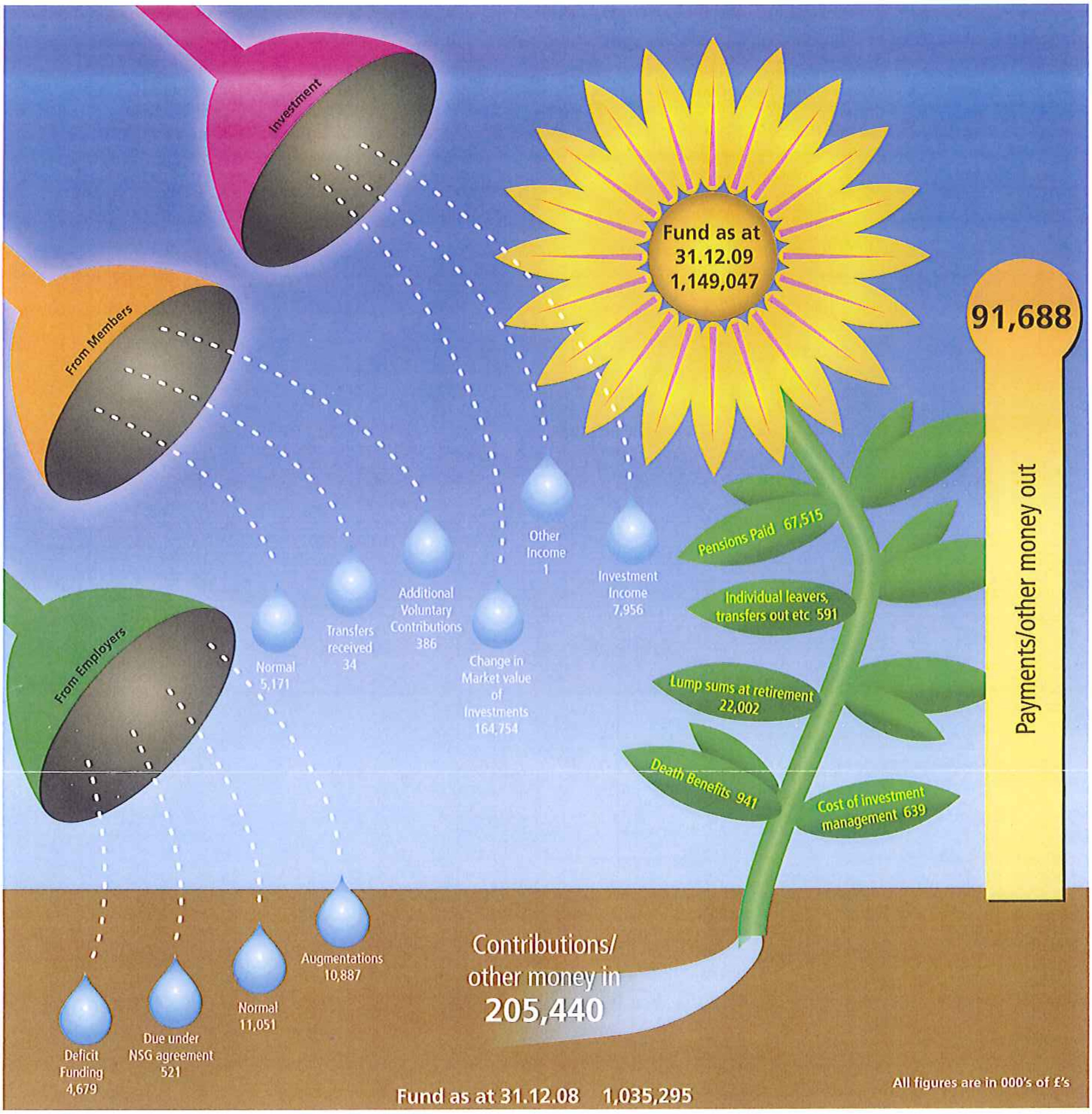

Graham Ingle

STRUCTURE OF THE TRUSTEE BOARD

During 2009 and 2010 the Trustee Board decided to consider its own size, structure and operation. A committee of the Board was tasked with the review and it gathered data from many sources including visits to other schemes of similar size to PSS. It also considered the history of the PSS and how its existing structure had evolved.

The Committee reported to the Board which decided that the overall size of the Board should reduce to 14 by July 2013. The significance of July 2013 is that it is the date when the next Member Nominated Directors ('MNDs'), both Employee and Pensioner, will begin their term of office. All those currently elected will retire at the end of June 2013 but they may of course stand for re-election. The election though will be for fewer places. The Board decided that the existing demarcation between local and remote constituencies has become out-dated and they have removed this to leave one constituency for active members. The proportion of Employer Directors to MNDs will remain half and half. The MNDs will be split differently from the way they are currently. At the present time there are potentially 10 Active and 2 Pensioner MNDs. The Board considered the membership profile of PSS together with the guidance from the Pensions Regulator that the membership of the Board ought to represent the membership proportionately. The split from 2013 will be 4 Active and 3 Pensioner MNDs. Having regard to the fact that there are and are likely to continue to be retired Employer Directors, the Board was advised by its legal advisers that this split is acceptable. The issue will be kept under review.

The Committee also researched and considered various different methods of selection for MNDs but ultimately the Board decided to retain the current election system.



Chairman's Letter

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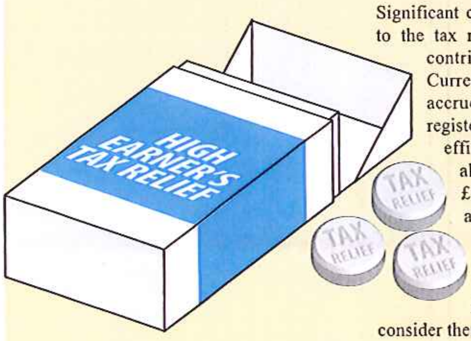
Director of PSS (and other Pilkington pension schemes) since the mid-1980s. He decided to stand down from the end of November after 25 years service to PSS. On behalf of the Directors and the members past and present of PSS, I thank John for his significant contribution to the Scheme both during his career and since his retirement. I wish him continuing good health and a more relaxing retirement in the future.

In looking forward I am cautiously optimistic. The Scheme has made an encouraging start to its recovery from the serious effects of the economic crisis of 2008/9 but we still have much to do and there are massive strains in the global economic system and financial markets to be overcome.

I hope that by the time I am next writing for this publication the general economic situation is both more stable and in better health and that it is possible to look ahead with confidence to a more optimistic landscape for the future.

HIGH EARNER'S TAX RELIEF



Significant changes are being proposed to the tax relief available on pension contributions or accrual. Currently an individual can accrue £255,000 value in a registered pension scheme in a tax efficient manner. This allowance is being reduced to £50,000 and the factor applied in calculating the value of accrual is being increased so overall the impact may be felt by individuals who may not consider themselves 'high earners'.

In a defined contribution plan the contributions are precisely that – the amount invested into the plan by or on behalf of a member during the relevant tax year. In a defined benefit plan it is the accrual during the year which counts and this is valued in a prescribed manner.

The formula requires the deferred pension value at the beginning of the tax year uplifted by CPI and multiplied by 16 to be subtracted from the deferred pension at the end of the tax year also multiplied by 16. If the result is over £50,000 then tax is payable on the excess at the individual's marginal rate.

Needless to say, the above simple formula summarises in a very 'shorthand' way a mass of detailed regulations. The Company is working to ascertain who is affected by the new regime and will be in contact with these people in due course.