November 2008 THE SUPERANNUATION SCHEME

PILKINGTON
NSG Group Flat Glass Business

REFLECTIONS

UNPRECEDENTED TURMOIL IN FINANCIAL MARKETS

says Chairman Andrew Robb

As you will all know this year's turmoil in financial markets, particularly in the last three months, has been unprecedented in recent times. As I write this in mid October world markets have suffered their largest falls for a very long time but Governments have announced a coordinated series of support measures designed to protect the banking system and restore some stability.

The PSS is not, and cannot be, immune from the effects of this. Asset values have fallen since December 2007 and, as a result, our funding level compared with our liabilities calculated on an actuarial basis has fallen below 100%.

The Trustee and the Company are keeping the position under constant review. The PSS is a long-term scheme, it has substantial assets and the payment of pensions is not affected by this situation.

It is worth remembering that the PSS is now a 'balance of cost' scheme, following the Pensions Act 2004, which means that the Company stands fully behind the Scheme.

The next formal triennial valuation of the Scheme is due as at 31 December 2008. Following this valuation, if the funding level remains below 100%, the Trustee and the Company will agree on the steps to be taken to restore it to 100%.

It was disappointing for the Trustee to be told by the Scheme Actuary for a second successive year that only the statutory increases to post 1997 pension in payment could be granted in 2008. The Trustee was mindful of the difficulty this would create for many of the PSS pensioners when inflation is running at the levels it is – particularly in respect of power and food. However the Trustee has no discretion in this matter and must follow the guidance from the Scheme Actuary, whose advice has been borne out by events.

The Trustee and the Company have each taken legal advice from leading counsel during the course of the last year to clarify one of the provisions of the Trust Deed. It is the clause which relates to the granting of pension increases on pre 1997 pensions in payment. I can now confirm that the agreed position is that, in the event that an increase at the full RPI rate cannot be afforded by the Scheme, if the Scheme Actuary is of the view that a lower percentage rise could be granted, then the Trustee may award such lower level of increase. Whilst this was not possible in 2008 there may be times when it could allow some increase to be granted where otherwise none could have applied.

The Trustee continues to monitor the financial well-being of the sponsoring company, Pilkington Group Limited, and its subsidiaries through meetings with the Finance Director and senior management and the presentation of the Company's results to the Trustee Board. The Trustee also instructs PricewaterhouseCoopers ('PwC') to undertake an independent review of the financial strength of the Company on an annual basis. The Company has disclosed information to PwC in order for full consideration of the strength of its covenant to be undertaken by PwC. By 'strength of the Employer Covenant' we mean the ability of the Company to fulfil its obligations to the Scheme. The PwC report highlighted areas of relative strength and weakness to the Trustee but overall advised the Trustee that the Company remains a good covenant on a firm foundation.

The Trustee and in particular its Investment Committee, with the guidance of its advisers, will continue to monitor the Fund and the economic markets and be ready to take appropriate action, if any, from time to time. I hope that by the time I next write to you the economic and financial environment will have settled down and some recovery will be in sight.

MEMBERSHIP

	31 Dec 2006	31 Dec 2007
ACTIVE MEMBERS	2593	2428
DEFERRED	3333	3303
PENSIONERS/SPOUSES	11860	11799

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 this page or forms are available to download on **www.superpilk.com**

WHERE IS GROUP PENSIONS DEPARTMENT?

You may have heard that some of the people who currently work at the Head Office site on Prescot Road are due to relocate to Lathom at the end of the year. Group Pensions Department, along with several other departments, will remain at Prescot Road and in its current office on the 10th floor of the Tower building. Our contact details remain the same.

USEFUL NUMBERS

If you have any queries about your pension benefit, please contact Group Pensions Department

Group Pensions Department, Pilkington Group Limited, Prescot Road, St Helens, Merseyside WA10 3TT

Telephone: (01744) 692596
Fax: (01744) 737336
Email: pensions.administration@pilkington.com

For Healthcare queries contact BUPA helpline on: 0845 606 6715

Income tax queries contact Inland Revenue direct on: 0845 302 1462

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 22 Directors – one vacancy in the Employer-nominated Directors and one in the Employee Member Nominated Directors.

As at 1 October 2008 the Directors of the Trustee were:-

Pilkington Brothers Superannuation Trustee Limited, Group Pensions Department, Prescot Road, St. Helens, Merseyside WA10 3TT
Tel. (01744) 692980 Fax. (01744) 737336

Note: 'Elee' denotes the Director is directly elected for a fixed term by the PSS members (where the abbreviation is 'Elee 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:	Ian Watson (FIA) of Hewitt Associates Ltd.
Investment Consultant:	Watson Wyatt Limited
Auditors:	PricewaterhouseCoopers LLP
Lawyers:	Lovells LLP
Bankers:	National Westminster Bank plc
Investment Managers:	State Street Global Advisers Ltd. UOB Global Strategies Fund plc Rogge Global Partners plc PIMCO Europe Limited Goldman Sachs Asset Management International Nomura Asset Management (UK) Ltd.
Custodian:	JP Morgan Chase

2010

Just another year – another year older certainly, and wiser? Possibly! Certainly it is another year when there will be a significant change in the world of pensions. Currently an individual is allowed to draw his/her pension at age 50 subject to the provisions of the particular scheme allowing this. PSS does allow an individual who has reached age 50 to retire and draw the pension provided the Company consents to the early retirement.

The law is changing this position after 5 April 2010. Regardless of scheme rules an individual will not be able to draw an occupational pension until age 55.

The Company has written to all active and deferred members to explain the position and it is only people born between April 1955 and April 1960 who might be affected. That is to say, anybody who is 50 years old but who has not reached age 55 by 5 April 2010 must either retire at 5 April 2010 or they will be unable to draw their pension until age 55 which could be almost 5 years away. Similarly a deferred pension could not be put into payment after 5 April 2010 until the recipient attains age 55.

Whilst there will not be too many people who have to exercise a choice, there are quite a number of members who are simply looking at 5 years longer to retirement because, not having reached age 50 at 5 April 2010, they cannot apply for early retirement until they reach age 55.

INCREASES

The issue of how increases to pensions in payment operate was covered in last year's Reflections but the questions on the subject which continue to be asked demonstrate that the subject is still perhaps not fully understood by members. The main point is that pension accrued in respect of service before April 1997 does not automatically receive an increase when it is in payment. Any increase to this portion of pension depends on whether the Scheme Actuary believes the Fund can afford to award an increase and the consequential increase in liabilities.

Until 2003, an increase had always been awarded to this part of pension. An increase could not be afforded in 2003 or 2005 but these missed increases were implemented from July 2006. However, in each of 2007 and 2008 the Actuary has decided that the Fund was not sufficiently strong to grant an increase.

Pension accrued after April 1997 receives an increase each year whether or not pre '97 pension rises. The increase is RPI up to 5% for pension accrued between April 1997 and April 2005 and RPI up to 2.5% for pension accrual after April 2005.

These statutory increases operate to ensure this later-accrued pension receives an increase. These limits would not operate to reduce the level of increase awarded generally. The limit applies only when there is no general increase to pre-97 pension.

TRUSTEE TRAINING

The life of a Trustee Director is not always a happy one. Many people seem to think that it is a question of turning up for a free lunch a few times a year. Nothing could be further from the truth. There is, as it is said, no such thing as a free lunch. Nowhere is that more so than in the case of the Trustee Director.

There are at least 5 Board meetings each year and most Directors serve on at least one of the Trustee's Committees. The Investment Committee as an example will have met 6 times in 2008. Prior to the meetings – Board or Committee – there are papers to consider. These usually run to about 100 pages for a Board or 50ish for a Committee and much of this can involve technical issues.

For this reason, and because the Pensions Regulator requires Trustees/Trustee Directors to achieve a certain level of knowledge and understanding about pensions law, regulation, valuation, investments and other associated issues, the Trustee Directors receive training from the Scheme's advisers on a regular basis usually for a few hours before the Board Meeting. This ensures that all the Directors receive the training in all the necessary areas – not just those with which they are directly involved. This makes sure they are able to make the decisions necessary, being informed about the impact on all the classes of membership and from a position of understanding the information being given to them. This sounds basic but given the technical nature of actuarial valuation procedure and reports, and the intricacies and jargon involved in investment management, there are areas where hours of training are given with continuous updating in order to ensure the Directors are adequately prepared to look after all our interests.

The Directors expend a great deal of time and energy on our behalf – we should appreciate them perhaps more than we do.

FINANCIAL ADVICE

As you are aware, financial advisers have to undergo specific training and they must register themselves with the Financial Services Authority (FSA) in order to be authorised to provide financial advice to individuals. None of the Trustee Directors nor anyone in Group Pensions Department is authorised in this way and so cannot provide financial advice.

Should you wish to locate an independent financial adviser, the FSA website has a linked site at **www.unbiased.com** which can help you locate someone in your area who is qualified to help you.

DECLARATIONS

In addition to pension payable during a member's retirement, it may be the case that there are benefits payable on a member's death. 'Declaration of Wish' forms are available from Group Pensions Department or on-line at **www.superpilk.com**.

The Declaration 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 benefits.

If you are unsure about whether you have made a declaration or in whose favour it is then simply send us another form and this will replace any existing one.

Circumstances change as life progresses and it is important that you keep your declaration up to date so your wishes are clear if the occasion arises when the Trustee has to have regard to the form.

EXTRACT FROM INVESTMENT REPORT

The asset allocation and target returns are set out in the Statement of Investment Principles (available on www.superpilk.com). The actual returns for 2007 at an overall Scheme level are set out below. Certain measures have been taken since the end of 2007 to change the allocation of assets although the overall 50% return seeking:50% liability matching split has been retained.

The overall return (i.e. net capital appreciation plus income) for the Scheme for 2007 was 6.2% against the benchmark return of 6.9%, as reported by WM Performance Services. During the year the RPI rose by 4.0% (per WM).

For the 5 years to December 2007 the annualised return on Scheme investments was 10.6% per annum (per WM) against a benchmark of 10.8% per annum. Over the same period retail price inflation was 3.4% per annum.

In 2007, the assets managed by SSgA in the passive index tracker bond funds returned index performance as anticipated. The equity funds held by SSgA and managed on an enhanced index basis performed slightly below target so the overall return from SSgA was 6.1% (per WM) against a benchmark of 6.6%.

Nomura's performance was under close scrutiny for the whole year and consideration was given to alternative options to gain exposure to equities in the Asia Pacific region including Japan. Ultimately, it was decided to retain Nomura to manage equities in this region and the relative performance in the latter part of the year showed an improvement. The overall performance, however, remains behind benchmark for the year 2007 at 14.5% (per WM) against a benchmark of 15%. Over the three years to December 2007, the performance was 18.6% pa (per WM) versus a benchmark of 17.3% pa. Performance remains disappointingly behind the target outperformance objective and continues to be reviewed regularly by the Investment Committee.

It was agreed with PIMCO during 2007 that the Scheme's portfolio would be used as the basis for a pooled fund which, once established, would be available to third parties seeking such a vehicle instead of a segregated investment. PIMCO's performance over the year 2007 was behind benchmark at 0.2% (per WM) against the 1.9% benchmark.
Rogge, whose mandate began slightly earlier than that of PIMCO and who are still running a segregated mandate for the Scheme, returned an annual performance for 2007 of 2.9% (per WM) ahead of the 1.9% benchmark.

GSAM managed an active currency overlay for the Scheme. Throughout 2007 this was a blended approach being half in the Fundamental Fund and half in the Strategic (ie quantitative) Fund. Overall, the Fundamental Fund performed reasonably well over the year but the aggregate return of the overlay was very disappointing due to the losses sustained by the Strategic Fund. Since the end of 2007, the Investment Committee has reviewed the performance and has decided to consolidate the whole investment in the Fundamental Fund. Hence the money previously held in the Strategic Fund has been moved to the Fundamental Fund. The portfolio in 2007 returned -13.2% against a benchmark of 3.7%.

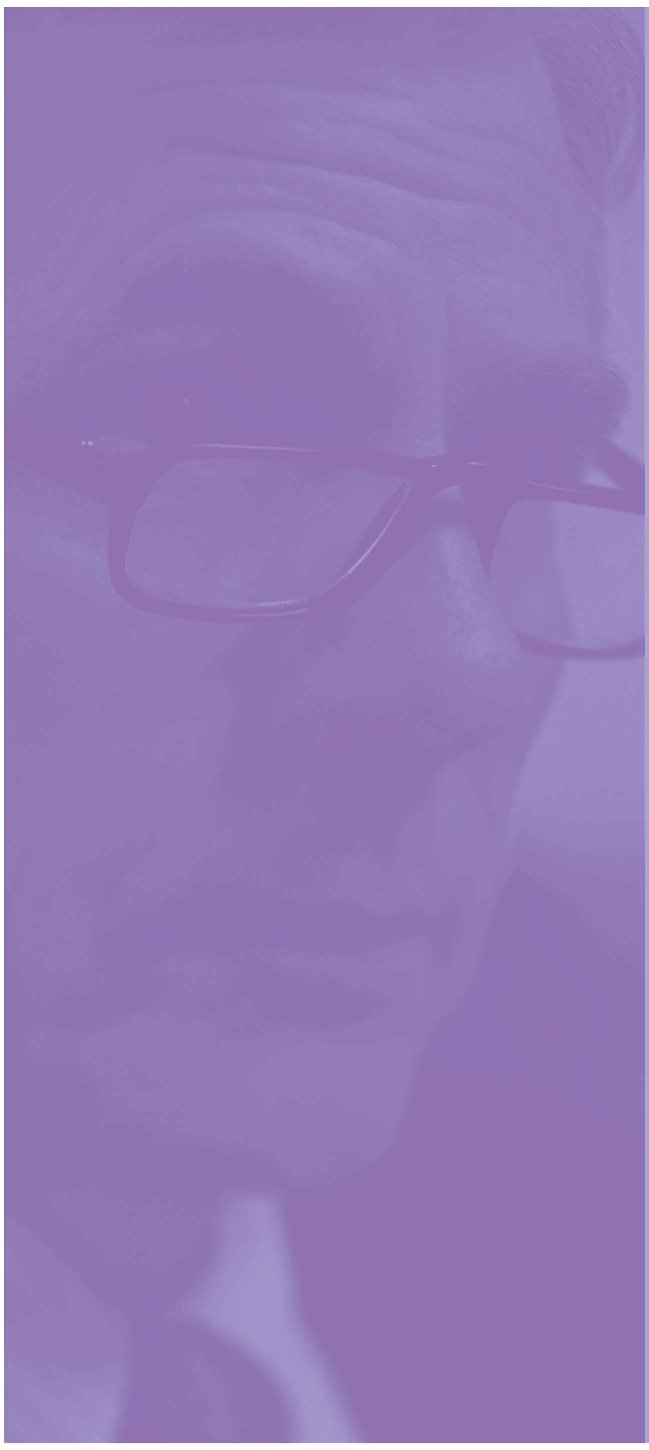
UOB returned significantly ahead of its benchmark again in 2007 at 17.2% against a benchmark of 10%. Monies were rebalanced back from UOB in late 2007 as it had accumulated beyond the permitted deviation from its allocation of 6% of the Scheme. In effect this locked in some £7m of gain on this investment since late 2005.

Rebalancing
During the year £17m was transferred from SSgA to Nomura due to a change in asset allocation from UK equities to overseas equities. £26m was transferred out of UOB to bring the Fund back to benchmark. This money was transferred to SSgA (£13m), Nomura (£7m) and the PIMCO Pooled Fund (£6m).

Relative Performance

	2003 %	2004 %	2005 %	2006 %	2007 %	3yrs %	5yrs %
Scheme Annual Return	13.5	9.5	17.5	6.9	6.2	10.1	10.6
Benchmark Annual Return	14.4	9.8	16.9	6.4	6.9	10.0	10.8

The Scheme's investment performance during the year was adversely affected by the poor performance of the GSAM quantitative fund.



THE PENSIONS REGULATOR

The Pensions Regulator ('TPR') plays a major role in the regulation of pension schemes in the UK. He provides significant protection for members by raising the standards of administration, governance and trustee knowledge and understanding as well as obliging Trustees and Employers to ensure he is informed of events which could have an impact on a scheme.

There are many aspects of running a pension scheme in which TPR is or may become involved. There is a duty on the Trustees, the Administrator (which in the case of PSS is the Company through Group Pensions Department), and the Advisers to the Scheme – the actuary; lawyers; auditors – all to report to TPR a number of aspects connected with the scheme.

There is a duty on the Trustee to give TPR notice of what are described as notifiable events. These are not breaches of the law, which must in any event be reported to TPR, but are incidents or situations which may lead to concerns over the impact of the event on the funding position of the scheme or the ability of the employer to meet its obligations to the scheme. Certain events are always notifiable but others are so only if the scheme is underfunded.

The Trustee must notify TPR in all cases when it takes a decision to seek to compromise a debt owed to the scheme or if the Trustee was to decide to grant an augmentation or increase to any pensions either without any additional funding advised by the Actuary or without consulting the Actuary. Where a scheme is 'underfunded' (where underfunded is defined as being below 100% of the PPF funding level or where there has been a material breach of the Schedule of Contributions) the Trustee must report the following instances:-

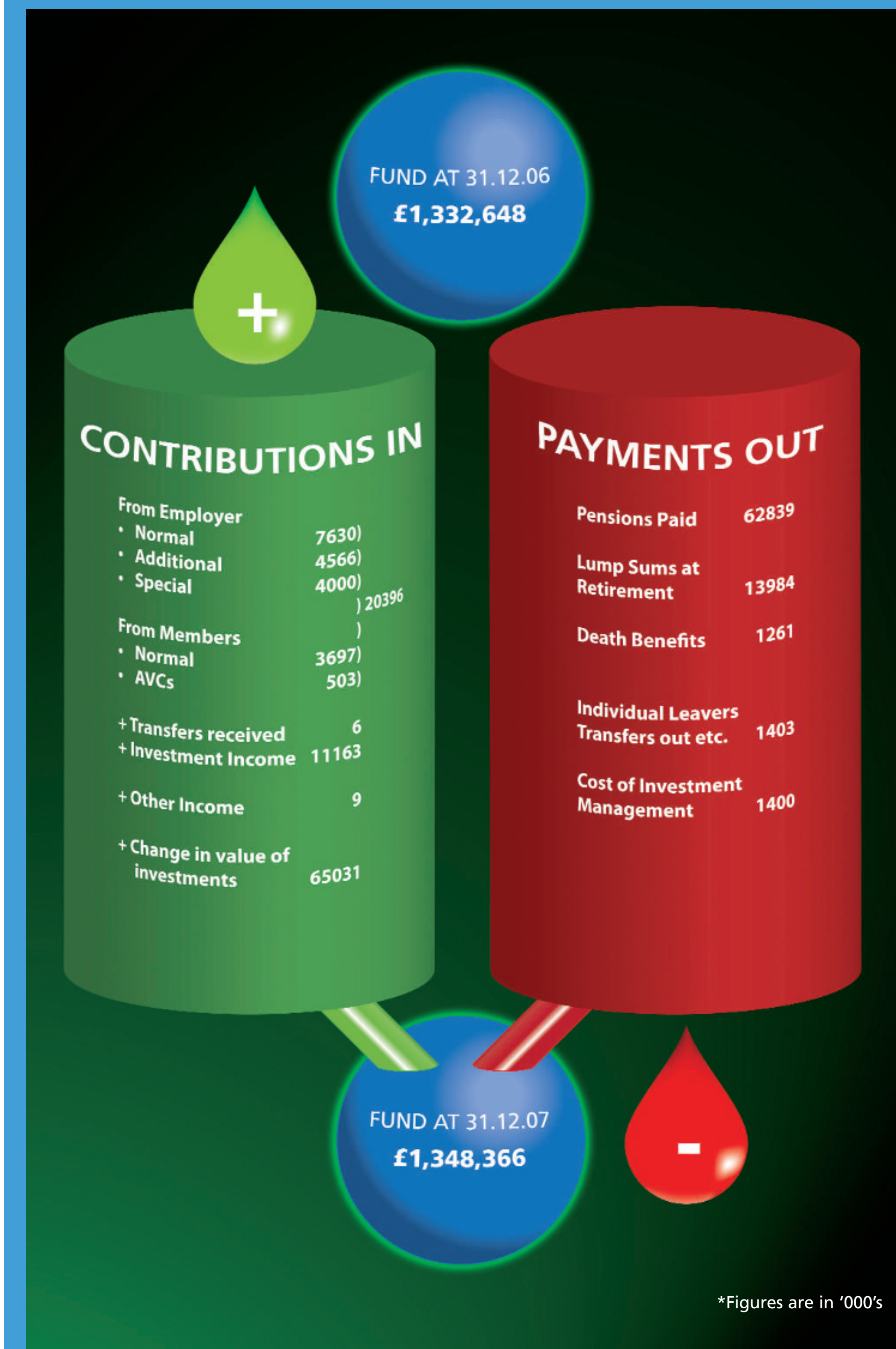
(i) Two or more changes to the Scheme Actuary or the scheme Auditor (including one change of each) in a period of 12 months.

(ii) A decision by the Trustee to make or accept a transfer payment exceeding the lower of 5% scheme assets or £1.5m.

(iii) A decision by the Trustee to grant benefits (or a right to benefits) to a member at cost exceeding the lower of 5% of scheme assets or £1.5m.

There are time limits in which the report should be made and very specific requirements for what information must be disclosed. Penalties apply where the duty to report is not fulfilled. Consequently, this duty, together with the duty to report breaches of the law provide additional safeguards to members that the Fund is being managed appropriately and correctly in accordance with the Trust Deed and Rules and legal requirements.

HOW THE CASH FLOWS



THIS DIAGRAM, or something similar, appears every year in 'Reflections' to explain to you how the cash flows of the Scheme operate. What has become clear over the Summer of 2008 when pensions has had a high profile within the Company, is that even though the diagram is there, it is perhaps not fully understood by the members. Many people thought that the benefit payments were met in full by the contributions being made to the Scheme by the active members and the Company. The illustration shows that this is clearly not so. Total contributions during the year amounted to £20,396,000 whereas the benefits paid out in the form of pensions alone, so not including the lump sum payments made to people who commuted pension at retirement, totalled £62,839,000. So how can this be? You can see that by far the largest number on the left-hand side of the diagram is £65,031,000 in respect of the change in the value of the investments. In addition to this there is a further £11,163,000 of income from these investments. So in short around £76 million pounds worth of income for the Scheme. And this is the principle upon which the defined benefit scheme works. Contribution rates for the future are calculated by the Actuary having regard to the likely investment return and the length of time the money will be in the Fund before the pension may be drawn. That is why volatility in the stock markets and life expectancy are such important factors. If the membership live longer than was assumed by the Actuary then the pension has to be paid for more time and therefore costs the Scheme more than was anticipated and more than had been factored into previous valuations. If the returns from investments – either by increases in value or income e.g. dividends on the investments – fall below what had been expected then, again, this will impact the outcome of the valuation.

Contributions are an important source of income but as or more important is the growth and income from the investments of the Fund over time.

In practice in PSS the monthly contributions are used to reduce the amount which has to be withdrawn from the fund to meet the monthly payroll. This minimises the amount which has to be liquidated each month and thereby reduces the costs to the fund – buying/selling assets always incurs a trading cost.

The market falls since May 2008, and most particularly since September 2008 after a positive month in August, have had a negative impact on the Fund. The Investment Committee of the Trustee with its investment advisers are monitoring the Scheme constantly and discussing what if any actions are needed. The behaviour of the equity markets has confirmed the views which have always been expressed that equities attract a higher risk but over time a higher reward. The markets had risen steadily for the last 5 or 6 years so the dark days of the beginning of the 21st Century fade from the memory. Recent events bring this back sharply into focus. A pension fund however is a long-term arrangement and has to weather the economic downturn and position itself to fare well in the upturns. The Trustee and the Company are working together to achieve this in the current turbulent times.

LIFETIME ALLOWANCE - PROTECTION

The new tax regime was introduced in 2006. It was called 'Simplification' although it is not entirely clear why this was believed to be an appropriate description.

The Government allows an individual to hold benefits in tax-privileged pensions up to an allowance – The Lifetime Allowance. Anyone who was already in receipt of a pension at 6 April 2006. will only be affected if (s)he has other pension benefits not yet in payment and the combined value of the pension in payment and the undrawn benefit exceeds the Lifetime Allowance.

The Lifetime Allowance at 6.4.06 was £1.5m. This means anyone whose pension was in excess of £75000 pa in 2006 and who still has a pension or pensions which are not yet in payment, should seek advice about whether (s)he can protect the excess against the tax charge on pensions which exceed the Lifetime Allowance. Anyone whose pension benefits do not reach this sort of figure, which means most people, do not need to worry. The time limit for seeking protection from HMRC is April 2009.

BREAKDOWN BY MANAGER