December 2011 THE PILKINGTON SUPERANNUATION SCHEME

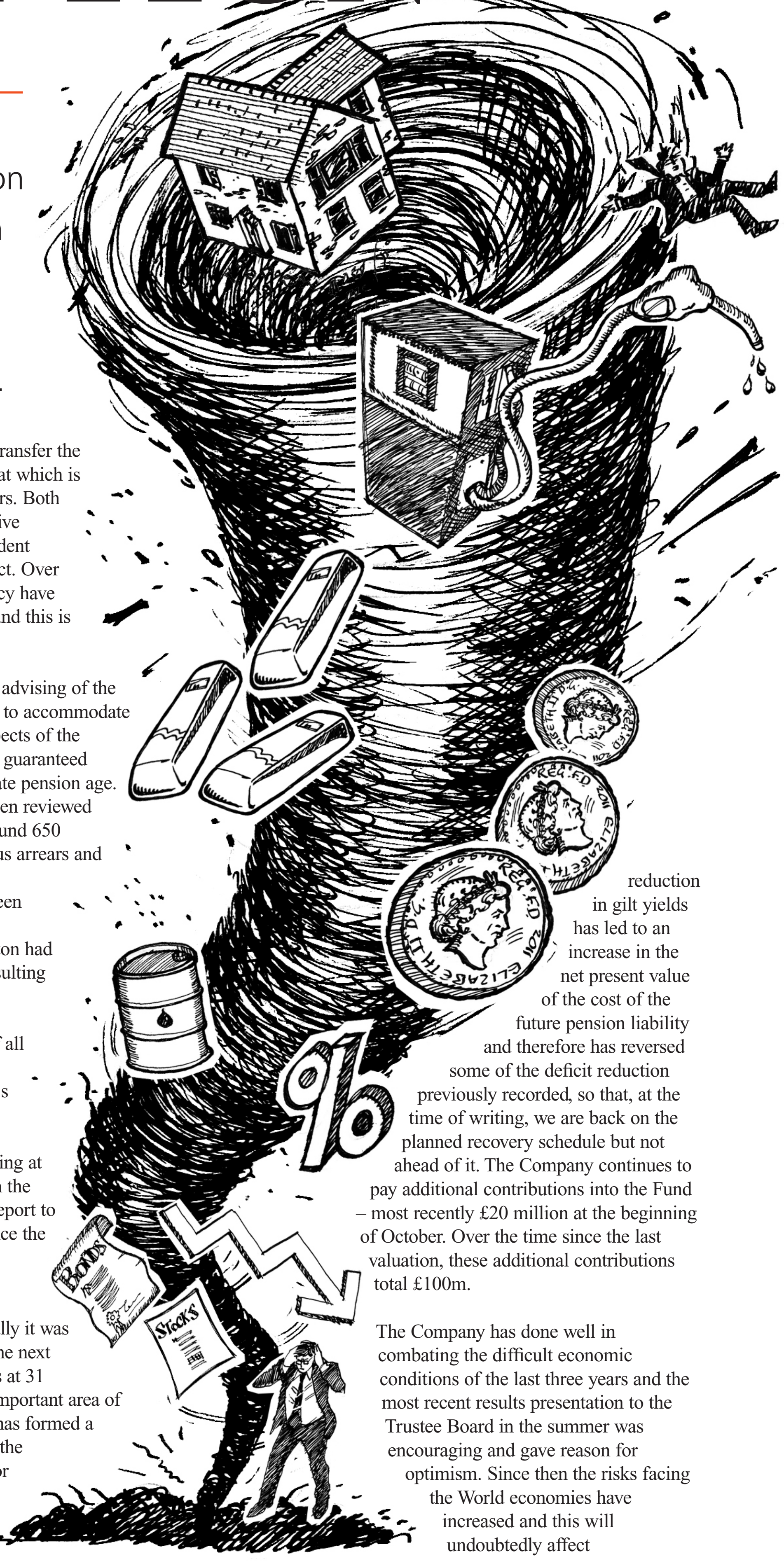
NSG GROUP

Reflections

TURBULENCE AND DISRUPTION

says Chairman Andrew Robb

2011 is proving to be another very busy year in the life of the Pilkington Superannuation Scheme ('PSS'). The economic situation has deteriorated again with enormous turbulence and disruption in financial markets, which is affecting the management of the Scheme. At the same time more new legislation and regulation which affects us all is being introduced and has to be dealt with.

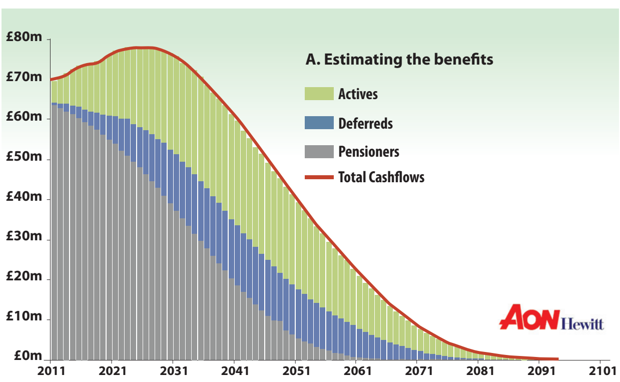


The Trustee and Company, as part of the 2008 valuation, agreed that the portfolio of assets ought to be reallocated to reduce the Scheme's exposure to the vagaries of the world's stock markets. As I reported last year, the Fund had moved significantly towards a higher proportion of liability-matching assets. During 2011 a further shift has occurred so the position now is that the Scheme holds nearly 70% of its assets in bonds and similar liability-matching assets – being fixed interest and index linked gilts, corporate bonds and cash. The remaining 30%, which is invested in what are referred to as 'return-seeking' asset classes, comprises equities managed largely, but not entirely, on a passive index-tracking basis; property via pooled fund investments; a fund of hedge funds and a reinsurance fund.

Last year's investment report advised that the Trustee had decided to invest in reinsurance and this was completed in April of this year. We have also recently completed detailed legal agreements allowing the Fund to put in place an interest and inflation rate hedging programme, also known as liability-driven investment. This programme will enable the Fund to improve the matching of the duration of its asset portfolio with the estimated duration of its liabilities and to minimise the impact of future inflation and interest rate changes on the Fund. A small part of the planned hedge has been implemented, but, unfortunately, the recent market turbulence has caused a delay in implementing the rest of the planned programme.

For interest I have included below a graph showing the expected duration and rate of run off of the Scheme's liabilities – i.e. the payment of pensions in the future. From this you will see the long term nature of these which are expected to reach a peak around 2030 before gradually declining to end around 2080.

Living longer than expected is usually good news. However, for the PSS it brings the problem of having to make provision to pay pensions for more years than originally anticipated. Further hedging of the longevity risk is now under active consideration. Depending on cost this would be undertaken jointly by the Company and the Trustee with support from the Company. Whilst this would add to the liabilities of the Scheme initially, it would transfer the risk of longevity improving at a rate beyond that which is factored into the valuation to third party insurers. Both the Company and the Trustee and their respective advisers believe it would be a sensible and prudent course of action to hedge any risk in this respect. Over recent years the improvements in life expectancy have added substantially to the Scheme's liabilities and this is one way of stemming that tide.



In June this year, all members received a letter advising of the failure in the past to amend the Scheme's rules to accommodate a procedure introduced to deal with certain aspects of the revaluation of an element of pension known as guaranteed minimum pension upon a member reaching state pension age. At this time all the pensioners' records have been reviewed and, where necessary, rectified. There were around 650 people who received some uplift to pension plus arrears and interest. I can now report that the spouses and dependents who had been affected have also been recompensed. Notices were placed in the local newspapers in areas where historically Pilkington had sites and claims by personal representatives resulting from such notices have also been dealt with.

Discovery of this failure prompted an audit of all the other processes and procedures which are carried out in Group Pensions Department. This is nearing completion. It involves the Trustee's lawyers, the Scheme Actuary and the administration team from the Department looking at the wording of the Scheme Rules together with the detail practice within each calculation. A full report to the membership will be made in due course once the exercise has been completed.

While it only seems like yesterday that we concluded the 2008 valuation of the PSS (actually it was in March 2010) we are about to embark upon the next valuation in the three year cycle. This will be as at 31 December 2011. Trustee training on this very important area of knowledge has already started and the Trustee has formed a committee which will liaise and negotiate with the Company to agree the basis and assumptions for the valuation and any necessary follow up.

The PSS had made substantial progress in narrowing the deficit which existed at December 2008, well ahead of the planned recovery schedule. The turbulence in all financial markets in the last two months has not been helpful. The progressive derisking of the asset portfolio has provided a significant level of protection to asset values but the reduction in gilt yields has led to an increase in the net present value of the cost of the future pension liability and therefore has reversed some of the deficit reduction previously recorded, so that, at the time of writing, we are back on the planned recovery schedule but not ahead of it. The Company continues to pay additional contributions into the Fund – most recently £20 million at the beginning of October. Over the time since the last valuation, these additional contributions total £100m.

The Company has done well in combating the difficult economic conditions of the last three years and the most recent results presentation to the Trustee Board in the summer was encouraging and gave reason for optimism. Since then the risks facing the World economies have increased and this will undoubtedly affect the Company.

As far as the next triennial valuation is concerned we intend to work together with the Company to try to expedite the valuation process and to take a prudent and pragmatic approach which we

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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@nsg.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 21 Directors – one vacancy in the Employer-nominated Directors and two in the Employee Member Nominated Directors.

As at 1 December 2011 the Directors of the Trustee were:-

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 Aon Hewitt Ltd.
Investment Consultant:	Towers Watson
Auditors:	PricewaterhouseCoopers LLP
Lawyers:	Hogan Lovells LLP
Bankers:	National Westminster Bank plc
Investment Managers:	State Street Global Advisers Ltd. UOB Global Capital (Dublin) Ltd Rogge Global Partners plc PIMCO Global Advisors (Ireland) Ltd CBRE Global Investors Henderson Global Investors Ltd Legal & General Assurance (Pensions Management) Ltd Insight Investment Management (Global) Ltd Nephila Capital Ltd JP Morgan Alternative Asset Management Inc
Custodian:	JP Morgan Chase

ARE YOU STILL THERE? WHERE? EXACTLY

Do let us know if you change your address. Notice of a change of address **MUST** be in writing, we cannot accept the details over the telephone. There is a pro-forma on the pensioner's payslip which can be completed and returned to Group Pensions Department or you can write to the address on the front page or email to **pensions.administration@nsg.com** or use the form available on **www.superpilk.com**.

Unless we can contact you (or your legally appointed representative) you risk missing information from us which could be important or costly to you.

Also, if you move address, don't forget to notify **Ruskinvest Ltd.** if you participate in the prize draw or BUPA if you have cover with them.

BANK DETAILS

Please let us know in writing to the address on the front or via email if you change your bank details. Otherwise there will likely be a delay in paying your pension as the payment to the wrong bank will be rejected and returned to us. We will try to contact you then but you will not have received your pension in the meantime.

WHAT IS COMMUTATION?

If you are already retired then you will know the answer to the question. If not then you may well know but we thought it might be helpful to spell out the details.

Rule 24 of the Scheme sets out the provisions governing commutation. Under these terms, and subject to the provisions of the Rules and legislation, the Member is given the option to convert a proportion of pension into a tax-free cash sum. The rates of cash paid per £1 pension given up or commuted vary according to age and to whether the pension would have attracted increases as of right and at what level.

Details of the maximum amount which a member can commute are given to him/her at retirement together with details of the amount of pension this will cost. It is then for the member to decide whether to commute at all, and if so how much up to the maximum level. The decision regarding commutation must be made at the time of retirement and cannot be delayed until later. It is a one-off opportunity and unless the member notifies Group Pensions Department within one month of the retirement date then the right to commute is lost and the full pension put into payment.

Approaches vary and independent financial advice ought to be taken. Some people simply commute the maximum and others commute none. In between, people look at how much cash they might want or need OR they look at the minimum pension they wish to have and commute pension above that level.

It is an individual decision, there is no right or wrong answer and everyone must make up their own mind what is best for them.

ADDITIONAL VOLUNTARY CONTRIBUTIONS ('AVCs')

Anyone paying internal AVCs has been advised that with effect from 1 January 2011 the formula for calculating the benefit which such contributions buys was altered. It is not a high proportion of the active membership who pay AVCs but below is an explanation of how the two options work.

AVCs are additional contributions payable on a monthly basis by a member over and above the Ordinary Scheme contributions.

In House option - Rule 11 (a) (i)
In House AVCs purchase additional single life pension at retirement. The benefits provided are less generous than those purchased by Ordinary contributions; this is due to the fact that AVCs are purchased by *Member only* contributions.

Following Scheme valuations AVC benefits are assessed by the Scheme Actuary and are amended from time to time.

The current AVC pension formula is as follows:–

$$\frac{\text{No. of Yrs}}{1.5 \times 60} \times (\text{ARS} - \text{ARD}) \frac{\times \text{ RATE}}{14}$$

Example:
Member pays 5% AVCs for 1 year only and retires at Normal Retirement Age (NRA)
(No allowance has been made for future salary increases)

Average retiring salary (ARS)	£30,000
Average retiring disregard (ARD)	£5,900
Rate paid	5%
Timescale of AVCs	1 year
Retirement accrual at NRA (Normal Retirement Age)	60ths

$$\frac{\text{1 Year}}{1.5 \times 60} \times (30{,}000 - 5{,}900) \times \frac{5}{14} = \frac{120500}{1260}$$

= £95.64 per annum payable at normal retirement age

Based on the salary shown above the cost in terms of member contributions would be approximately £1200.00 over the 12 months period

Note: If the pension is claimed prior to Normal Retirement Age then the pension amount will be reduced to reflect the earlier payment date.

Insurance option - Rule 11 (a) (ii)
Alternatively your AVCs can be directed into the insurance arrangement offered by the Scheme Trustee, currently with the Prudential. This is an open market option where the member chooses the type of investment required; with profits or unitised funds. At retirement the value of your fund would be converted into pension and paid to you directly by the Prudential, alternatively, with the consent of the Trustees, it may be transferred into the PSS and converted into pension.

If anyone is interested in making AVCs then the forms are available on **www.superpilk.com** or contact the Administration Team. Remember though if you are at risk of breaching the annual allowance, then paying AVCs will add to your annual accrual and may take you over the limit.

EXTRACT FROM TRUSTEE'S 2010 INVESTMENT REPORT

The Statement of Investment Principles ('SIP') sets out the asset allocation of the Scheme. The allocation as at 31 December 2010 together with the benchmark indices and target returns are set out in the SIP. At the year end the overall allocation of assets was within the ranges permitted by the SIP.

Performance overall in 2010 was positive at 10.9% at total Scheme level.

The benchmark for 2010 was 10.3% so the Scheme outperformed by 0.6%. The value of the Scheme at 31 December 2010 was £1,267m against £1,149m a year earlier. Within these figures are the cash withdrawals from the Scheme to meet benefit payments and correspondingly the deficit contributions received from the Company.

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

	Scheme	Benchmark	Difference
	%	%	%
3 year annualised	3.9	4.8	(0.9)
5 year annualised	5.0	5.5	(0.5)

The one year performance figures for each manager against benchmark are as follows:-

Manager	Manager Return	Benchmark
	%	%
SSgA	10.5	Index Tracking
L&G	16.5	16.4
UOB	19.3	10.8
JPMAAM	12.2	9.5
CBREI	11.0	9.8
Henderson	9.6	9.5
Rogge	7.1	8.4
PIMCO	10.6	8.4

During 2010 the allocation within the portfolio to liability-matching assets (gilts, bonds, and cash) increased by virtue of the effect of the de-risking programme agreed between the Trustee and the Company as part of the Valuation. The first switch came at the end of January/beginning of February 2010 as a result of the funding position at the end of December 2009 and the second in March because the funding position at the end of February meant that a further trigger had been met. The first switch was from the equities held by SSgA, UOB and L&G into Index Linked Gilts managed passively by SSgA and cash retained to meet pension payments. The second switch, from equities held by SSgA and L&G, was invested into Index Linked Gilts with SSgA and Corporate Bonds with Henderson. The de-risking programme will ultimately result in an allocation of 70% to liability matching assets and 30% to return seeking.

At this allocation the Trustee is advised that the Scheme, once fully funded, should retain a realistic opportunity to generate sufficient returns to pay future non-statutory pension increases.

Early in 2010, the Investment Committee ('IC') undertook some initial training on options and swaps. Following approval of the idea in principle from the Board, a working party was established to consider in more detail the implementation of a liability hedging programme. The work has progressed during the year. The Board has undergone extensive training on the subject and it is expected that a liability hedging programme will be implemented during 2011. It is recognised that this investment should reduce the overall level of risk in the portfolio without adversely affecting the potential for gaining returns.

Other asset classes were considered by the IC during 2010. The IC, with its advisers, has been considering the appropriate composition for the 30% return-seeking proportion of the Fund once the de-risking plan has been accomplished. Therefore any new investments are being considered in this context. The IC underwent training about a fundamental indexation approach to equity investing but decided not to pursue this approach at this time. The IC did however recommend an allocation to Emerging Market equities which was approved by the Board late in 2010 and has been implemented during the first half of 2011. The final new asset class which the IC and Board decided to enter is reinsurance. This is a pooled fund which covers the secondary level of risk in a wide variety of diversified insured risks, for example floods, wind damage, earthquakes. The investment was approved during the year and was implemented in April 2011.

During the year, whilst the IC may meet representatives of the fund managers as it deems appropriate, the Board holds two full days of presentations by the investment managers during which all Trustee Directors may have the opportunity to hear from the firms who are managing the Scheme's investments. These presentations look not only at past performance and any issues that may arise but also plans for their future strategies and any changes to their organisation, personnel, investment philosophy or practices.

The IC, having now determined the likely composition of the Scheme when the 70/30 allocation is reached, appreciates that whilst the overall position may be about to reach 'steady state' a great deal of attention must be given to the operation of the liability hedging programme. It will continue to monitor all of the Scheme's managers closely in seeking to gain the highest returns for the Scheme at an acceptable level of risk.

RPI / CPI - WHERE ARE WE?

The Government announced in July 2010 its intention to adopt the Consumer Price Index ('CPI') as the measure of inflation for the purpose of calculating minimum benefit increases under occupational pension schemes. The Pensions Bill was issued in January 2011 and finally received Royal Assent in November to become the Pensions Act 2011 ('the Act').

CPI is generally a lower level than the Retail Prices Index ('RPI') although not always. However, the uncertainty has led to much coverage in the press and to a level of confusion about what it all means for pension scheme members.

What it does mean depends very much on how a particular scheme's rules are drafted so the impact is very scheme specific. We can tell you what it means for PSS members now that the Act has been passed. The Government has confirmed that it did not intend to legislate for a statutory override to scheme rules which would make it compulsory for schemes to adopt CPI. However, it has also stated that it has not been minded to provide assistance to employers and/or trustees who would want the option to switch to CPI on past service but who are hindered by scheme amendment powers and/or statutory restrictions.

There are several different parts of pension which are affected differently. All the changes result from the way the PSS trust deed and rules are drafted. These changes apply automatically whenever the trust deed and rules refer to increases being made in accordance with pensions' legislation. In fact action from the Trustee and Company would be required for any different result to happen. We will be writing to you formally now the Pensions Bill has been passed to become the Pensions Act but in the meantime below is how the Act will apply:-

1 **Where PSS benefits are indexed by specific reference to RPI these will continue to be so indexed. This means that if and when the financial state of the Scheme allows for increases to pre- 1997 accrued pension in excess of Guaranteed Minimum Pension under the terms of Clause 19 or 17 of the trust deed these will still be referenced to March/March RPI (subject to a cap).**

2 **Benefits which are paid-up in the Scheme, meaning they are no longer accruing but have yet to be drawn – these usually belong to former employees who have left the Company and therefore the Scheme – are revalued for the period of complete years from the date of leaving until the date of retirement. This revaluation is by reference to statutory tables and from January 2011 the increase is linked to CPI rather than RPI. Anyone moving from paid-up status to retirement will now have pension revalued by a factor which combines RPI until the end of 2010 and CPI from then on.**

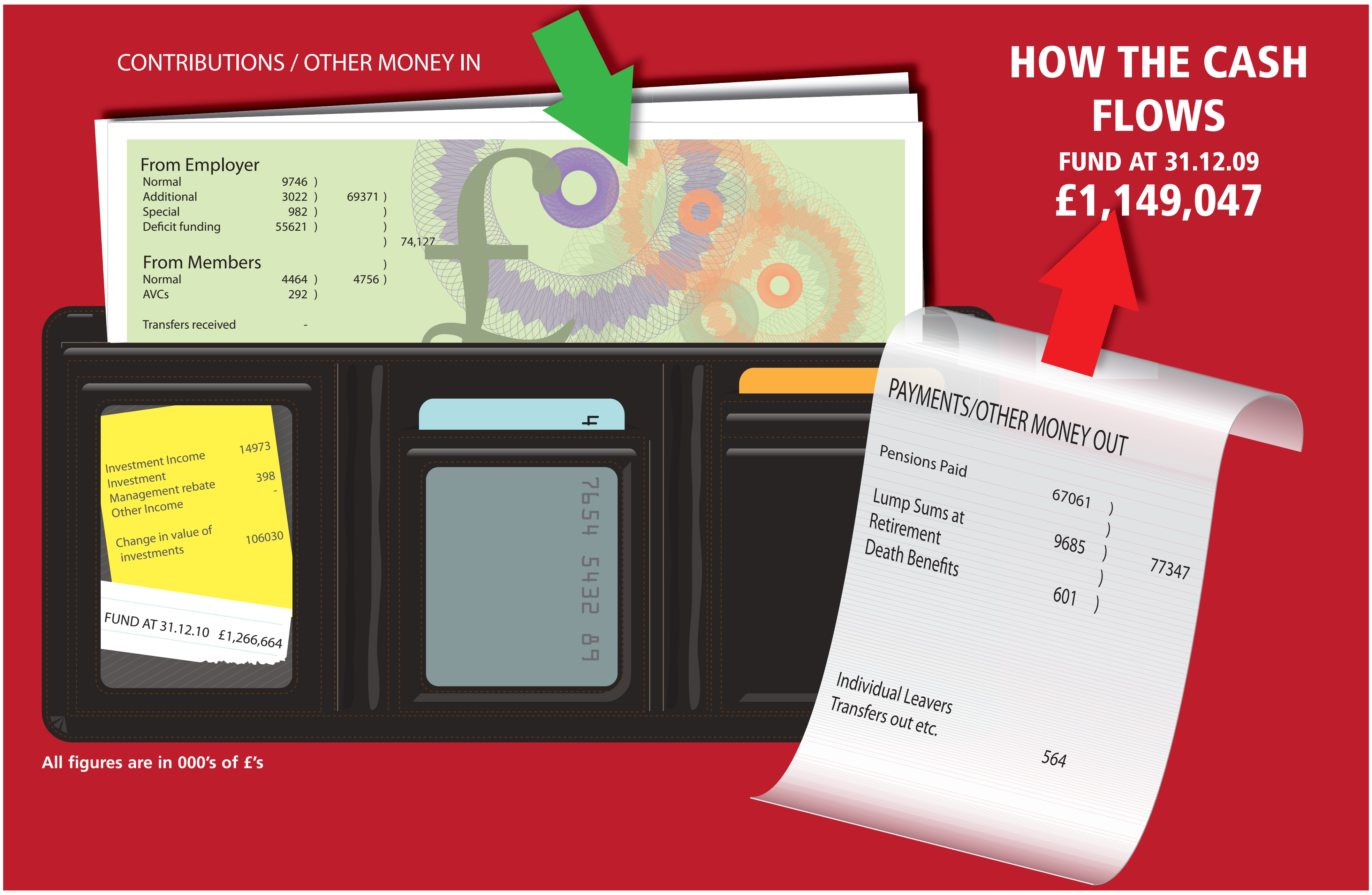
3 **Guaranteed Minimum Pension – PSS is contracted out of the State Second Pension 'S2P' (formerly State Earnings Related Pension Scheme – SERPS). If you were an active member of the PSS (or PPS which was also contracted out) between 6 April 1978 and 5 April 1997 then part of your pension is a 'Guaranteed Minimum Pension' ('GMP'). This broadly mirrors the pension you would have received from the State had PSS/PPS not been contracted out. We have around 770 pensioners who have no GMP.**

For members over GMP Pension Age, the GMP may be split in different ways and a member may have more than one type. GMP earned from 6 April 1978 to 5 April 1988 is increased by the Department for Work and Pensions. The GMP earned from 6 April 1988 until 5 April 1997 is increased by PSS. This is in line with a figure published annually by the Government in the Guaranteed Minimum Pension Increase Order. This used to be referenced to RPI but in 2011 changed to CPI. Again it is a statutory measure and is incorporated into PSS trust deed and rules as whatever level of increase is awarded by the Order. There is a cap in either case at 3% and this year the cap was applied as the increase in CPI was 3.1% over the relevant period. The GMP does not come into payment until a pensioner reaches GMP Pension Age and prior to that increases to this part of pension are treated as pre-97 accrued pension – i.e. linked to RPI but only payable if the financial state of the PSS permits.

4 **Pension accrued for service post 6 April 1997 – again the formula for these increases in the Trust Deed and Rules refers to pensions' legislation and therefore, the provisions of the Act mean that the increases to be applied will become by reference to CPI subject to the same caps as apply now. That is to say for:-**

6 April 1997 – 5 April 2005 service it will be CPI limited to 5% and

Post 6 April 2005 service it will be CPI limited to 2.5%



MEMBERSHIP

	31 Dec 2009	31 Dec 2010
ACTIVE MEMBERS	1994	1832
DEFERRED	3232	3159
PENSIONERS/SPOUSES	11810	11677

Chairman's Letter

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hope can serve the interests of the membership and the Company. The Trustee as ever will be looking to protect the Fund in order to meet its obligations whilst seeking to maintain a prospect of some increase to pre 1997 accrued pension in the future, despite the current poor economic outlook. I sincerely hope that by the time I am writing to you again in next year's Reflections greater stability and confidence is evident in global economies and we are not still subject to such rapid and extreme volatility.

I take this opportunity on behalf of all of the Scheme members to thank my fellow Trustee Directors who devote substantial time and effort to the Scheme over the year. The environment for pension funds generally gets more and more testing, not just in economic terms but also through ever increasing regulation, and complexity in investment markets and liability management. Trustee Directors have to cope with all of this. Looking back it has been a busy year and looking forward to 2012, with the valuation due imminently, the next year will likely see no reduction in the workload.

VISUAL IDENTITY CHANGES

You will see that the former Pilkington Flat Glass Business logo has been replaced on this publication by the NSG Group logo. This reflects changes in the visual identity of the Group. A recent announcement by the Group explains.

The NSG Group is changing. We are becoming more international, expanding geographically and moving into new areas of glass technology. To reflect these developments, we have been looking carefully at the way we present ourselves to the world. The objective has been to simplify our image, retain the valuable Pilkington brand name and develop a new visual identity for the NSG Group.

NSG GROUP

Our new visual identity is designed to help reinforce our position as a global leader in the industry. It retains some familiar elements and the important link to the Pilkington brand. But it also introduces a more modern and international image for the Group, helping us to promote ourselves in a crowded global marketplace.

The NSG Group logo will in future be used as the sole identity for the whole NSG Group. In parallel, we are introducing some distinctive design elements, colour palette and standard fonts. We have adopted

~~PILKINGTON NSG Group Flat Glass Business~~

the Tahoma font for everyday use, replacing Times New Roman as the corporate font.

The Pilkington/NSG Flat Glass Business mark was introduced in 2007. It made sense at the time, but no longer reflects the structure of the company or the image we want to project. Both the English and Japanese versions are being discontinued with immediate effect.

The Pilkington product brand is well established in most of our markets around the world. The brand is associated with excellence in glass technology, a quality product range and reliable service. As well as being used in product names, Pilkington is also retained in the titles of many Group subsidiary companies and pension funds.

To promote our Pilkington products in future, we will be using the Pilkington product brand mark. This will always appear in horizontal format. The aim is to make the best use of the Pilkington brand, while reinforcing its connection with the parent company.

PILKINGTON

EXISTENCE CHECKS

Whilst the Trustee requests that members keep Group Pensions Department up to date with changes of address, the Scheme auditors require that a full check of pensioner existence is performed no less frequently than after each valuation. In fact this may be undertaken more regularly in the future as a result of the longevity swap and may include supplementary checks in keeping with the processing of pensioners living overseas. 'The exercise generally results in very few discrepancies, some incorrect postcodes and sometimes there has been a death in the time between the data being sent to the organisation which carries out the check for us and the date of the check, but we have always so far been notified in the meantime.

For overseas pensioners, we ask that a form be signed by the pensioner and that their identity and existence be verified by a professional person. Some people take exception to this but we are simply following a well-established method of verification and an obligation on the Trustee to ensure, so far as it can, that it is not paying pensions to individuals who are not entitled to receive one.

The Trustee recognises that these checks may occasionally inconvenience Scheme beneficiaries and their families. The Trustee thanks you for your patience and co-operation and trusts that you will understand the need for these checks to protect the interests of the Scheme and the membership as a whole.