December 2012 THE PILKINGTON SUPERANNUATION SCHEME

NSG GROUP

Reflections

LARGE DEFICIT REMAINS DESPITE SUBSTANTIAL COMPANY CONTRIBUTIONS

says Chairman Andrew Robb

It is regrettable to have to report that there has been no let up in the turbulence and uncertainty affecting markets throughout the world since my last letter to you. These conditions continue to impact both the Pilkington Superannuation Scheme ('PSS' or 'the Scheme') and the Company.

At the time of writing the Trustee is engaged in the latest triennial actuarial valuation of PSS, as at 31 December 2011. Discussions with the Company are ongoing to agree the assumptions to be used to calculate the position of the Scheme. One thing is already very clear and that is, despite the injection by the Company of a very large amount of cash since the 2008 valuation, some £120m at the time of writing, there remains a very significant deficit in the Scheme.

Why is this so? Well it is fair to say that the recent investment performance of the Scheme's asset portfolio – bonds, stocks and shares and property for example - has been relatively good. However this has been outweighed by the impact of the unusually low level of yields on Government Stocks – 'gilts'. These yields determine the interest rate used to calculate the net present value of the expected cost of meeting all future pension liabilities over the life of the Scheme. The lower the interest rate the higher is the net present value of this cost.

There is much debate about whether and for how long these low levels will continue. They have been caused in large part by the actions of the Bank of England in executing its 'Quantitative Easing' programme, involving the purchase of some £375bn of gilts (the Bank now owns over one third of all gilts in issue). Low levels of interest rates are likely to persist for so long as the Bank's programme continues and until the economy shows signs of sustainable recovery.

The PSS is a scheme with a long life – the Chart I showed last year put this at around 70 years plus. During this period it is likely interest rates will rise from current levels with a consequent positive impact on the then present value of the expected cost of the Scheme's liabilities. However the Trustee is required by the Pensions Regulator and the rules governing Actuarial Valuations to value the Scheme at discrete moments in time – in this case as at 31 December 2011 - based on the economic conditions prevailing at that time.

The Company continues to pay additional contributions to the Scheme and has confirmed its intention to do so in accordance with the plan agreed with the Trustee, with the aim of eliminating the deficit within ten years or less. At the same time the Company is supporting the Trustee in various initiatives to reduce the risks affecting the Scheme. One of the most important such initiatives was to enter into a contract with Legal and General Assurance Society Limited to hedge the risk to the Scheme of additional costs arising as a result of pensioners living longer than expected. I referred to this possibility in my letter last year and the contract was entered into in December. The contract currently covers the longevity risk in respect of existing pensioners, but not their dependants or deferred members or active members because the cost of the extra premium to do so was judged to be too high or in some cases because the market is still not well enough developed to do so. This position will be kept under review as new pensions come into payment and as the insurance markets develop.

Other risk reduction measures are also ongoing, particularly hedging the impact of further interest rate and inflation changes. As I reported last year we were unable to complete the planned hedging programme because of market conditions but we have recently been able to increase the level of hedging and will continue to do so as market conditions allow.

As announced recently the Company is also consulting with active members about freezing the level of pay which is eligible for pension going forward. This would have a material impact (a reduction) on the rate at which the pension liability was expected to grow in future years.

The inevitable and regrettable consequence of the deficit position of the PSS is that, given the specific requirements of the Scheme's Trust Deed, the Scheme Actuary remains unable to contemplate any pension increases beyond those which the Scheme is obliged by law to provide. This looks likely to continue to be the case for some time into the future. Even if the deficit were to be eliminated and the funding position reached a balanced situation the Actuary would still need to take a cautious view of the Trustee's ability to increase the ongoing liabilities of the Scheme. There are several important reasons why this is so:

First the large variations in the funding position over the last four years, much larger than the experience in previous years, have been caused by very volatile financial markets. We have seen substantial swings from a position of being almost in balance to a substantial deficit within very short time periods – sometimes within one month. Given this environment the Actuary would look for a substantial margin of safety before allowing the Trustee to increase the liabilities of the PSS by granting an increase.

Secondly the Scheme is very mature i.e. there are fewer and fewer active

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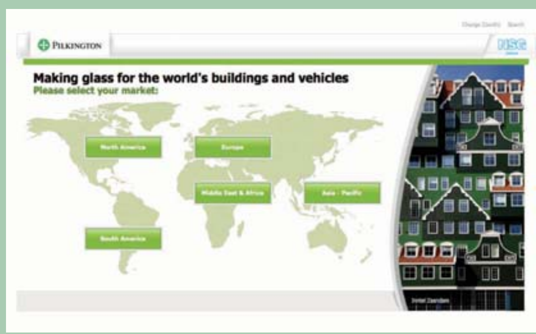
USEFUL NUMBERS

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

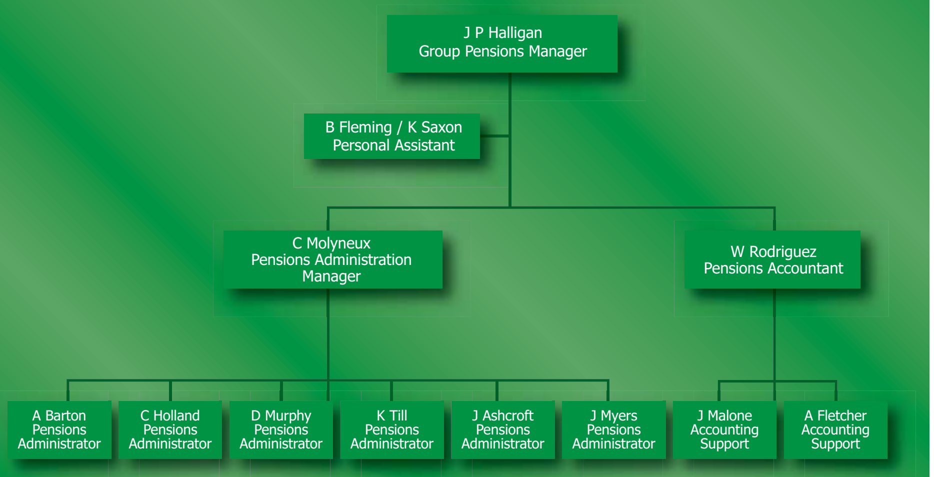
HAVE YOU MOVED RECENTLY?

If you move house then please do let us know. Otherwise we cannot contact you and there are times when this could mean you miss important information which could be costly to you.

You must notify us **in writing** of any change of address and you can do this by using the tear off slip on your payslip if you are a pensioner. Otherwise you can drop us a line to the address on the front page or you can download a specific form from **www.superpilk.com**



Group Pensions Department



THE TRUSTEE BOARD

The Pilkington Superannuation Scheme is operated and managed on behalf of the membership by a Corporate Trustee – PILKINGTON BROTHERS SUPERANNUATION TRUSTEE LIMITED. This company is represented by its Board of Directors which currently can comprise up to 24 Directors. There are currently 19 Directors with one vacancy in the Employer-nominated Directors and four vacancies in the Employee Member Nominated Directors.

As at 1 September 2012 the Directors of the Trustee were:-

Mr. A.M. Robb (Chairman)
Mr. S.J. Beesley* (E/ee P)
Mr. D. Corf* (E/ee P)
Mr. S.M. Gange*
Mr. D.P. Gilchrist, Automotive, Lathom (E/ee)
Mr. K. Greenfield
Mr. R.P. Hemingway
Mr. G. Ingle, B. Products, Leeds (E/ee)
Mr. T.R.J. Izzett*
Mr. S.W.J. Jones, Greengate (E/ee)
Mr. B.J. Kay
Miss A. Kelleher
The Law Debenture Pension Trust Corporation plc
Mr. G.N. Luck, Automotive, Redditch (E/ee)
Mrs. J. Mafi, PRSL (E/ee)
Mr. J. McKenna*
Mr. K. McKenna Greengate (E/ee)
Mr. G. Nightingale*
Mr. D.S. Pinder

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 Aon Hewitt Ltd.
Investment Consultant:	Towers Watson
Auditors:	PricewaterhouseCoopers LLP
Lawyers:	Hogan Lovells International LLP
Bankers:	National Westminster Bank plc
Investment Managers:	State Street Global Advisers Limited Rogge Global Partners plc PIMCO Global Partners (Ireland) Limited CBRE Global Collective Investors UK Limited Henderson Global Investors Limited Legal & General Assurance Society Limited Insight Investment Management (Global) Limited Nephila Capital Limited
Custodian:	JP Morgan Alternative Asset Management Incorporated

MEMBER-NOMINATED TRUSTEE DIRECTORS

That time is fast approaching again when the membership looks to itself to fill the vacancies for Member-Nominated Trustee Directors – 'MNDs'. It was reported in the December 2010 Reflections that the Trustee Board had decided that there should be some changes to its structure from 1 July 2013. When those changes were determined, 2013 seemed a long time away and yet it is just around the corner.

The terms of office of all the MNDs expire on 30 June 2013. From 1 July 2013, the new Board will comprise 14 directors of which half will be MNDs. The split will be 3 Pensioner MNDs and 4 Employee MNDs which better reflects the overall membership having regard to the fact that several Employer-Nominated Directors are retired. There will no longer be any split between 'Local' and 'Remote' constituencies for the Employee MNDs.

Any current MNDs may seek to be nominated again for election to the Board. In 2010 there were in fact vacancies remaining after the nomination process for the Employee MNDs, and so no need for any election although there was an election for the Pensioner MNDs.

If anyone is contemplating seeking to be nominated and elected and would like more information about what is involved then they could speak to the Scheme Secretary or one of the existing Trustee Directors.

There can be no doubt that the Trustee Directors have a difficult role which is very time consuming. There are five or six Board meetings a year and the preparation for these in terms of reading the papers also requires quite a commitment of time. The Board meetings last most of a day and there is usually a couple of hours training before the Board either as a refresher or about an area which is particularly topical. That is the minimum commitment together with 2 days each year to meet with the Investment Managers who look after Scheme's assets. In addition there are several committees of the Board which deal in more depth with different aspects of the Scheme. These are the Investment Committee which also meets 5 or 6 times a year; the Audit Committee (3/4 times p.a.) and the Ill Health Committee (3/4 times p.a.). Also when there are particular issues or projects then a committee will be established to consider the matter and report to the full Board often with a recommendation for action, for example there is currently a Valuation Committee.

So what is involved? It is a position of responsibility and trust. The Trustee is responsible for the funds of the Scheme and how these are invested. It is also responsible for ensuring the benefits are paid in accordance with the Rules; to ensure the Scheme operates within the law and regulation and follows the Codes of Practice and guidance issued by the Regulator. The key duties are not to profit from the position of Trustee; to act in good faith; to be familiar with the Scheme's Trust Deed and Rules; to invest the assets; and to keep proper records and accounts. Clearly, much of the day-to-day running of the Scheme falls to Group Pensions Department but that Department operates in accordance with the requirement of the Trustee and reports to the Trustee the level of compliance and the performance against its targets.

The Trustee Directors must represent the interests of all sections of the membership equally. Whilst they may be approved or nominated by one part of the membership, once on the Board they must consider all members equally – they are not representative of any particular section.

Initially, new Trustee Directors will be given training by the Group Pensions Manager on the Scheme Documents; the Deed and Rules; what is done in the Department and the mechanics of how the Trustee operates. In addition to this there will be attendance at an external course about the duties and responsibilities of Trustees at whatever level is appropriate – as a complete beginner or on the basis of some prior knowledge of pension schemes - and knowledge is built up. Training will cover the range of areas about which Trustees are expected to be knowledgeable – governance; funding; investment; legal issues; assessing the strength of the sponsoring employer and so it goes on – it is an ever lengthening list.

So if this all appeals to you, you will receive a nomination pack early in the New Year, complete the forms and return them. The Directors do find the work complex and the time commitment can be quite onerous but, when asked, they say it is interesting and fulfilling and ultimately enjoyable and rewarding. You could join them!

LETTERS

The Trustee and/or the Company sent out several letters in early 2012 and unfortunately some of the text was quite complicated and contained jargon. This was largely a result of the letter having to fulfil certain requirements and provide specified information some of which may have served only to confuse rather than to illuminate.

The first letter was to advise of an insurance contract completed with Legal & General for them to take the risk associated with the PSS pensioners living longer than the Scheme Actuary is assuming will be the case. The Actuary uses all the historical data from the Scheme to assess the expected longevity or life expectancy of the membership. This has been and is continuing to improve and consequently, since the rate of improvement is difficult to predict, the Company and the Trustee have agreed that to lay off the risk to an insurer reduces the overall risk to the Scheme of an unexpected major change in assumed longevity. Overall this enhances the security of the Scheme so is in the interests of all the sponsoring Company, the Trustee and the membership.

The next three letters were all sent out in relatively quick succession at the end of March and during April. These covered three issues. The first of these (the second letter of 2012) and most complicated was the one detailing changes to the index which governs statutory pension increases. As you are all well aware, pension accrued in respect of service before April 1997 does not get any increase unless the Scheme Actuary is of the view that the Scheme can afford to pay an increase. Once such an increase is awarded it remains in payment for life and adds to the liabilities of the Scheme. Pension accrued after April 1997 and deferred pension attract a statutory increase i.e. it has to be increased by law. Consequently the actuary assumes a rate of increase for this part of pension and it is factored into the valuation calculations. The difference is that post 97 increases are an obligation of the Scheme – they must be paid whereas the pre 1997 increases are dependant upon the Actuary's view of the funding position of the Scheme and are therefore not obligatory.

The letter which related to increases explained that because of the way the PSS Trust Deed is worded, the statutory increases will be linked to the Consumer Prices Index from 2012 whereas the increases to pre 1997 pension or 'non-statutory increases' will, if they are paid, continue to be linked to the Retail Prices Index.

The third letter explained that increases to an element of pension known as State Pension Age Guaranteed Minimum Pension which is payable to some but not all pensioners who are older than state pension age will be increased in April rather than July.

Finally, the fourth letter explained how any benefits which arise on the death of a member may be distributed. Pensions Department has received thousands of forms back from members which can be considered a success in that so many members have taken the opportunity to update their expression of wish or to complete one for the first time. That, after all, was the purpose of the exercise. If anyone is still wanting to make a declaration or change an existing one then either use the form which was included in the letter or you can download one from www.superpilk.com under the 'Forms' section.

PENSION PROTECTON FUND ('PPF')

What is it?

It's a fund established in April 2005 to protect people when an employer goes bust and whose pension scheme cannot afford to pay the benefits provided to members. If this occurs then the pension scheme enters what is called a PPF assessment period.

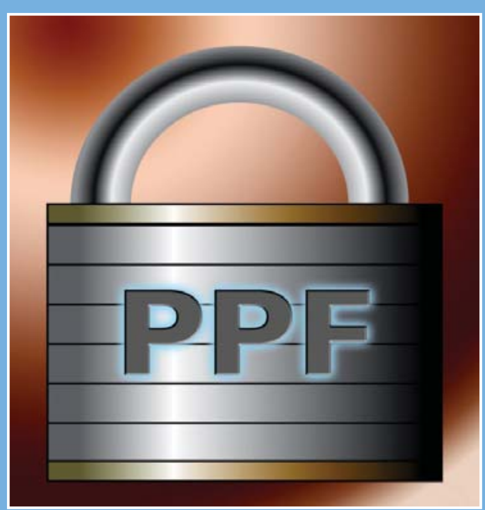
What happens then?

A scheme will only transfer into the PPF if it does not have enough assets or money to buy at least PPF levels of compensation from an insurance company. A scheme will not transfer to the PPF if the scheme is rescued i.e. a new employer takes on responsibility for the scheme or if the scheme has enough assets to buy benefits with an insurance company which are at PPF levels or above.

During the assessment period the scheme trustees remain in day-to-day control of the scheme and pension payments. For anyone who has reached normal pension age their payments will continue as normal. For anyone who has not reached normal pension age you may be able to take early retirement (provided you are over 55) during the assessment period but your pension would be reduced to reflect that it is to be paid for a longer period. It may be further reduced as it cannot exceed the level of compensation payable by the PPF.

Once the assessment is completed, then if the scheme is unable to buy benefits from an insurance company which are equal to or more than the PPF would pay, then the PPF would take over responsibility for the scheme.

Also during the assessment period, the trustee will calculate how much money and other assets remain in the scheme and ensure that the details of the membership are up-to-date and accurate. At the same time the PPF will recover what it can from the insolvent employer by acting as a creditor on behalf of the pension scheme. The PPF aims to complete the assessment period within two years and if it takes on the responsibility for a scheme it will then pay the compensation to the member. It would take on the assets of the scheme as well as any monies it can recover from the insolvent employer.



How much compensation does the PPF pay?

Members who have reached the scheme's normal retirement age will generally receive the same amount in compensation as the pension they were receiving from the scheme at the time the employer became insolvent.

Usually the PPF will also pay 100% compensation to those who have retired on legitimate ill-health grounds, regardless of age, and those receiving a pension in relation to someone who had died at the time that the employer became insolvent.

Compensation payments will increase in line with inflation each year subject to a maximum of 2.5%. This will only relate to pensionable service dating from 5 April 1997. Payments relating to pensionable service before that date will not increase.

Those members who have not yet retired will receive up to 90% compensation on reaching normal retiring age of the scheme.

Members who have retired but have not reached their normal pension age will also receive up to 90% compensation.

These 90% calculations are subject to a cap which is recalculated every year but the vast majority of members are not affected by the cap. Annual increases in compensation may be different to the increases that members received from the pension scheme.

The current cap at age 65 is £34,049 and all age-related caps are calculated by applying a factor to this e.g. age 60 = 0.8771664 x 34,049.84 = 29,867.38.

An example may assist in understanding how the cap might impact someone – X took early retirement at age 58 and 4 years later the company became insolvent and the pension scheme entered an assessment period and ultimately fell into the PPF. X's pension was worth £45,000 at the date of insolvency. X will receive 90% of his benefits capped at a specific level. The cap for age 58 is £28,525.25. The compensation for X will be £25,672.73 being 90% of the age-related cap. This equates to 57% of his pension at the time of insolvency. By way of contrast Y was aged 66 and his pension was £40,000 pa at the date of start of the assessment period. The PPF would continue to pay the £40,000 as Y was older than the scheme's normal retiring age at the time of the insolvency.

How is it funded?

The PPF has several sources of income including an annual levy – the Pension Protection Levy – paid by all eligible schemes. In the case of PSS this levy is paid directly by the Company and has varied from £745,000 (2012) to £ 1,150,000 (2009) over the past few years.

All schemes whose members may benefit from the PPF pay this levy which is calculated having reference to two factors – the risk-based levy which comprises:

a) the likelihood of the scheme making a claim on the PPF (termed the 'insolvency risk') and

b) the potential size of that claim (known as the 'underfunding risk')

and the scheme-based levy based on the scheme's smoothed liabilities (i.e. the liabilities and assets adjusted by PPF to reduce market volatility) and a scheme based factor applied by PPF.

In addition to these scheme-specific levies, the PPF recovers money and other assets from the insolvent employers of schemes which are taken on by it; the PPF also assumes the assets of the pension funds whose liabilities it takes on; and it has returns and value increases in its own investments.

More information is available at www.pensionprotectionfund.org.uk.

HOW THE CASH FLOWS

(all figures in £ thousands)

FROM EMPLOYER			
Normal	9,514)		
Additional	280)	50,803)	
Due under NSG Agreement	1,009)	)	
Deficit funding	40,000)	)	55,462
FROM MEMBERS			
Normal	4,420)	4,659)	
AVCs	239)		
Investment Income			20,640
Change in value of investments			41,214

Pensions Paid	66,879)	
Lump Sums at Retirement	2,716)	70,702
Death Benefits	1,107)	
Individual Leavers Transfers out etc.		1,155
Investment Management expenses net of rebate		221

FUND AT 31.12.10
£1,266,664

EXISTENCE CHECKS

"Are you sure this is you Derek?"

As you will know from elsewhere in Reflections, there is a formal valuation taking place at present. Following each such valuation it is usual practice to carry out a check on the pensioner, dependent and deferred populations in order that any cases of pensions continuing to be paid after an individual's death may be identified.

Following the completion of the longevity insurance, and as suggested in last year's Reflections, this exercise will now be carried out annually. It will include checks on members living both in the UK and overseas. For overseas pensioners we ask that a form be signed by the pensioner and that their identity and existence be verified by an independent professional person. Some people take exception to this but this is not new and has been our practice following the triennial valuation for years. It is a requirement and we ask for your co-operation for the now annual check. The auditors and now Legal & General, the insurers, require us to follow this procedure as a well-established method of verification and one which helps the Trustee to ensure so far as it can that it is not paying pensions to people who are not entitled to receive one.

Whether you are UK-based or overseas, the Trustee thanks you for your patience and co-operation when it is fulfilling its duty to check beneficiary existence. It hopes you understand that these checks are necessary and are in the interest of the membership as a whole.

MEMBERSHIP

	31 Dec 2010	31 Dec 2011
ACTIVE MEMBERS	1832	1757
DEFERRED	3159	3099
PENSIONERS/SPOUSES	11677	11434
TOTAL	**16668**	**16290**

Chairman's Letter

...continued from page 1

members contributing to it and for some years now the PSS has been drawing down from its assets to meet pension payments. There is nothing untoward about this, indeed this is what is meant to occur as schemes reach maturity, but it does add to the need for caution in managing the assets.

Thirdly the PSS relies on the continuing support of the Company both to fund normal ongoing contributions of approximately £10 million pa and to assist in eliminating the deficit. As mentioned the Company has injected £120 million in extra contributions over the last two years, continues to pay deficit reduction contributions of £23 million pa and in addition pays the costs of administering the Scheme, including the annual levy to the Pension Protection Fund and the fees of certain of the advisers such as the Actuary. In total these costs amount to a further £3.6m p.a. The Company is currently experiencing difficult trading conditions virtually everywhere and the parent company, NSG, has ceased paying dividends to its shareholders. In these circumstances there is a limit to its ability to find additional monies at this time.

All these factors mean that the Trustee has to aim, over time, to be more self supporting and less reliant on the Company. The Trustee is fully aware of the diminishing real value of pensions accrued before 1997 but its overriding duty is to secure the payment of existing benefit obligations before granting increases which are not currently obligations of the Scheme. Such increases are therefore not likely for some considerable time.

The Trustee Board said goodbye to two Employee Member Nominated Directors during 2012 as Thomas Hague and Paul Daley left the Company. Each had been a member of the Investment Committee and Paul was on the Valuation and Audit Committees. They were each hard-working and committed, as are all the Directors, and on behalf of the whole membership, the Trustee Board and the Company I thank them for their efforts. Peter Grunwell retired from the Board at the end of 2011. Peter was an Employer-Nominated Director who had served the Trustee since January 1987 and I thank Peter for his support and counsel throughout the 24 years on the Trustee Board and wish him many more years of retirement. I also thank the remaining Directors for their ongoing diligence in keeping up with all the changes, for grappling with the ever-increasing governance burden and for their dedication in undergoing many hours of training each year to understand the complex and difficult areas of investment, employer covenant, finance and administration with which they are regularly faced. The Board also welcomed Keith Greenfield during 2012 as a new Employer-nominated Director. He is an experienced pensions trustee being Chairman of the Royal Insurance Group Pension Scheme and a Trustee of the Resolution Pension Scheme and his experience and expertise are proving an asset to the Board in these current challenging times.

In conclusion therefore, I hope this letter has helped in your understanding of the position in which PSS finds itself and your appreciation of the efforts which are continuing constantly on the part of the Trustee Directors and the Company to try to secure the provision of the benefits already promised by the Scheme. I shall write to you again once the current discussions on the Scheme valuation are concluded.