November 2007 THE SUPERANNUATION SCHEME

PILKINGTON
NSG Group Flat Glass Business

REFLECTIONS

IMPROVED LIFE EXPECTANCY IMPLICATIONS FOR PSS

says Chairman Andrew Robb

This year has again been challenging for pension schemes generally and the Pilkington Superannuation Scheme (PSS) has been no exception. However, against a background of volatile investment markets the Scheme's assets continue to grow despite withdrawals each month to fund the pension payments. The major issue facing the Trustee is the impact of improvements in life expectancy.

In agreeing the assumptions upon which the formal triennial valuation of the fund at December 31 2005 was based the Trustee, acting on the advice of the Scheme Actuary, and the Company agreed to improve the life expectancy assumptions for Scheme members and pensioners, thereby adding £100 million to the liabilities of the PSS. At the time this was expected to be sufficient, and after allowing for this and for a strengthening in the discount rate used the fund reported a surplus of approximately £77 million. This surplus continued to grow throughout 2006 and the first quarter of 2007.

Recent evidence and analysis by the Institute of Actuaries has shown that life expectancy continues to improve and may be accelerating. It took 68 years from 1901 to 1969 for the mortality rate to fall by 20%. The next 20% fall took just 17 years, the next took 10 years and the next only 6 years. In other words the pace of improvement has been getting faster and whilst it is expected to slow down at some time, there is no sign of this at present. Whilst this is good news for all of us it clearly has implications for the funding basis of the PSS. Preliminary estimates show that further strengthening the reserves for life expectancy will add at least another £100 million to the PSS liabilities. In the light of this the Actuary advised the Trustee that the Fund could not sustain an increase in pensions this year. The cost of such an increase would have been around £20m which would have left too small a surplus for this to have been prudent.

The Trustee will continue to be diligent in working in the best interests of members and will strive to place the PSS in a position where discretionary increases become more regular once again.

The Investment Committee has again been active in monitoring the investment performance of the Fund and of the individual asset managers who are listed on page 4 where the current fund composition is laid out. No new fund managers were appointed during the year although we are looking at the possibility of appointing a manager to manage an investment in a selection of European Property Funds.

The new procedures by which the Trustee is able to monitor the financial standing of Pilkington Group Limited and its subsidiaries have been in place for over a year now and they are working well. The Trustee Board is updated half yearly about the business activities and financial position of the Group and its ability to continue to support the Scheme.

As a result of the Trustee elections held earlier this year four new Employee and Pensioner Trustees have just joined the Trustee Board – Peter Edholm, Thomas Hague, Paul Daley and Derek Corf – and one has retired – Alan Havard. In addition two new Company Nominated Directors have also joined the Board – Tim Izzett and Ben Kay and one has retired – Derek Cook. I welcome all the new Board members and take this opportunity to thank those who have retired. In particular I am sure everyone will join me in thanking Derek Cook – a Trustee for 22 years from 1984 and Chairman for 13 years – for his leadership and support over all this time.

MEMBERSHIP

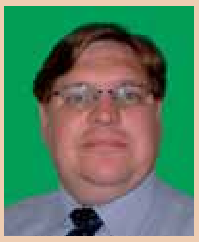
	31 Dec 2006	31 Dec 2005
ACTIVE MEMBERS	2593	2831
DEFERRED	3333	3512
PENSIONERS/SPOUSES	11860	12039

WHERE ARE WE? WHERE ARE YOU?

We – Group Pensions Department – have moved from the 2nd floor to the 10th floor of the tower on the Head Office site.

You – If you have moved please do notify us in writing. If you are an active member we may be told by H.R. but sometimes we are not, so please drop us an email or a letter. If you are a pensioner, drop us a line or use the tear off slip on your payslip to notify us. We cannot accept new details by telephone – we must have written confirmation. If we are unable to contact you because our details are out of date this may ultimately lead to your pension being suspended so please do let us know.

WELCOME TO THE BOARD


Paul Daley

As you are aware, the member-nominated Trustee Directors had to stand down and face elections earlier this year. As it happened, the number of candidates, which included all the retiring Directors and three new volunteers equalled the total number of vacancies so we did not need elections. The full Board is listed opposite but the new active Member Nominated Directors (MNDs) are Paul Daley, Peter Edholm and Thomas Hague.


Peter Edholm

Paul Daley works in the Accounts Department within Building Products Finance function. He stood because he is keen to increase his knowledge of the Scheme and how recent changes in legislation have affected it.

Peter Edholm is part of the Automotive Finance team based at Lathom. He expresses a wish to understand the complex workings of the Fund and the responsibilities of the Trustee Directors and to ensure that the interests of all the membership are represented.


Thomas Hague

Thomas Hague works in the Automotive business line in Supply Chain Management. He recognises that current and former Pilkington employees are heavily reliant on the PSS as a source of income in retirement and is keen as a Trustee Director to represent the views of the whole membership to ensure payments of benefits can be met.


Derek Corf

There was an election for the two Pensioner-Nominated Trustee Directors as we were fortunate to have four nominations. Following the ballot, Steve Beesley, who has been a Trustee Director since 1987 both as an employee and more recently as a pensioner was re-elected. Derek Corf was the other successful candidate. Derek had retired in 2004 having held various posts in the financial area most notably being Head of Group Internal Audit. He is also a Trustee of Willowbrook Hospice in St. Helens.


Ben Kay

In addition to this, the Company nominated Ben Kay to fill the vacancy in the ranks of the Employer Directors. Ben joined the Company in 1996 and is the European Finance Director.

Congratulations to all the new (and re-elected) Directors as they embark upon the complex task of managing the PSS through the ever-changing legislative and regulatory environments.

AGE DISCRIMINATION

There is a view that pension schemes are inherently age discriminatory and thus ought perhaps correctly to be excluded from the anti age discrimination legislation. This seemed to be the view being taken by the Government when the initial proposals for age discrimination legislation were published. When the revised regulations were published it was clear that the approach had changed significantly and the new regime would indeed impinge upon the pensions area.

The Company and the Trustee each took legal advice on how the regulations affected PSS. Fortunately the advisers reached an agreed position on what steps were necessary to implement the Regulation and the amending deed was duly executed. Both the Trustee and the Company wanted to make the minimum change possible and this resulted in the following alterations.

The Scheme has various categories of members which are to be treated as different sections for the purposes of the regulations and to comply all except the standard section have been closed to new entrants. In practice this means that the executive section will not take any more new members. All the other different groups result from historical events and would not in fact have new members in any event.

There used to be a 10 year membership qualification before an individual could apply for early retirement due to ill health or total incapacity. This limit has been reduced to a requirement for 5 years contributory membership in each case.

Where an employee's request to the Company to continue working beyond age 65 is accepted by the Company then that individual may now continue to accrue pension beyond age 65. In effect he/she carries on as before, with individual and Company contributions being made to the Scheme and benefits continuing to accrue.

The eligibility provision had to be altered because it favoured younger people by giving them until age 28 to join. This has been changed so that everyone has a three year period from starting employment or first being offered membership.

There are other minor changes to comply with the regulations such as the reference to 'within 10 years of Normal Retiring Age' and 'having attained his 50th birthday' removed from certain rules. These changes are relatively minor and all apart from the eligibility issue work to the benefit of members by removing restrictions previously in place.

THE TRUSTEE BOARD

The Scheme is operated and managed by the Board of the Corporate Trustee – **PILKINGTON BROTHERS SUPERANNUATION TRUSTEE LIMITED**. So there is only one Trustee – this company – of which there may be up to 24 Directors.

As at 1 October 2007 the Directors of the Trustee were:-

Mr A M Robb *(Chairman)*
Mr R Abbott *Greengate (E/ee)*
Mr S J Beesley* *(E/ee P)*
Mr A Cunliffe *Cowley Hill (E/ee)*
Mr D Corf* *(E/ee P)*
Mr P Daley *Head Office (E/ee)*
Mr P R Edholm
Automotive, Lathom (E/ee)
Mr S M Gange
Mr D P Gilchrist
Automotive, Lathom (E/ee)
Mr J K Gillespie*
Mr P H Grunwell*
Mr T R B Hague
Automotive, Lathom (E/ee)
Mr R P Hemingway
Mr T R J Izzett
Mr B J Kay
Miss A Kelleher
The Law Debenture Pension Trust Corporation plc
Mrs J Mafi *PRSL (E/ee)*
Mr J McKenna*
Mr K McKenna
Automotive, Kings Norton (E/ee)
Mr G Nightingale*
Mr D A Vernon-Smith*
Mrs C Wakefield *Head Office (E/ee)*
Mr E W J Wallin
Pilkington Birmingham (E/ee)

There are no vacancies at the present time.

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:	**Ian Watson (FIA) of Hewitt Bacon & Woodrow Ltd.**
Investment Consultant:	**Watson Wyatt Limited**
Auditors:	**PricewaterhouseCoopers LLP**
Lawyers:	**Lovells LLP**
Bankers:	**National Westminster Bank plc**
Investment Managers:	**Nomura Asset Management (UK) Ltd.** **State Street Global Advisers Ltd.** **UOB Global Strategies Fund plc** **Goldman Sachs Asset Management International** **Rogge Global Partners plc** **PIMCO Europe Limited**
Custodian:	**JP Morgan Chase**

FINAL SALARY?

Members are sometimes surprised to discover that the PSS ***is not*** a Final Salary Scheme. Few so-called schemes are. Like many others, it is a defined benefit scheme and the benefit is calculated by reference to a members Average Retiring Salary with a Disregard, as opposed to the Final Salary.

Average Retiring Salary - The average is the best two consecutive normal salary years in the last ten contributory years before leaving or retiring. This can and usually does include the final salary i.e. the salary at date of leaving.

The Disregard - A contributing member does not pay contributions on an amount of salary called the disregard. The disregard increases in July each year and represents 70% of the Basic State Pension for a married couple.

An offset is made for the disregard when your pension is calculated.

SCHEME NORMAL RETIREMENT AGE (NRA)

It seems that there may be some confusion amongst members as to what their NRA is.

Section A on the annual PSS Benefit Statements refers to a member remaining a contributor until normal retirement (63 / 65).

For the male members and the majority of female members, NRA is 65 years. Prior to equalisation in 1991 the PSS NRA for female members was 63 years. A small group of females chose to retain this arrangement.

PEPS members are the exception to this rule although they too can choose to work until age 65 now as a result of the Age Discrimination regulations.

INVESTMENTS

THE OVERALL COMPOSITION of the Scheme's investments has changed in the last few years from a purely equity/bond split to a really quite diversified portfolio which now contains some asset classes with which the membership may be less familiar.

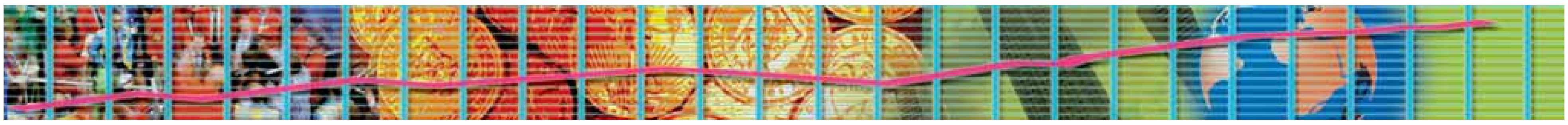
By far the greater part of the Fund's assets, approximately two-thirds, is still under the management of State Street Global Advisers in a mixture of passive index tracking bond funds and enhanced index tracking equity funds. The Trustee has appointed several managers to manage the remaining assets in different classes in an attempt both to diversify the risk in the Scheme and to seek higher returns. Athough a significant proportion of the Scheme's liabilities are for pensions in payment the Trustee has retained a 50% allocation to return-seeking assets. One of the objectives of this approach is to try to generate income to allow non-statutory increases to be granted. The first new appointment was UOB Global Strategies Fund plc and its manager Kinetics as an absolute return manager. This means that rather than being judged on performance against an index, this manager attempts to achieve a return of 6% in excess of RPI over a rolling 5 year period. The mandate was awarded in July 2005 and the funds transferred in October 2005 since when the investment has grown steadily. This manager holds a relatively small number of stocks in its portfolio and concentrates on sectors which it considers will appreciate in value. In brief these are currently stock exchanges; utilities; and oil sands companies. The manager tends to hold the investment for the longer term with considerably less trading than a manager with an index related target. The Trustee invested £75m with UOB in October 2005 which has risen by end September 2007 to £108m.

Next was a move into active currency management. It is true to say that it was acknowledged that this would be a more volatile asset class. The Trustee with the help of Watson Wyatt Ltd, its Investment Consultant, decided to award £50m to Goldman Sachs Asset Management. The target return is to add 0.5% of the total value of the Scheme's assets. The mandate is an 'overlay' mandate. It has no intrinsic value but simply generates profit or loss. A small part of the Scheme's assets is held equitised by GSAM to cover payments required by the counterparties. The assets provided to GSAM are used in one of three ways – initial margin payments on the forward currency contracts used to add value; initial margin payments on the S & P 500 future contracts to ensure that US equity exposure is maintained; and a 'cash buffer' held in reserve to pay or secure variation margin on the two other components and therefore maintain the exposure at a constant level. So far the investment has shown a negative performance but it is however a long term strategy and it is believed that still it will come good over time. The investment is kept under review and the Investment Committee met with representatives of Goldman Sachs recently.

The next piece of the jigsaw was the move into high return bonds. This means bond mandates with targets to outperform the benchmark indices by around 1.5% pa over rolling 3 year periods. Why would the Trustee undertake this investment? It is generally recognised that equities are more risky than liability matching assets and that as the funding level of the Scheme improves it would be usual to increase the allocation of bonds. Increasing the bond allocation would tend to reduce the Scheme's expected return on assets. One way to ameliorate this effect is to apply active management to some portion of the Scheme's bond assets. 'Traditional' active bond managers (which would have performance targets of around 0.75% pa added value) have found it increasingly difficult to deliver returns over the last few years because the bond markets are becoming increasingly efficient. Thus the search for added value in bond mandates has moved to less traditional areas e.g. overseas bonds, high yield bonds, emerging markets and currency. Managers who exploit these areas will take more risk than 'traditional' managers and in return investors would demand higher return.

The Trustee decided to appoint two high return bond mandates one to Rogge Partners and one to Pimco Europe Limited. This adds a layer of diversification which also benefits the overall allocation of risk. It has been a difficult period in which to achieve returns in the time since appointment but Rogge are ahead and Pimco also are showing a positive return. All in all it is slow progress but it is movement in the right direction.

The Trustee has now decided to look at an investment in property, an asset class which it left some years ago after owning property directly. It would be the intention now to enter indirect property holdings, through a multi manager approach. Property not only offers the returns on investment but also acts as a diversifier within the fund. The investment would be in a pan-European fund which may include the UK but is likely to focus more on continental Europe, particularly at a time when the UK market is generally recognised to be fully valued. Again this would be a long-term move for the fund but it is anticipated that over a period of 5-10 years this too would add value and boost returns.



PENSION INCREASES

How does the pension increase work?

Under the Trust Deed and Rules of the Pilkington Superannuation Scheme, the Trustees can only pay a pension increase if the Actuary tells them that the Scheme can afford it. In the event that an increase cannot be paid following the next formal valuation of the Scheme – usually carried out on a 3 year cycle – then the Actuary can revisit the issue of the missed increase and if the Scheme can afford it, the Trustees may award for the future some or all of the missed increase. This is in essence what occurred in 2006.

Until 1997 the provisions of the Trust Deed were all that governed the question of annual increases to pensions in payment. In 1997, however, the landscape changed because the then Government decided that all pension accruing for service after 6 April 1997 would attract an increase. The level of increase would be RPI up to a limit of 5% per year.

This meant that pension accrued from April 1997 is recorded as a separate part or sub-section of pension entitlement because the possibility arose at that point that this part could receive an increase – by virtue of the legislation - whereas pension accrued for earlier service may not - if the Fund could not afford it.

A further change occurred in 2005 when this statutory increase became limited to RPI up to 2.5%. Therefore the pension earned after April 2005 is recorded separately again since this attracts this guaranteed but potentially lower rate of increase.

Consequently each July, those parts of pension accrued since April 1997 receive an increase being the rate of RPI from March to March. This has been aligned with the Scheme increase date for administrative convenience and took effect this year.

The pension earned for service before April 1997 will be awarded an increase only if the Actuary says the Scheme can afford to pay this. As a guide the award of such an increase in 2007 would have added approximately £20 million to the Scheme's liabilities. This increase is sometimes referred to as the 'general' increase or the 'discretionary' increase but in truth the Trustee has no discretion – it has to follow the direction from the Scheme Actuary. Consequently, the more appropriate name would be the 'non-statutory' increase to differentiate it from the other two categories.

One final complication is the State Pension Age ('SPA') Guaranteed Minimum Pension ('GMP') for contracted-out service post April 1988 which attracts its own level of increase once the member attains their appropriate SPA. The GMP accrued Pre '88 ceases to attract any Scheme increases post SPA as the Inland Revenue ('DWP') takes over the responsibility for increasing this pension component.

If, as was the case this year, the non-statutory increase cannot be afforded, then following the next formal valuation if this discloses a surplus, the Trustee can consider whether part or all of the missed increase can be awarded for the future. If this is not possible in part or at all then the exercise may be repeated after subsequent valuations. In the interim, if fortunes improve, the annual increase may be awarded.

SUMMARY FUNDING STATEMENT

A Summary Funding Statement was sent out during the summer to all members of the Scheme. It is now a requirement to send this to the membership to update them annually on the funding position of the Scheme. The summary is required to contain information explaining what would happen in the event that the Scheme was to be wound up. This should not be taken to mean that there is any intention to do this. This section of the statement does cause the most reaction but please be reassured that as the statement also says, the Company does not intend to wind up the Scheme and in fact does not have the power to do so.

POTENTIAL SCHEME SERVICE

Some members believe that 40 years contributory Scheme service is the maximum service a member can achieve; ***this is not the case***. Members can in fact attain in excess of forty years Scheme service up to their retirement, there are no service limits imposed upon PSS members.

DECLARATIONS

In addition to the benefits payable to members in retirement it may be the case that there are benefits payable on a member's death. There are 'Declaration of Wish' forms available for completion from Group Pensions Department and on-line at www.superpilk.com.

Once it is completed, send the declaration form to Group Pensions Department where it will be held until the appropriate time. A declaration form does not bind the Trustee but it does enable the Trustee to take account of your wishes after your death. Details of the treatment of lump sums and pensions are available on the website.

If you are unsure whether you have made a declaration or indeed if you wish to change the person in whose favour a declaration has been made, simply send us another form and this will replace any existing one. Circumstances change as we go through life and it is important that your declaration is kept up to date so that your wishes are clear when the occasion arises that the Trustees have to have regard to the form.

INVESTMENT REPORT (EXTRACT)

On 31 December 2005 the composition of the Fund was:-

FUND COMPOSITION AT 31 DECEMBER 2005

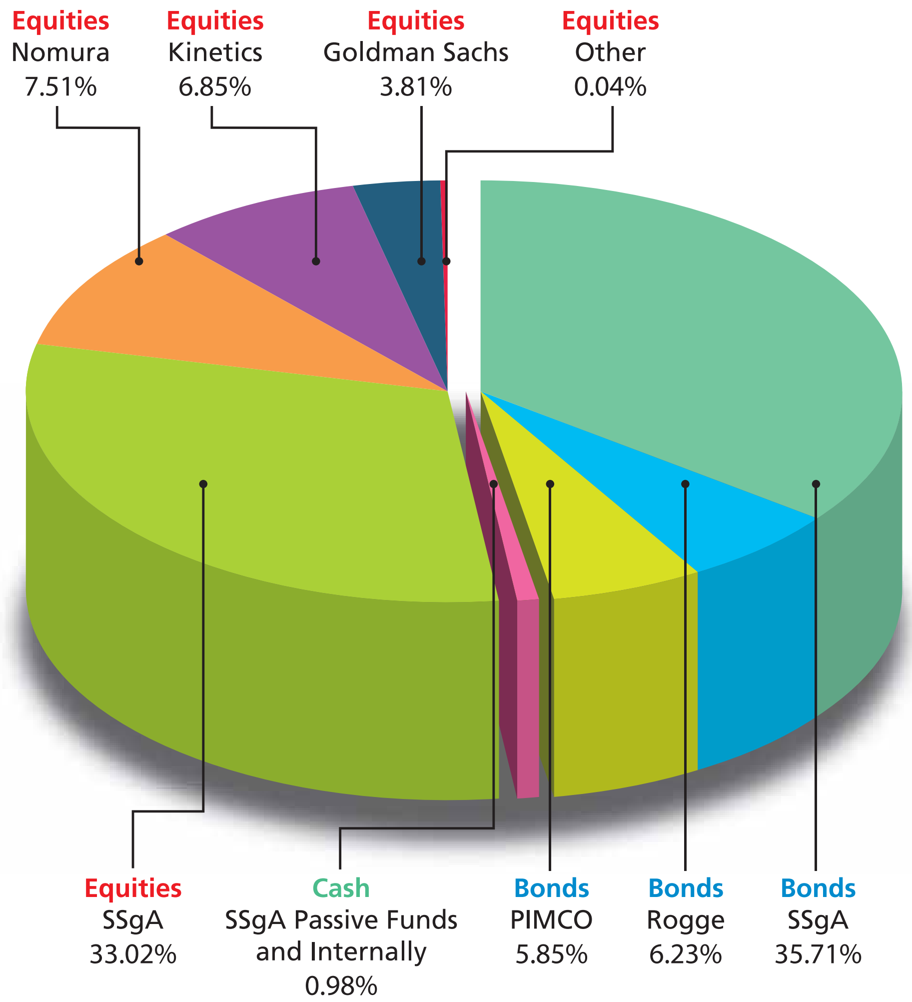
	£m	%	Benchmark
Bonds	**613**	**47.18**	49
SSgA>5yr Index Linked Passive	177	13.62	
SSgA UK>15 yr Gilts Passive	257	19.78	
SSgA >15 Yr Corporate Bonds Passive	179	13.78	
Cash	**24**	**1.85**	2
SSgA Sterling Liquidity	24	1.85	
Equities	**662**	**50.97**	49
SSgA North America Enhanced Index	54	4.16	
SSgA UK Equities Enhanced	265	20.40	
SSgA Europe ex UK Equity Enhanced	113	8.70	
Nomura	97	7.47	
GSAM Managed	50	3.85	
UOB Managed	80	6.16	
Other	3	0.23	
TOTAL FUND	**1,299**	**100.00**	

By 31 December 2006 this had changed to:-

FUND COMPOSITION AT 31 DECEMBER 2006

	£m	%	Benchmark
Bonds	**636.6**	**47.79**	49
SSgA >5yr Index Linked Passive	183.8	13.80	
SSgA UK>15 yr Gilts Passive	226.3	16.99	
SSgA >15 Yr Corporate Bonds Passive	65.5	4.92	
Rogge	83.0	6.23	
PIMCO	78.0	5.85	
Cash	**13.1**	**0.98**	1
SSgA Sterling Liquidity	13.1	0.98	
Equities	**682.5**	**51.23**	50
SSgA North America Enhanced Index	41.3	3.10	
SSgA UK Equities Enhanced	284.3	21.34	
SSgA Europe ex UK Equity Enhanced	114.3	8.58	
Nomura	100.1	7.51	
GSAM Managed	50.7	3.81	
UOB Managed	91.3	6.85	
Other	0.5	0.04	
Unrealised gain/(loss) on hedging	(0.3)		
TOTAL FUND	**1,331.9**	**100.00**	

BREAKDOWN BY MANAGER 31/12/2006



The overall returns (i.e. net capital appreciation plus income) on the investments held by the Scheme in 2006, as reported by WM Performance Services, was 6.8%. During the year the Retail Prices Index rose by 4.4%

For the 5 years to December 2006, the annualised return on Scheme investments was 6.1% (per WM). Over the same period retail price inflation was 3.4% per annum.

RELATIVE PERFORMANCE

	2002	2003	2004	2005	2006	3yrs	5yrs
	%	%	%	%	%	%	%
Scheme Annual Returns	-9.6	13.5	9.5	17.5	6.8	11.2	6.1
Benchmark Return	-8.4	14.4	9.8	17.1	6.0	10.9	6.4

In 2006 most investment vehicles performed at around their benchmark and the outperformance of the Fund against the benchmark is attributable in large measure to the performance of the UOB Global Strategies Fund plc.

HOW THE CASH FLOWS

CONTRIBUTIONS IN +

From Employer
- Normal 7718
- Additional 2169
- Special 4000

From Members
- Normal 3781
- AVCs 540

18208

+ Transfers received 42

+ Investment Income 5626

+ Other Income 5

+ Change in value of investments 83522

FUND AT 31.12.05
£1,301,421

(all figures in £ thousands)

FUND AT 31.12.06
£1,332,648

PAYMENTS OUT −

Pensions Paid 59484

Lump Sums at Retirement 12033

Death Benefits 1116

Individual Leavers Transfers out etc. 2340

Cost of Investment Management 1203