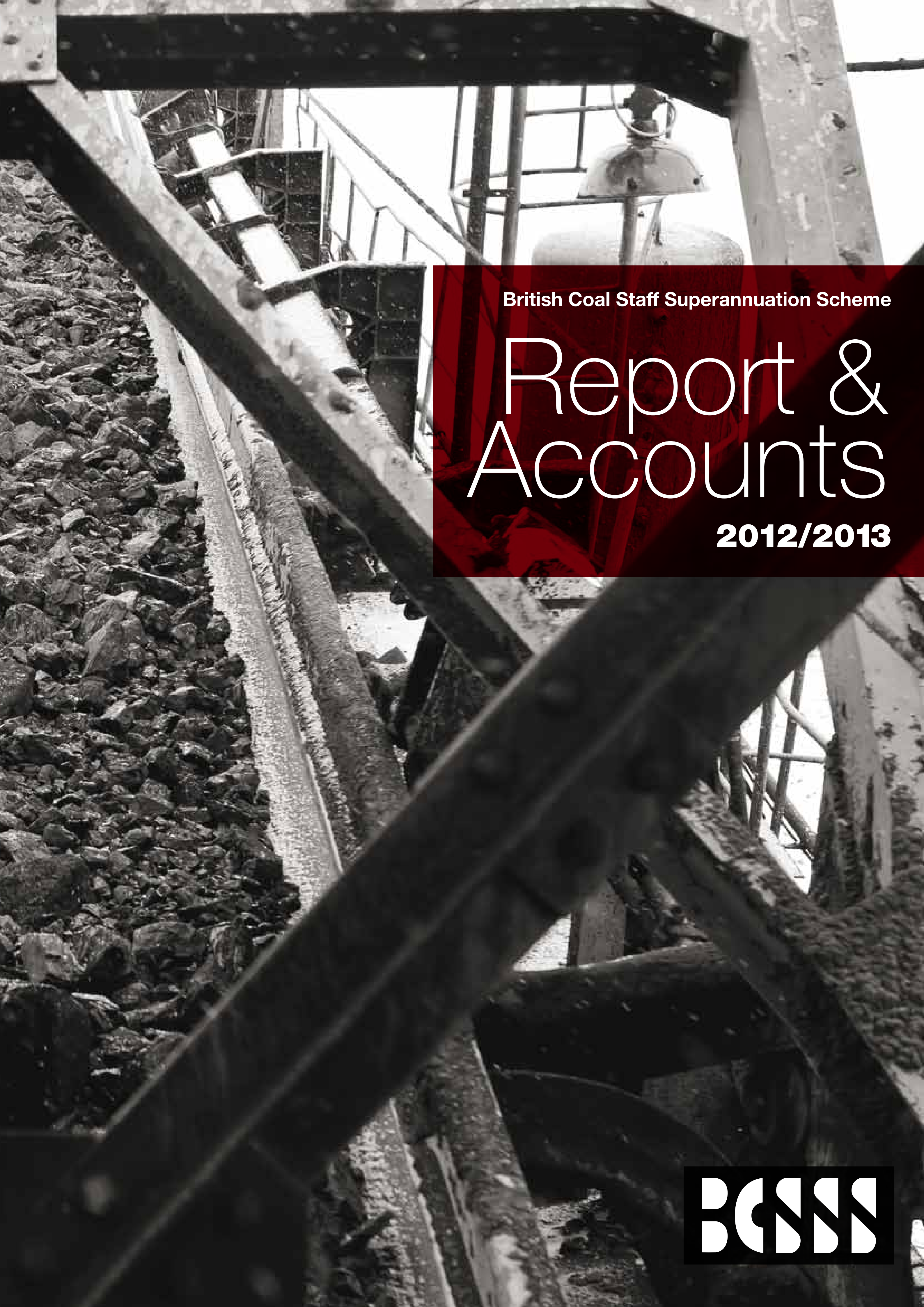
British Coal Staff Superannuation Scheme

Report & Accounts

2012/2013



BCSS

Notice of meeting

Notice is hereby given that the Sixty-Sixth Annual General Meeting of the Scheme will be held in The Angel Hotel, Castle Street, Cardiff CF10 1SZ on Tuesday 24 September 2013 at 2.00pm.

Business

To receive the Report and Accounts for the year to 31 March 2013 and to debate and vote on any Member Resolutions. Resolutions to be received no later than 9 September 2013. The meeting is open to pensioners and deferred pensioners.

By order of the Committee of Management
Jonathan Storer, Secretary
British Coal Staff Superannuation Scheme

Ventana House
2 Concourse Way
Sheaf Street
Sheffield S1 2BJ
Telephone (0114) 253 6444

July 2013

Contents

Committee of Management

Appointed Members
Philip E Read (Chairman)
Heather McGuire
Ray Proctor CBE
Richard A Barfield

Elected Pensioner Representative Members
Bob S Chappell – East Midlands, Southern England & Overseas
D Allen Clark – Scotland and North East England
Bleddyn W Hancock – North West England, West Midlands, Wales & Northern Ireland
Stuart Jukes – Yorkshire and North Lincolnshire

Investment Sub-committee (ISC)[1]
Richard A Barfield (Chairman)
Philip E Read
Roger Bartley
Bob S Chappell
Bleddyn W Hancock
Alan Rubenstein

Administration and Benefits Sub-committee (ABSC)
Heather McGuire (Chairman)
Ray Proctor CBE
D Allen Clark
Stuart Jukes

Discretions and Appeals Sub-committee (DASC)
Ray Proctor CBE (Chairman)
Heather McGuire
D Allen Clark
Stuart Jukes

Risk and Assurance Sub-committee (RASC)
Ray Proctor CBE (Chairman)
Heather McGuire
D Allen Clark
Stuart Jukes

[1] Roger Bartley is a non-voting member of the Investment Sub-committee. David Brief stepped down as a non-voting member of the Investment Sub-committee on 9 October 2012. He was replaced by Alan Rubenstein on 1 May 2013.

Appointments as at 31 March 2013

Trustee Company:
Coal Staff Superannuation Scheme Trustees Limited

Executive [1]:
Coal Pension Trustees Services Limited (CPT)
Chief Executive: Geoffrey Mellor
Chief Investment Officer: Stefan Dunatov
Chief Operating Officer: Gerard Lane
Head of Pensions Strategy and Scheme Secretary: Jonathan Storer

Investment Adviser [2]:
Coal Pension Trustees Investment Limited (CPTI)

Actuarial Adviser [3]:
PriceWaterhouseCoopers LLP

Principal Investment Managers [4]:
BlackRock Investment Management (UK)
LaSalle Investment Management

Consulting Actuary:	**Mr Trevor Llanwarne CB, Government Actuary**
Principal Legal Advisers:	**Linklaters LLP**
Pensions Administrator:	**Aon Hewitt Limited**
Auditor:	**Ernst & Young LLP**
Bankers:	**Lloyds TSB Bank plc**
	JP Morgan Chase Bank N.A.
	National Westminster Bank plc (a member of the Royal Bank of Scotland Group)
Custodian:	**JP Morgan World Wide Security Services**
Medical Adviser:	**Dr Raymond Quinlan, RPS Business Healthcare Limited**

The Scheme's registration number with the Pension Schemes Regulator is 10151637.

[1] Stefan Dunatov succeeded Michael Pratten as Chief Investment Officer on 2 April 2012. Michael Furbank resigned as Scheme Secretary on 28 February 2013 and was replaced by Jonathan Storer with effect from 25 March 2013. Alastair Moffatt resigned as Chief Risk Officer on 28 February 2013 and Samuel Wilde stepped down as Shared Services Director on 31 March 2013. Their responsibilities were assumed by Gerard Lane and Jonathan Storer.

[2] Colin Maltby's appointment was terminated with effect from 18 July 2012.

[3] Brian Duffin's appointment was terminated with effect from 18 July 2012.

[4] Principal Investment Managers are defined as those managing at least 5% of the Scheme's Net Assets as at 31 March 2013.

Report of the Committee of Management

The Committee of Management is pleased to present the Annual Report and Accounts of the Scheme for the year ended 31 March 2013.

Membership of the Committee of Management

The Scheme's Committee of Management (the Committee) has eight members. Four are appointed, and may be removed, by the Committee itself. This is subject to the rules set out in the Articles of Association of the Trustee Company. Should there be an appointed trustee vacancy a Nomination Group of two appointed and two elected Trustees is established to recommend a suitable candidate to the Committee.

The remaining four members of the Committee are Pensioner Representatives elected by Scheme members from four geographical constituencies.

Attendance at meetings

During the year there were five meetings of the Committee. All meetings were fully attended. For decisions to be valid a minimum of four members of the Committee must be present (of whom two must be appointed directors and two must be Pensioner Representatives). In the case of an equality of votes, the Chairman of the meeting has a second or casting vote.

Sub-committees

To help perform its duties and to streamline decision making the Committee has established, and delegated some of its powers to, four Sub-committees. Each Sub-committee has its own written Terms of Reference agreed by the Committee. Papers for Sub-committee meetings and the minutes of those meetings are circulated to all members of the Committee. The membership of each Sub-committee is shown on page 3. Sub-committee meetings are open to all members of the Committee to attend.

There were sixteen Sub-committee meetings during the year. With the exception of one member who was unable to attend one meeting, every Sub-committee meeting was fully attended by all members of that Sub-committee.

Remuneration

Members of the Committee are entitled to remuneration for the work they undertake for the Scheme.

For all the Committee members other than the Chairman and the Chairmen of the Investment Sub-committee (ISC) and the Risk and Assurance Sub-committee (RASC), the rates of remuneration are set by the Secretary of State for Energy and Climate Change.

The Committee determines the remuneration of the Chairman of the Committee and the Chairmen of the ISC and RASC, subject to the Committee providing the Secretary of State with suitable reassurance that the rate of remuneration granted is appropriate relative to the wider market and that the individual's competence for the role has been measured.

During the Scheme year to 31 March 2013 the rates were £62,700 a year for the Chairman of the Committee, £49,700 a year for the Chairman of ISC, £34,200 for the Chairman of RASC, £18,700 a year for the Chairman of the Administration and Benefits Sub-committee (ABSC) and £16,250 a year for other members of the Committee.

The total remuneration paid in the year to the members of the Committee was £230,300 (2012: £222,050).

With effect from 1 April 2013 the rates of remuneration were increased in line with the increase in the Retail Price Index, rounded to the nearest £50. The rate of remuneration from 1 April 2013 for the Scheme Chairman is £64,800 a year, £51,350 a year for the Chairman of ISC, £35,350 a year for the Chairman of RASC, £19,350 for the Chairman of ABSC and £16,800 a year for other members of the Committee.

Conflicts of Interest

The Committee has a conflicts of interest policy which sets out its principles for identifying, managing and monitoring any Trustee Director, Scheme official or Scheme adviser's actual or potential conflicts of interest which may arise in the conduct of Trustee business and decision making. The policy is reviewed regularly.

Evaluation of Trustee Performance

The Committee formally evaluates its performance and the performance of its Sub-committees on a periodic basis.

Appointments

A list of the key appointments made by the Committee is on page 3. All of these appointments are periodically reviewed by the Committee.

Coal Pension Trustees Services Limited

Coal Pension Trustees Services Limited (CPT), a company owned jointly by the Scheme and the Mineworkers' Pension Scheme (MPS), acts as the Scheme's Executive.

CPT is responsible for responding to questions concerning the provisions of the Scheme, and deals with correspondence addressed to the members of the Committee.

Four members of the Committee sit on the Board of CPT. As at 31 March 2013 these were Philip Read, Richard Barfield, D Allen Clark and Stuart Jukes.

The Board met three times during the year.

CPT owns a subsidiary company called Coal Pension Trustees Investment Limited to provide investment advice to the Trustee. This company is authorised by the Financial Conduct Authority (FCA).

Internal Dispute Resolution Procedure

In accordance with the requirements of Section 50 of the Pensions Act 1995 and The Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008, the Scheme operates an Internal Dispute Resolution Procedure. This legislation provides members with the right to ask for any complaint which the Scheme's administrators have been unable to resolve to be referred to the Trustee or to a person appointed by them.

The Committee has appointed the Scheme Secretary to consider complaints made by members. Members not satisfied with any decisions can appeal to the Discretions and Appeals Sub-committee (DASC), which considers appeals on behalf of the Committee.

During the year six complaints were made using the procedure and four appeal cases were considered by DASC. The Pensions Advisory Service assisted two members with their complaints. Two members took their complaints to the Pensions Ombudsman.

Statement of Investment Principles

The Scheme is exempt from producing a Statement of Investment Principles (SIP) under the Occupational Pension Schemes (Investment) Regulations 2005. However, under Clause 10A of the Scheme and Rules the Trustee is required to prepare and maintain a written statement of the principles governing decisions about investments for the purposes of the Scheme. The statement is reviewed at least every three years and immediately after any significant change in investment policy.

A copy of the current statement of the principles governing decisions about investments for the purposes of the Scheme is available on application to the Scheme Secretary.

Discretionary Benefit Fund

The purpose of the Discretionary Benefit Fund is to enable payments to be made at the Committee's discretion to members, or dependants of members, in circumstances where they did not qualify automatically for benefits from the Scheme, and who are suffering financial hardship.

During the year no applications were made for payment from the Discretionary Benefit Fund.

Membership

The changes in membership for deferred pensioners and pensioners are detailed on pages 8 to 9. The Scheme has no active members and is fully closed with no provision for new entrants.

Annual General Meeting

The 2012 Annual General Meeting (AGM) was held in Durham. The AGM included presentations by the Scheme Chairman, the Chairman of ISC and the Chief Executive of CPT, which covered specific topics of interest to Scheme members including the Annual Report and Accounts and Scheme investments. In addition, representatives of the Coal Industry Social Welfare Organisation (CISWO) and the Scheme administrator were present to answer members' questions. 73 Scheme members attended the meeting.

Arrangements for the 2013 AGM in Cardiff are shown at the front of the Annual Report and Accounts.

Risk Management

The Committee is responsible for the Scheme's Risk Management Framework, which includes the system of internal control, and for reviewing its effectiveness.

The Risk Management Framework is designed to manage the risk of failure to achieve the Trustee's objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

The Risk and Assurance Sub-committee (RASC) reviews and monitors the Risk Management Framework and makes recommendations to the Committee, where appropriate, for improvement. It assists the Committee and other Sub-committees in discharging their responsibilities in relation to financial reporting, risk management and internal controls.

A risk register is maintained by the Committee which records the assessment of applicable risks facing the Scheme together with the effectiveness of controls in place to mitigate each risk. Each Sub-committee has responsibility for ensuring that the specific risks that fall within its remit are being adequately managed. The risk register is reviewed and updated regularly.

Key risks are prioritised to enable attention to be focused appropriately. Risk appetite measures have been established and compliance with these is monitored by the Committee.

Controls are designed to provide reasonable assurance that the assets are safeguarded against loss from unauthorised use and that benefits are paid in accordance with the Scheme Rules, in line with the Trustee's objectives.

The Committee receives assurance over the operation of the system of internal controls from internal audit reviews, according to a programme of audit work approved and overseen by the RASC.

Transfers out of the Scheme

Transfer values paid during the Scheme year in respect of transfers to other pension schemes have been calculated on a basis provided and verified by the Consulting Actuary in accordance with the Pension Schemes Act 1993. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

Statement of Trustee's Responsibilities in Respect of the Accounts

The British Coal Staff Superannuation Scheme is governed by the Scheme and the Rules set out in the Schedule to the British Coal Staff Superannuation Scheme (Modification) Regulations 1994 and as subsequently amended. Under the Definitive Scheme and Rules, the Committee of Management is required to obtain audited financial statements and the Committee has resolved to apply the accounting principles followed in the United Kingdom by Pension Schemes including the application of the Statement of Recommended Practice 'Financial Report of Pension Schemes' (revised May 2007).

The Trustee's Report and Audited Financial Statements are the responsibility of the Trustee. The Scheme and Rules require the Trustee to prepare financial statements and have them audited. The financial statements comply with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and will:

- Show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets, liabilities other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- Contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Report of Pension Schemes' (revised May 2007).

The Trustee has supervised the preparation of the financial statements, and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Actuarial Valuation

The Actuarial Valuation as at 31 March 2012 is now complete. A summary of the Scheme Actuary's report on the Actuarial Valuation of the Scheme as at 31 March 2012 is on page 29. Details of the outcome of the valuation of each of the notional Sub-funds, reflecting the Guarantee arrangements in the Scheme Rules, are included in the Actuary's report and the notes to the accounts on page 26.

A summary of the valuation results for each Sub-fund is given in the table below:

Sub-fund	Assets £m	Liabilities £m	Surplus/(Deficit) £m
Guaranteed Fund	7,464	7,701	(237)
Bonus Augmentation Fund	947	895	52
Guarantor's Fund	193	163	30

The fourth Sub-fund, the Investment Reserve, has no quantifiable liabilities, is not subject to a valuation and had a market value of £150 million at 31 March 2012.

In accordance with Scheme provisions the following actions were taken:

- Since there was a deficit in the Guaranteed Fund:
  - assets of £130 million from the Investment Reserve (of which £2 million was to cover projected future expenses which are associated with this portion of the fund) were transferred to the Guaranteed Fund. As a result, the remaining debt owed by the Guaranteed Fund to the Investment Reserve is £1,584 million. Assets of £20 million were retained in the Investment Reserve to meet contingent liabilities;
  - assets of £54.5 million were transferred from the Bonus Augmentation Fund to the Guaranteed Fund. As a result, the assets of the Bonus Augmentation Fund fell to £893 million, leading to a deficit in the Bonus Augmentation Fund;
  - assets of £54.5 million were transferred from the Guarantor's Fund to the Guaranteed Fund. As a result, the assets of the Guarantor's Fund fell to £139 million, leading to a deficit in the Guarantor's Fund;
  - As a result of the deficit in the Bonus Augmentation Fund, previous Bonus Augmentations (bonuses) awarded from the Bonus Augmentation Fund were converted to reducing bonuses (called Crystallised Augmentations in the Scheme Rules). This means that these bonuses collectively are now reduced each year by the amount of the RPI increase added to benefits paid from the Guaranteed Fund. The first such reduction will occur in January 2014. Bonus lump sums not yet in payment are also reduced each year;
- as a consequence of the conversion of the bonuses to reducing bonuses, the liabilities in the Bonus Augmentation Fund fell from £895 million to £604 million, leaving a residual surplus, referred to in the Scheme Rules as a Bonus Augmentation Residue, of £289 million;
- Given the deficit in the Guarantor's Fund, the Actuary recommended that the current stream of payments due to the Guarantor from the Guarantor's Fund be decreased from 31 March 2014 for the remaining three payments to £37.4 million (from £47 million).

In their work with the Guarantor to secure the best benefit outcome for members, the Trustee considered carefully the provisions in the Scheme and Rules that would normally have required the Guarantor to pay additional funds into the Guarantor's Fund (the sub-fund containing the Guarantor's share of surpluses since privatisation). There were sufficient assets already in this fund to make the necessary £54.5 million transfer to the Guaranteed Fund and any additional funds paid in would have been of no immediate benefit to the members. Having taken legal advice, and in the particular circumstances of the result of this valuation, which will not set a precedent for the future, the Trustee has agreed to waive the requirement for the Guarantor to top-up the Guarantor's Fund at this valuation.

In accordance with the provisions of the Scheme, the Actuary did not consider it appropriate that any payments should be made to the Guarantor from the Investment Reserve in the period up to the next valuation.

Analysis of changes in the number of deferred pensioners and Equivalent Pension Benefits (EPB)

During the year ended 31 March 2013

	Deferred pensioners	EPB only*
At the beginning of year	**5,881**	**1,628**
Reclassifications	(15)	2
	5,866	**1,630**
Additions during year:		
Pension credit members **	14	–
Total additions	**14**	**–**
Reductions during year:		
Retirements:		
- normal retirement age	83	18
- commuted trivial pension	1	85
- early retirement with no actuarial reduction	292	–
- early retirement with actuarial reduction	55	–
- ill-health	3	–
- after further deferment	129	–
Deaths notified to the Scheme	7	40
Transfers out	9	–
Total reductions	**579**	**143**
Net reduction	565	143
Total at end of year	**5,301**	**1,487**

* Equivalent Pension Benefit (EPB)

Members who left service early with a refund of contributions and who were contributors between April 1961 and April 1975 generally had an Equivalent Pension Benefit (EPB) preserved in the Scheme. This is broadly equivalent to the pension to which they would have been entitled from the State Graduated Pension Scheme, had the BCSSS not been contracted out of that scheme. The BCSSS pays this from age 60 rather than from State Pension Age.

** Pension credit members

For divorce petitions initiated from 1 December 2000, courts have the power to give a former spouse of a pension scheme member the right to a transfer of part of the member's pension rights. The Committee agreed that where benefits were to be divided in accordance with a court order, the former spouse of the Scheme member should have the option to use the transfer payment to secure a pension entitlement in the BCSSS in his/her own right.

Analysis of changes in the number of pensioners and pensions in payment including bonuses

During the year ended 31 March 2013

	Former contributors		Widow(er)s and dependants		Children	
	Number	Annual rate £,000	Number	Annual rate £,000	Number	Annual rate £,000
Guaranteed						
At the beginning of year	**42,067**	**418,502**	**16,826**	**107,309**	**195**	**518**
Adjustments*	–	–	(1)	–	1	–
Additions during year:						
Awards on retirement	593	3,757	–	–	–	–
Awards on death of pensioners	–	–	799	5,603	2	5
Pension increases	–	10,501	–	2,983	–	27
Total additions	**593**	**14,258**	**798**	**8,586**	**3**	**32**
Deductions during year:						
Death of pensioners	1,550	15,233	1,216	7,200	–	–
Children attaining age 18 or ceasing full-time education	–	–	–	–	17	41
Total reductions	**1,550**	**15,233**	**1,216**	**7,200**	**17**	**41**
Total guaranteed pensions at end of year	**41,110**	**417,527**	**16,408**	**108,695**	**181**	**509**
Payments arising from surplus:**						
Reducing bonus	–	58,277	–	14,905	–	170
Level bonus	–	42,789	–	12,149	–	111
Total payments arising from surplus	–	101,066	–	27,054	–	281
Total	**41,110**	**518,593**	**16,408**	**135,749**	**181**	**790**

* The adjustment relates to a child's record that was incorrectly categorised as a widow's record in the figures last year.

** Payments arising from surplus are bonuses paid to pensioners, as described on page 29.

Investment Report

Policy

The responsibility for setting the investment policy of the Scheme lies with the Committee. Decisions concerning establishment of investment objectives and formulation of an investment strategy which seeks to achieve the objectives are made by the Committee. The Investment Sub-committee is responsible for overseeing the efficient implementation of the investment strategy and deciding on the most appropriate investment structure within delegated parameters. Decisions are made after consideration of advice from CPTI, the Scheme's primary investment consultant.

All day-to-day investment decisions are delegated to the Scheme's investment managers who are required to follow specific guidelines.

The Committee takes professional advice to ensure that risk in the long-term strategy is appropriate both to the profile of expected benefit payments, and payments due to the Guarantor, and to the long-term aspiration of the Committee to maintain or improve Bonus Augmentations.

Investment Review and Performance

The year to March 2013 was divided into two distinct phases. Until June 2012 the market focus was on the possibility of Greece being forced from the single currency and the consequent turmoil this would cause from contagion to other peripheral euro area countries.

The summer brought a reassessment of those risks, particularly following European Central Bank President Mario Draghi's July 26th speech stating "…the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough". On that day, the yield on Greek 10-year government bonds was 28%. By March 2013 that yield had fallen to 12% and has continued to fall.

There was a further euro crisis to come in early 2013 when Cyprus required support. After some brinkmanship, and setting the precedent of taking money from large depositors in its banks, that support was forthcoming. Markets were much less disturbed by the small Cypriot economy's troubles than they had been about Greece. The euro area has bought itself time. How it uses that time will be important for the outlook in the months ahead given that it remains mired in economic recession.

Here in the UK the economy grew very slowly and the Bank of England maintained its aggressive monetary policy throughout the year. Quantitative Easing (QE) was expanded here and in the United States. Equity markets reacted positively to this with both UK and global stock markets rising over the year, and doing so particularly strongly from November 2012 on.

Over the course of the year the FTSE All Share had a total return of 16.8%. Global equities had a total return of 17.0% in sterling terms. Corporate bond markets also performed strongly. Sterling corporate bonds returned 13.6%.

Government bond markets and currencies in the major economies of the world were relatively well behaved over the year. The FTSE All Gilt market index had a total return of 5.3%. Sterling declined 2.3% on a trade weighted basis. UK commercial property returned 2.6%.

During the year the Committee maintained allocations to maximise the returns available from global equity and corporate credit markets. It has undertaken a review of the investment strategy in conjunction with its investment adviser.

Since the end of the period the Committee has agreed to reduce cash holdings and sell corporate credit. It has agreed to invest the proceeds in both Japanese equities and in credit funding where the Scheme will provide capital to segments of European debt markets that have historically depended on banks.

The Scheme's investment managers are shown below:

	Total Net Asset Value (NAV) £m
Cash and Fixed Income	
Insight & other cash	93.9
Wellington	362.2
Legal and General	436.1
BlueBay	204.5
Stone Harbor	196.6
Pramerica	171.8
M&G	118.7
	1,583.8
Equities	
BlackRock	3,064.9
Private Equity	1,029.5
First State	291.3
Schroders	238.4
Lazard	228.8
Genesis	216.5
Comgest	210.8
Edinburgh Partners	165.2
Baillie Gifford	144.3
Southeastern	138.9
Lansdowne	123.9
Maverick	118.6
JO Hambro	107.0
Odey	86.7
Blue Harbour	9.2
Other Holdings	0.2
	6,174.2
Property and Infrastructure	
LaSalle – UK Property	682.3
Alinda	97.2
Goldman Sachs	86.4
	865.9
Uncorrelated Investments	
Bridgewater	168.8
DE Shaw	166.1
Brevan Howard	143.9
	478.8
Residual cash, assets and liabilities	2.3
Net Investment Assets as at 31 March 2013	**9,105.0**

Investment Review and Performance (continued)

At the end of the year to 31 March 2013, the actual proportion of investment assets held at market value in comparison to the target asset allocation was as follows:

	Actual %	Target Asset Allocation %
Cash and Fixed Income		
Cash	1.0	2.0
Fixed Income*	16.4	18.0
Equities		
Passive Equity	33.7	32.5
Active Equity (incl. long/short equity)	22.8	22.5
Private Equity	11.3	10.0
Property		
UK Property	7.5	8.0
Infrastructure	2.0	2.0
Uncorrelated Investments	5.3	5.0
Total Assets	**100.0**	**100.0**

* Fixed Income is comprised of: developed sovereign debt, global credit and emerging market debt.

The asset categories used in the above table are based on the key economic drivers of the underlying investments and differ from the classifications used in the accounts, due to the different treatment of pooled funds.

The Committee uses JP Morgan as its independent investment performance measurer. The annual returns achieved by the Scheme and the comparable Scheme benchmarks for each of the Scheme years from 31 March 2009 to 31 March 2013 are shown below.

	Scheme Return %	Benchmark %
2013	12.9	12.5
2012	3.0	2.0
2011	10.8	9.4
2010	31.0	31.3
2009	(24.6)	(14.3)

Following a review of the Scheme's benchmarks in 2010, the Committee decided to amend a number of benchmarks to be more reflective of the underlying holdings and reclassified the Scheme's investments according to their economic drivers of returns. The Committee feels that this reclassification of asset categories on the basis of economic drivers gives a clearer representation of the absolute and relative performance of the Scheme's assets, especially when markets are volatile.

The following table compares the returns over the past one and three years. The change in the composition of the Scheme benchmark makes it difficult to make meaningful longer term comparisons of the annualised relative performance of the portfolio due to the different benchmarks.

	Trailing 1 Year		Trailing 3 Years	
	Scheme %	Benchmark %	Scheme %	Benchmark %
Cash	2.27	0.51	2.64	0.58
Fixed Income	9.67	8.44	7.49	7.03
Equities	16.97	16.62	9.12	8.47
Property	6.01	2.10	8.22	7.24
Infrastructure	14.52	3.28	3.28	4.06
Uncorrelated	10.84	16.62	13.90	7.33
Total Scheme	**12.90**	**12.46**	**8.82**	**7.87**

The table highlights that the overall investment portfolio was ahead of the composite benchmark during the year to 31 March 2013 and for the rolling three years to that date. The Scheme matched or exceeded its benchmark in most asset classes across both periods. Equity investment performance in both periods was helped by good returns by the Scheme's active managers, particularly in the emerging markets. In fixed income, global credit performed well, offsetting the weaker performance of global government bonds over the periods.

Custodial and Cash Arrangements

The Scheme's quoted securities are held by a custodian, JP Morgan World Wide Security Services (JP Morgan), who also provide investment accounting, investment performance measurement, securities lending services and derivatives valuation services.

Insight Investment manages most sterling cash balances, which include short-term certificates of deposit, commercial paper and floating rate notes. The remaining cash is either deposited with JP Morgan Chase Bank NA or placed on deposit in the name of the Scheme.

The Committee's approval is required for any borrowings in excess of agreed short-term overdraft facilities with JP Morgan Chase Bank NA and Lloyds TSB Bank plc.

Most equities and bonds are registered in the name of nominee companies controlled by the Scheme's custodian or sub-custodians. Bearer securities, where title is conferred by possession, are held through agent banks to the Scheme's order. Passively managed securities are mainly held in pooled funds, who appoint their own custodian.

Property investments are registered in the name of Coal Pension Properties Limited, a nominee company controlled jointly by the Scheme and the Mineworkers' Pension Scheme (MPS) or, in a few cases, other companies controlled jointly by the Scheme and MPS. Title deeds are held by firms of solicitors. A trust deed between Coal Pension Properties Limited and the Schemes establishes that the properties are held on behalf of the Schemes.

Private equity investments are held in the name of the Coal Staff Private Equity Trust, on behalf of the Scheme.

Regular reconciliations are carried out of evidence of title and value held by the custodian with records maintained by the Scheme's investment managers.

Corporate Governance

The Committee believes that widespread adoption of good corporate governance practice by investee companies will improve the quality of investee company management and, as a consequence, potentially increase the returns to long-term investors. Effective intervention, however, requires a deep knowledge of the underlying businesses in which the Scheme effectively invests, which the Trustee Directors do not have. For this reason engagement and voting activities are delegated to Hermes EOS and the investment managers.

Securities Lending

The Scheme participates in securities lending through its custodian, JP Morgan. Approved borrowers are required to provide collateral valued in excess of securities on loan. Additional controls include limits on lending to borrowers and restrictions on acceptable collateral. The Scheme also benefits from an indemnity from JP Morgan against losses on borrower default. The value of securities on loan at the year end was £273 million (2012: £343 million).

Transaction costs

The management of transaction costs and the obligation to seek best execution is the responsibility of each investment manager, with whom there is a regular dialogue.

Derivatives

The Committee has authorised the use of stock, foreign exchange and bond index futures, options, foreign exchange swaps, credit default swaps, interest rate swaps and inflation swaps. These are used by the Scheme's investment managers to contribute to the reduction of risk and to facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk).

Controls in place include authorisation of permitted instruments, limits on market exposures and on total tracking errors and collateral requirements.

Futures contracts were cleared through Goldman Sachs International and JP Morgan Chase Bank N.A. during the year. JP Morgan Chase Bank N.A. also provides an independent valuation for derivatives.

Currency Hedge

Overseas equities were typically hedged into Sterling at a rate of 50% of exposure during the year. This policy was reviewed by the Committee and the Sterling hedge was removed from March 2013. Following the change in monetary policy at the Bank of Japan, leading to a weakening of the currency against Sterling, the Japanese Yen exposure was hedged at 100% from 26 April 2013.

Appreciation

The Committee wishes to acknowledge the assistance it has received from all its appointees over the year and to record its thanks for the work carried out by them.

For and on behalf of the Committee of Management

Philip E Read Chairman

Jonathon Storer Secretary

Fund Account

Year ended 31 March 2013

	Note	Non-consolidated 2013 £m	Consolidated 2012 £m
Contributions and Benefits			
Benefits	2	(671)	(671)
Payment to and on account of leavers	3	(1)	(1)
Payment due to Guarantor	4	(47)	(47)
Administrative expenses	5	(7)	(7)
Net withdrawals from dealings with members and Guarantor		**(726)**	**(726)**
Returns on investments			
Investment income	6	147	149
Change in market value of investments	7	948	126
Investment management expenses	8	(24)	(28)
Net returns on investments		**1,071**	**247**
Net Increase/(Decrease) in the Fund during the year		**345**	**(479)**
Net Assets of the Scheme as at 1 April 2012		**8,754**	**9,233**
Net Assets of the Scheme as at 31 March 2013		**9,099**	**8,754**

Net Assets Statement

At 31 March 2013

	Note	Non-consolidated 2013 £m	Consolidated 2012 £m
Investments			
Investment assets	7	9,209	8,793
Investment liabilities	7	(104)	(68)
Investment in joint ventures	7	–	54
Net investment assets		**9,105**	**8,779**
Minority interests	7	–	(27)
		9,105	**8,752**
Current assets	9	4	12
Current liabilities	10	(10)	(10)
Net Assets of the Scheme at 31 March 2013		**9,099**	**8,754**

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposition of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year.

These financial statements were approved by the Committee on 17 July 2013.

For and on behalf of the Committee of Management

Philip E Read Chairman **Ray Proctor** Committee Member

Scheme Registration Number: 10151637

1. Accounting policies

Basis of preparation

The Scheme Rules require the Trustee to prepare financial statements and have them audited. The financial statements have been prepared in accordance with the guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised May 2007), published by the Pensions Research Accountants Group.

Basis of accounting

The accounts include the assets and liabilities, excluding obligations to pay pensions and benefits after the end of the Scheme year, the majority of which are held through nominee and trustee companies, limited partnerships and other pooling arrangements, together with the net income arising during the year.

Change to basis of consolidation

In the previous year, results of subsidiary undertakings were included from the date of acquisition and up to the date of disposal using the acquisition method of accounting. During the year ended 31 March 2013 the only remaining Scheme subsidiary was placed into liquidation. As a result consolidated accounts are not required this year.

Certain investments, including property investments, are held on behalf of the Scheme through interests in joint ventures (JVs) with the Mineworkers' Pension Scheme (MPS). Where the Scheme had significant influence or a direct or indirect interest in management of the business, then that business was accounted for using the gross equity method in the previous year's consolidated accounts. This resulted in a minority interest. Given the change to the basis of consolidation noted above, this year JVs have been included in the relevant investment asset class by including the Scheme's share of net assets of the JV rather than being disclosed separately. In the case where a joint venture has a year end more than three months prior to that of the Scheme, unaudited management information is used.

The change in basis of consolidation has no impact on net investment assets in either year.

Investment income

Income from fixed interest securities, index-linked securities, property and cash is taken into account on an accruals basis. Income from property is stated net of any expenses which relate directly to the income against which it has been incurred, where such expenses are not deemed material.

Income from equity investments is included in the accounts on the date when the securities are quoted ex-dividend.

Income arising from the underlying investments of the pooled investment vehicles that is reinvested within the pooled investment vehicles is reflected in the unit price and is reported within the change in market value.

Income from joint ventures in the current year is included within the income of the relevant investment asset class.

Individual transfers

Individual transfers to and from the Scheme during the year are included in the financial statements on the basis of when the member liability is accepted or discharged by a registered arrangement.

Benefits

Benefits payable are included in the financial statements on an accruals basis when the member notifies the Trustee as to the type or amount of benefit to be taken, or where there is no choice, on the date of retirement or leaving.

Administrative expenses and investment management expenses

Administrative expenses and investment management expenses, where they are invoiced directly, are accounted for on an accruals basis. Some investment managers deduct their fees directly from the fund and these are reflected within the change in market value. Irrecoverable VAT is reflected within the appropriate expense heading.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the Scheme year-end. Gains and losses on foreign currency denominated investments are shown in aggregate within the change in market value of investments to which they relate in the Fund Account. Gains and losses relating to cash are included in investment income.

Investment income denominated in foreign currencies is recorded by applying the spot exchange rate ruling at the date on which the income relating to the investment falls due.

Investment assets

Listed investments are valued at closing prices on the recognised stock exchange as at the year-end. These are either the last quoted trade price or bid price depending on the market on which they are quoted.

Unlisted investments are stated at the Trustee's estimate of fair value based on advice of the investment manager or other appropriate professional adviser.

Pooled investment vehicles are valued at the closing bid price or, if single priced, at the closing single price.

Direct property investments are valued each year on the basis of open market values in accordance with valuation principles laid down by the Royal Institution of Chartered Surveyors. Valuations are conducted at December each year by DTZ Debenham Tie Leung with a further valuation at the Scheme's year-end.

Property investments through interests in joint ventures in the current year are accounted for by including the Scheme's share of the net assets.

Fixed interest securities are stated at a value which excludes the value of interest accruing from the previous interest payment date to the valuation date. Accrued income is accounted for within investment income.

Underlying investments in private equity are valued at fair value for unlisted investments, or in accordance with the above policy for listed investments. Fair value is generally assessed by the General Partner responsible for selecting the underlying investments, according to standards applicable in the jurisdiction in which the General Partner is based. Changes in fair value are included in the net movement in the market value of investments. Where the last valuation provided by the General Partner is prior to the year end, the valuation is adjusted for cash flows in the intervening period. Market values of non-sterling currency balances have been translated at closing rates of exchange.

Derivatives

Derivatives with an initial purchase price are reported as purchases. Those that do not have an initial purchase price but require a deposit, such as an initial margin to be placed with the broker, are recorded at nil cost on purchase.

Derivative contracts are included in the Net Assets Statement at fair value. Exchange traded derivatives with positive values are included in the Net Assets Statement as assets at bid price, and those with negative values as liabilities at offer price.

Futures

Open futures contracts are recognised in the Net Assets Statement at their fair value, which is the unrealised profit or loss at the closing bid or offer exchange price of the contract at the year-end.

Amounts outstanding in respect of the initial margin and any variation margin due to or from the broker are included in the investment assets and liabilities.

Amounts included in the change in market value represent realised gains or losses on closed futures contracts and the unrealised gains or losses on open futures contracts.

Forward foreign exchange contracts

Forward foreign exchange contracts outstanding at the year-end are stated at fair value, which is determined as the gain or loss that would arise if each outstanding contract was matched at the year-end with an equal and opposite contract at that date.

Changes in the fair value of the forward contracts are reported within change in market value in the Fund Account.

Options

Traded options are valued at the fair value as determined by the exchange price for closing out the option as at the year-end. Options which are over the counter contracts are valued at fair value using a pricing model where inputs are based on market data at the year-end.

Changes in the fair value of the option are reported within change in market value.

Collateral payments and receipts are reported within cash, and do not form realised gains or losses reported within change in market value.

Swaps

Swaps are valued at fair value, as determined by the current value of future expected net cash flows arising from the swap, for which the time value of money is taken into account. Interest is accrued monthly under the terms relating to individual contracts.

Net receipts or payments on swap contracts together with realised gains and losses on closed contracts and unrealised gains or losses on open contracts are included within change in market value.

Sub-funds

The Scheme is notionally split into four Sub-funds - Guaranteed Fund, Bonus Augmentation Fund, Guarantor's Fund and Investment Reserve, in accordance with the Rules of the Scheme as set out in the British Coal Staff Superannuation Scheme (Modification) Regulations 1994. Movements between the Funds, as calculated by the Actuary, are recognised following completion of the latest Actuarial Valuation as required by the Rules dated October 1994. Bonus Pensions payable are charged to the Bonus Augmentation Fund on an accruals basis. Each of the Sub-funds is allocated annually a proportional share of income, expenses and movements in asset values as shown in note 12.

2. Benefits

	Non-consolidated 2013 £m	Consolidated 2012 £m
Pensions	518	517
Dependant benefits	133	131
Commutations and lump sum retirement benefits	20	23
Total	**671**	**671**

3. Payments to and on account of leavers

	Non-consolidated 2013 £m	Consolidated 2012 £m
Individual transfers to other schemes	1	1

4. Payments due to Guarantor

	Non-consolidated 2013 £m	Consolidated 2012 £m
Payments from the Guarantor's fund	47	47

5. Administrative Expenses

	Non-consolidated 2013 £m	Consolidated 2012 £m
Pension Administration	6	5
Legal, Actuarial and Other fees	1	2
Total	**7**	**7**

6. Investment Income

	Non-consolidated 2013 £m	Consolidated 2012 £m
Income from fixed interest securities	65	65
Dividends from equities	37	35
Property rents	38	33
Interest on cash deposits and margin accounts	3	5
Income from joint ventures	–	4
Other	4	7
Total	**147**	**149**

Overseas investment income is stated net of withholding taxes. The above table excludes reinvested income arising from pooled funds.

Following the liquidation of the only subsidiary, the Scheme is no longer required to prepare consolidated accounts. Joint ventures have been reflected in the relevant investment class and income relating to the joint ventures has been treated in the same manner in the current year.

7. Net Investments Assets

	Value brought forward	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Change in market value	Value carried forward
	£m	£m	£m	£m	£m
Fixed interest securities	1,418	1,595	(1,679)	99	1,433
Equities	1,547	1,142	(882)	288	2,095
Index-linked securities	23	32	(50)	3	8
Pooled investment vehicles	3,794	335	(1,018)	532	3,643
Derivative contracts	43	605	(569)	(135)	(56)
Property	614	53	(56)	7	618
Other investments	66	14	(14)	(3)	63
Private equity	943	140	(207)	154	1,030
Joint ventures	27	–	(27)	–	–
Cash and cash equivalents	241	19	–	3	263
Other financial assets and liabilities	36	–	(28)	–	8
Total	**8,752**	**3,935**	**(4,530)**	**948**	**9,105**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including all profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £2 million (2012: £2 million). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Scheme.

As described in note 1, joint ventures have been recategorised and are shown in the investment asset class to which they relate. The sales of joint ventures shown above reflect the reallocation of the opening assets. The related purchases are included in the relevant asset class.

	Non-consolidated 2013 £m	Consolidated 2012 £m
Investment Assets		
Fixed interest securities	1,433	1,418
Equities	2,095	1,547
Index-linked securities	8	23
Pooled investment vehicles	3,643	3,794
Derivative contracts	14	68
Property	618	614
Other investments	63	66
Private Equity	1,030	943
Cash equivalents	263	241
Other financial assets	42	79
Total	**9,209**	**8,793**

	Non-consolidated 2013 £m	Consolidated 2012 £m
Investment Liabilities		
Derivative contracts	70	25
Other financial liabilities	34	43
Total	**104**	**68**

	Non-consolidated 2013 £m	Consolidated 2012 £m
Fixed Interest Securities		
UK public sector quoted	12	32
Overseas public sector quoted	783	694
UK corporate quoted	50	93
Overseas corporate quoted	588	599
Total	**1,433**	**1,418**

In 2012 the following amounts in relation to unquoted securities were included in the relevant categories above: Overseas public sector £30 million, UK corporate £2 million, Overseas corporate £22 million. There are no unquoted fixed interest securities at 31 March 2013.

	Non-consolidated 2013 £m	Consolidated 2012 £m
Equities		
UK quoted	323	252
Overseas quoted	1,771	1,295
UK unquoted	1	–
Total	**2,095**	**1,547**

	Non-consolidated 2013 £m	Consolidated 2012 £m
Index-linked securities		
Overseas public sector quoted	**8**	**23**

	Non-consolidated 2013 £m	Consolidated 2012 £m
Pooled Investment Vehicles		
Managed funds	**3,643**	**3,794**

Pooled investment vehicles are all managed by companies registered in the United Kingdom. UK registered investment vehicles include holdings in overseas equities, bonds and derivatives.

Where the investments are held in managed funds the change in market value also includes expenses both implicit and explicit to the Scheme and any reinvested income, where the income is not distributed.

The majority of the Scheme's pooled funds represent unitised insurance policies (2013: 72.0%, 2012: 62.8%) with the balance being other managed funds.

At the year end the holding in the individual BlackRock North America Equity Fund represented 14% of Scheme assets (2012: 13%).

	Asset £m	Liability £m	Net Position £m
Derivative Contracts			
Futures	1	(12)	(11)
Forward Foreign Exchange	12	(56)	(44)
Swaps	1	(2)	(1)
Options	–	–	–
Total	**14**	**(70)**	**(56)**

Futures

The Scheme holds long and short interest rate and index future contracts with economic exposures of £93 million and (£800 million) respectively. The majority expire in six months and are held in Sterling, Euro, Yen, Australian dollars, Canadian dollars and US dollars. The market value of these positions are an asset of £1 million, and a liability of £12 million, giving a net liability position of £11 million.

The economic exposure represents the notional value of securities (or bonds) purchased under the futures contract and therefore the value is subject to market movements.

Forward foreign exchange

	Bought £m	Sold £m	Asset £m	Liability £m
US Dollar	916	(2,011)	3	(41)
Euro	109	(430)	5	(3)
Yen	69	(152)	3	–
Other	216	(336)	1	(12)
Sterling	2,582	(1,007)	–	–
Total	**3,892**	**(3,936)**	**12**	**(56)**

The above table aggregates the exposures to currencies acquired or sold through over the counter forward foreign exchange contracts at year end sterling values. Contracts are typically of three months' duration with approximately a third maturing each month as part of the passive currency hedge. Counterparties are mainly UK and overseas banks.

Swaps

Contract	Expiration	Nature of swap	Notional principal £m	Asset £m	Liability £m
Interest rate swaps	2 – 9 years	Paying and receiving fixed for floating	73	–	(1)
Credit default swaps	3– 50 years	Buying and selling credit exposure	41	1	–
Cross Currency swaps	1 year	Buying and selling loans denominated in foreign currency	5	–	(1)
Total				**1**	**(2)**

Interest rate swaps are in Brazilian Real, Euros, Mexican Peso and US Dollars.

The notional principal of the swap is the amount used to determine the value of swapped interest receipts and payments.

Options

Type of option	Expiration	Underlying investment	Notional principal £m	Asset £m	Liability £m
Purchased FX Put	2013	Currency Contracts	3	–	–
Purchased FX Call	2013	Currency Contracts	(3)	–	–
Total				**–**	**–**

The notional principle represents the value of the underlying stock.

	Non-consolidated 2013 £m	Consolidated 2012 £m
Property	**618**	**614**

Following the change to the basis of consolidation, as described in note 1, joint venture investments of £54 million which relate to Darfield Investment Holdings Limited are now included in the 2013 amounts above. In 2012 the equivalent holdings of £50 million were separately disclosed as part of joint ventures.

	Non-consolidated 2013 £m	Consolidated 2012 £m
Other Investments		
Indirect property holdings	**63**	**66**

These represent investments in property partnerships.

	Non-consolidated 2013 £m	Consolidated 2012 £m
Private Equity	**1,030**	**943**

All the Scheme's private equity investments are held through limited partnerships. Within the partnerships the underlying investments are principally management buyouts and institutional purchases of businesses based in the UK, Continental Europe, the US and Asia. By their nature these investments represent long term commitments which may restrict the ability of the Scheme to realise them at the accounting date. Details of forward private equity commitments are shown in note 13.

	Consolidated 2012 £m
Joint Ventures	
Investment assets in joint ventures	193
Investment liabilities in joint ventures	(139)
Net investment in joint ventures	54
Minority interest	**(27)**
Scheme interest in joint ventures	**27**

As described in note 1, joint ventures have been accounted for in the current year as part of the investment asset classes to which they relate and hence there are no amounts to be disclosed above in respect of 2013.

	Non-consolidated 2013 £m	Consolidated 2012 £m
Cash and cash equivalents		
Sterling	216	192
Foreign currency	47	49
Total	**263**	**241**

	Non-consolidated 2013 £m	Consolidated 2012 £m
Other financial assets and liabilities		
Amounts due from broker	17	33
Other debtors	23	45
Outstanding income and withholding tax	2	1
Amounts due to brokers	(18)	(43)
Other creditors	(16)	-
Total	**8**	**36**

Other creditors previously included in amounts due to brokers are now disclosed separately, as this categorisation is considered more appropriate. In the previous year, equivalent amounts were £15 million.

AVC Investments

Members' additional voluntary contributions (AVCs) are invested separately from the Scheme in investments administered by the Prudential Assurance Company Limited. The value of the AVC fund is included in other financial assets, and movements in the AVC fund value are included in the Fund Account. The AVC fund value at 31 March 2013 was £0.5 million (2012: £0.4 million).

8. Investment Management Expenses

	Non-consolidated 2013 £m	Consolidated 2012 £m
Administration, management and custody	**24**	**28**

9. Current Assets

	Non-consolidated 2013 £m	Consolidated 2012 £m
Cash at bank	**4**	**12**

10. Current Liabilities

	Non-consolidated 2013 £m	Consolidated 2012 £m
Tax and VAT	(9)	(9)
Other creditors and unpaid benefits	(1)	(1)
Total	**(10)**	**(10)**

11. Related party transactions

The Scheme's accounts have been prepared to comply with Financial Reporting Standard 8 – Related Party Disclosures. This standard requires the accounts to include details of transactions involving the Scheme with parties who can exert control or influence over the Scheme or vice versa. These are detailed below.

- The Secretary of State for Energy and Climate Change acts as Guarantor to the Scheme. A payment was made to the Guarantor during the year of £47 million in respect of surpluses in earlier years.
- The Scheme owns UK Government bonds which at the year end had a market value of £12 million (2012: £55 million).
- Five members of the Committee are in receipt of a pension from the Scheme. The aggregate amount paid was £259,000 (2012: £250,000).
- Members of the Committee of Management are entitled to receive remuneration from the Scheme. The total remuneration paid to the Trustees in the year was £230,300 (2012: £222,050) and is detailed in the Committee of Management Report.
- Coal Pension Trustees Services Limited is jointly owned by the Scheme and MPS with each appointing four members of their Committees of Management as directors. CPT costs which are in respect of support services are included within Pensions administration costs in note 5 and were £4 million (2012: £3 million).
- The Scheme and the MPS jointly invest in properties and partnerships with a value to the Scheme of £131 million (2012: £146 million).

12. Market Value of Sub-funds

The movements on the various Sub-funds during the year, as confirmed by the Scheme Actuary, are set out below:

	Guaranteed Fund £m	Bonus Augmentation Fund £m	Investment Reserve £m	Guarantor's Fund £m	Total Assets £m
Market Values at 31 March 2012	**7,466**	**945**	**150**	**193**	**8,754**
Transfers in respect of early retirement costs	(2)	2	–	–	–
Transfers following 31 March 2012 Actuarial Valuation (1) (2)	240	(55)	(130)	(55)	–
Revised values at 31 March 2012 following Actuarial Valuation	**7,704**	**892**	**20**	**138**	**8,754**
Benefits paid	(538)	(134)	–	–	(672)
Payment due to Guarantor	–	–	–	(47)	(47)
Allocation of income, expenses and movement in net asset values	940	103	2	19	1,064
Market Values at 31 March 2013	**8,106**	**861**	**22**	**110**	**9,099**

(1) The Actuarial Valuation as at 31 March 2013 was signed on 4 July 2012. The asset values as at 31 March 2012 have therefore been adjusted to reflect the results of the valuation and are rounded to the nearest million.

(2) The amounts shown in respect of the transfers from the Bonus Augmentation Fund and the Guarantor's Fund have been rounded up to the nearest million.

As explained in note 1, the Scheme is notionally split into four Sub-funds in accordance with the Rules of the Scheme as set out in the British Coal Staff Superannuation Scheme (Modification) Regulations 1994. The basis of each Sub-fund is as set out below:

- Guaranteed Fund – this is used to fund the pensions which accrued before the Scheme was restructured in October 1994, including the benefit improvements which were made immediately prior to restructuring. Such pensions are guaranteed to increase in line with RPI. A deficit in the Guaranteed Fund is met first by a call on the Investment Reserve, then by equal calls on the Bonus Augmentation Fund and the Guarantor's Fund. Any surplus in the Guaranteed Fund is first used to repay any previous transfers from the Investment Reserve, with any remaining surplus thereafter being split equally between the Bonus Augmentation Fund and the Guarantor's Fund. The £240 million transfer above represents a transfer from the Investment Reserve of £130 million (including £2 million for projected future expenses) and equal transfers of £54.5 million from each of the Bonus Augmentation Fund and the Guarantor's Fund.
- Bonus Augmentation Fund – this represents the members' share of surpluses arising from Actuarial Valuations since 1994 and is used to fund bonus pensions. A deficit in this Fund would lead to bonuses being restructured and becoming reducing amounts over time.
- Investment Reserve – this originally represented the Guarantor's share of surpluses present in the scheme at the time of restructuring in 1994. Ultimately it is all due to be paid to the Guarantor, but whilst it remains in the Scheme can be used to support the Guaranteed Fund as described above.
- Guarantor's Fund – this represents the Guarantor's share of surpluses arising from Actuarial Valuations since 1994, which is paid out to the Guarantor over 10 years. The £47 million payment shown above is an instalment of the Government's share of the surplus in the Guaranteed Fund calculated at the 2006 valuation.

When a member chooses to take early retirement, the Trustee applies a common reduction factor to the benefits payable from the Guaranteed Fund and the Bonus Augmentation Fund. This generally leads to a surplus arising in the Guaranteed Fund and a (broadly) equal deficit in the Bonus Augmentation Fund. A transfer is made from the Guaranteed Fund to the Bonus Augmentation Fund every three years to offset this effect. The transfer of £2 million shown above is in respect of retirements since the last valuation.

13. Forward commitments and contingent assets and liabilities not provided for in the accounts

Forward commitments comprises expenditure on investments authorised and contractually committed before the year-end which is not provided for in the accounts as it is not yet due. This includes infrastructure and private equity investments of £435 million. The timing of infrastructure and private equity investment funding is uncertain and has been estimated. It is assumed £109 million (25%) will fall due in the next twelve months and the remaining £326 million in later years.

The Guarantor's shares of any actuarial surplus are distributed in ten annual payments, subject to review at successive actuarial valuations. £47 million was paid to the Guarantor during the year and £37.4 million is payable annually over the next three years.

Claims for the recovery of UK and overseas tax credits valued at approximately £78 million are being processed through the Courts as part of a Group Order with other UK pension funds. Receipts are recognised on a cash received basis.

An investment in the Dakota, Minnesota and Eastern Railroad Corporation held through a joint venture was sold for initial consideration of £33 million on 10 October 2007. Further contingent proceeds of up to £41 million (at year end exchange rates) may be payable in the period to 2025 which would give rise to an additional tax liability of approximately £6 million.

Report of the independent auditor to the Trustee of the British Coal Staff Superannuation Scheme

We have audited the financial statements of the British Coal Staff Superannuation Scheme for the year ended 31 March 2013 which comprise the fund account, the net assets statement and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with regulation 3 (c) of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 6 the Scheme's trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Financial Statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Ernst & Young LLP
Statutory Auditor
London
18 July 2013

1. The maintenance and integrity of the British Coal Staff Superannuation Scheme website is the responsibility of the trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Summary of the Actuarial Review as at 31 March 2012

An actuarial review of the Scheme is carried out by the Government Actuary every three years. The most recent review was as at 31 March 2012, and is described in my report dated 4 July 2013.

Full details of the purpose of the review, the methodology and assumptions used, the rationale, the results and their implications can be found in that report which should be read in conjunction with this statement. This statement summarises the results.

In the Guaranteed Fund, the value of the benefits was assessed to be £7,701 million and the market value of the assets was £7,464 million. The resulting deficit of £237 million, plus an allowance for expenses, was plugged by a transfer of £130 million from the Investment Reserve and transfers of £54.5 million from each of the Guarantor's Fund and Bonus Augmentation Fund.

In the Bonus Augmentation Fund, the value of the benefits was assessed to be £895 million and the resulting market value of the assets was £893 million. This deficiency triggered 'standstill' which resulted in a surplus of £289 million, which the trustees may use to award a new bonus, subject to the approval of the Guarantor.

In the Guarantor's Fund, the review revealed a deficit of £24 million on assets of £139 million. Consequently, the three outstanding payments to Government from 2014 are reduced by £9.6 million per annum to £37.4 million per annum up to 2016.

The market value of the assets in the Investment Reserve as at 31 March 2012 was £150 million. £130 million is to be transferred to the Guaranteed Fund and the remaining £20 million set aside to cover expected future costs arising as a result of any redundancies for members of the Industry Wide Coal Staff Superannuation Scheme.

For more information, please see my full report, entitled 'British Coal Staff Superannuation Scheme Actuarial valuation as at 31 March 2012' and dated 4 July 2013. Copies of the report are available from the Scheme Secretary.

Trevor Llanwarne CB
Government Actuary

15 July 2013

Compliance statement

This statement is included to comply with recommendations contained in the Statement of Recommended Practice (SORP) Financial Reports of Pension Schemes, as revised in May 2007, issued by the Pensions Research Accountants Group.

1. A printable version of the Pensions Regulator's Guidance for Trustees is available from the Pensions Regulator's website: **www.thepensionsregulator.gov.uk** or a copy is available for inspection at the address of the Scheme Secretary; Ventana House, 2 Concourse Way, Sheaf Street, Sheffield, S1 2BJ.

2. Coal Staff Superannuation Scheme Trustees Limited is registered with the Information Commissioner under the terms of the Data Protection Act 1998.

3. The investments of the Scheme are made in compliance with the Occupational Pension Schemes (Investment) Regulations 1996 and 2005.

4. The Scheme's investments are managed by investment managers. The Scheme's principal investment managers are shown in the Appointments on page 3. The majority of the Scheme's investment managers are regulated by the FCA (previously FSA). The following managers have dual regulation by both the FCA and Securities and Exchange Commission (SEC); BlackRock, Lazard, Southeastern, Pramerica and Wellington. Stone Harbor is regulated exclusively by the SEC. Comgest are dual regulated by the FCA and Irish Financial Services Regulatory Authority (IFSRA). Long short equity, private equity, infrastructure and uncorrelated assets are managed in the UK, US and Europe by appropriate organisations.

5. Cash equivalent transfer values paid during the year were calculated in accordance with the requirements of the Pension Schemes Act 1993.

6. The Trustee has written agreements in the form of contracts with all major service providers.

7. The Scheme's registration number with the Registrar of Occupational and Personal Pension Schemes is 10151637.

8. The indices against which investment returns are benchmarked are the 7 day LIBID and 3 month LIBID JPM Global Government Bond index, Barclays Global Aggregate Credit index, JPM Government Bond Index Emerging Market Global Diversified, FTSE All World, IPD Life & Pensions £300m-£2bn and RPI. The benchmark for total assets is based on the asset allocation benchmarks set by the Committee.

Constitution of the Scheme

The British Coal Staff Superannuation Scheme is governed by the Scheme and Rules dated October 1994, with subsequent amendments.

Amendments to the Scheme and Rules

The power to amend the Scheme and Rules lies with the Guarantor, subject to prior consultation with the Committee.

No Rule amendments were made during the year.

Pension Increases

The Rules provide that guaranteed pensions (in excess of the Guaranteed Minimum Pension (GMP)) should be increased annually in line with the percentage rise in the Retail Prices Index (RPI). The rise in the RPI over the 12 months to November 2012 was 3%, and post 1988 guaranteed pensions in payment and deferment were increased by this amount from 1 January 2013.

Summary of Guarantee Arrangements

In principle, the terms of the guarantee are that:

- the Government guarantees the solvency of the Scheme so that, with the exception of Bonus Augmentations, it is always able to pay the benefits promised in the Rules of the Scheme, including the annual indexation of guaranteed pensions in line with price inflation;
- in return for the guarantee, the Government receives, over a 10 year period, a 50% share of any valuation surpluses disclosed after 31 October 1994;
- the remaining 50% share of any such valuation surpluses can be used to improve benefits by way of Bonus Augmentations; and
- Bonus Augmentations are covered by a lesser guarantee, to the extent that in the event of a valuation deficit, the total amount of any pension payable from the Scheme will not be allowed to fall in cash terms.

To facilitate the operation of the guarantee, the Scheme is notionally split into four Sub-funds (detailed in the notes to the accounts). Three of these are the Guaranteed Fund, from which the guaranteed benefits are paid, the Bonus Augmentation Fund, from which Bonus Augmentations are paid from the members' 50% share of post-1994 surpluses, and the Guarantor's Fund, from which payments to the Government are made from its share of post-1994 surpluses.

A fourth fund, the Investment Reserve, contains the unused balance of British Coal's share of pre-1994 valuation surpluses. The additional cost of paying pensions early on redundancy under British Coal's contractual redundancy terms is met by transfers from the Investment Reserve to the Guaranteed Fund. These terms apply in perpetuity to deferred pensioners who were transferred to new employment when British Coal was privatised, as long as there is continuity of employment until their redundancy. To the extent that the Investment Reserve is not required for this purpose, it can be drawn down by the Government over a period ending not earlier than 2019. The rate of draw down is determined by the Scheme's Actuary.

In the event of a valuation surplus, 50% of the surplus in the Guaranteed Fund is credited to the Bonus Augmentation Fund where it can be aggregated with any surplus in that fund and distributed to members by way of Bonus Augmentations. The remaining 50% share of the surplus in the Guaranteed Fund is credited to the Guarantor's Fund and released to the Government as a stream of 10 annual payments. Any surplus in the Guarantor's Fund is used to top up payments already being made to the Government from previous surpluses.

In the event of a valuation deficit, the deficit in the Guaranteed Fund is to be corrected:

- firstly, by a transfer of assets from the Investment Reserve;
- secondly, by equal transfers of assets from the Guarantor's Fund and the Bonus Augmentation Fund; and
- thirdly, by direct payments to the Scheme from the Government, spread over 10 years.

If the subsequent valuation reveals surplus in the Guaranteed Fund, the first call on that surplus is to restore the Investment Reserve so that it is in the position it would have been in had the earlier transfer of assets to the Guaranteed Fund not been made.

There is no provision in the guarantee arrangements for making good a deficit in the Bonus Augmentation Fund. Bonus Augmentations may therefore have to be reduced or withdrawn. The guarantee does however ensure that the total pension payable does not fall in cash terms. This works by reducing Bonus Augmentations each year by an amount equal to the index linked increase paid on guaranteed pension in that year. This process continues until Bonus Augmentations existing at the time a deficit was discovered in the Bonus Augmentation Fund have been reduced to zero.

The Scheme's administration office will be able to provide information and answer questions about Scheme benefits. Questions about the general operation of the Scheme and the policy of the Committee of Management should be addressed to the Scheme Secretary. Mail addressed to a member of the Committee will normally be dealt with by the Secretary.

The Scheme website gives members access to information about the Scheme, on-line copies of Scheme publications, and forms which can be printed off to notify the Scheme of changes in circumstances. The address is: **www.bcsss-pension.org.uk**.

The administration office address is:

BCSSS
5th Floor
Fountain Precinct
Balm Green
Sheffield
S1 2JA

The address for the Secretary is:

The Secretary
BCSSS
Ventana House
2 Concourse Way
Sheaf Street
Sheffield
S1 2BJ

This is also the registered office of Coal Staff Superannuation Scheme Trustees Limited.

Copies of the Scheme and Rules, the Annual Report and Accounts, Actuarial Valuation Reports and other Scheme publications are available from the Secretary.

It is expected that most queries about benefits can be resolved by the Scheme's administration office. In the event that a complaint cannot be resolved by the administration office, Scheme members can lodge a formal complaint using the Scheme's Internal Dispute Resolution Procedure. Information about the procedure can be obtained from the Secretary at the address shown on the previous page.

Complainants have recourse to The Pensions Advisory Service (TPAS) to assist them in taking their complaint through the dispute procedure. TPAS is an independent voluntary organisation which gives free and independent advice to members of the public to help them deal with pension problems. If the complaint is not satisfactorily resolved, the Government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the trustees or scheme administrators, or disputes of fact or law. Although separate organisations, both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
London
SW1V 1RB
www.pensionsadvisoryservice.org.uk
www.pensions-ombudsman.org.uk

The Pensions Regulator (TPR) can intervene if it considers that a scheme's trustees, advisers or the employer are not carrying out their duties correctly. The address for TPR is:

Napier House
Trafalgar Place
Brighton
BN1 4DW
www.thepensionsregulator.gov.uk

BCSSS is registered with the Pension Tracing Service which maintains a list of the up-to-date addresses of pension schemes to assist ex-members trace their rights if they have lost contact with a previous employer's scheme. The address for the Pension Tracing Service is:

Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA
www.gov.uk/find-lost-pension


BCSSS