BCSS

British Coal Staff Superannuation Scheme

Report & Accounts

2014/2015

Notice of meeting

Notice is hereby given that the Sixty-Eighth Annual General Meeting of the Scheme will be held in the Balmoral Hotel, 1 Princes Street, Edinburgh, EH2 2EQ on Thursday 8 October 2015 at 2.00pm.

Business

To receive the Report and Accounts for the year to 31 March 2015 and to debate and vote on any Member Resolutions. Resolutions to be received no later than 25 September 2015. The meeting is open to pensioners and deferred pensioners.

By order of the Committee of Management
Jon Heathfield, Secretary
British Coal Staff Superannuation Scheme

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

July 2015

Contents

Committee of Management (the Committee)

Appointed Members

Dame Kate Barker (Chairman)[1]
Heather McGuire[3]
Ray Proctor CBE
Richard A Barfield

Elected Pensioner Representative Members

W John Sheldon[2] – 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)[4]

Richard A Barfield (Chairman)
Kate Barker
Roger Bartley
W John Sheldon
Bleddyn W Hancock
Alan Rubenstein

Administration and Benefits Sub-committee (ABSC)

Heather McGuire (Chairman)[3]
Ray Proctor CBE
D Allen Clark
Stuart Jukes

Discretions and Appeals Sub-committee (DASC)

Ray Proctor CBE (Chairman)
Heather McGuire[3]
D Allen Clark
Stuart Jukes

Risk and Assurance Sub-committee (RASC)

Ray Proctor CBE (Chairman)
Heather McGuire[3]
Stuart Jukes
W John Sheldon[5]

[1] Dame Kate Barker was appointed by the Committee as a Trustee Director and Chairman on 21 September 2014. Dame Kate replaced Philip Read who retired as a Trustee and Chairman on 20 September 2014.

[2] Following the election in the East Midlands, Southern England & Overseas constituency W John Sheldon replaced Bob Chappell as a Trustee Director and member of the Investment Sub-committee with effect from 1 October 2014.

[3] Heather McGuire retired as a Trustee Director and Chair of the Administration and Benefits Sub-committee on 30 April 2015 and was replaced by Alan Whalley with effect from 1 May 2015.

[4] Roger Bartley and Alan Rubenstein are non-voting members of the Investment Sub-committee.

[5] W John Sheldon replaced D Allen Clark as a member of the Risk and Assurance Sub-committee on 18 March 2015.

Appointments as at 31 March 2015

Trustee Company:

Coal Staff Superannuation Scheme Trustees Limited

Executive:

Coal Pension Trustees Services Limited (CPT)
Chief Executive: Geoffrey Mellor
Chief Investment Officer: Stefan Dunatov
Chief Operating Officer: Gerard Lane
Scheme Secretary: Jon Heathfield

Investment Adviser:

Coal Pension Trustees Investment Limited (CPTI)

Actuarial Adviser:

PriceWaterhouseCoopers LLP

Principal Investment Managers[1]:

BlackRock Investment Management (UK)
LaSalle Investment Management
Insight Investment Management

Consulting Actuary[2]:	**Martin Clarke, Government Actuary**
Principal Legal Advisers:	**Linklaters LLP**
Pensions Administrator:	**Aon Hewitt Limited**
Auditor:	**Ernst & Young LLP**
Bankers:	**Lloyds Bank plc**
	JP Morgan Chase Bank N.A.
	National Westminster Bank plc (a member of the Royal Bank of Scotland Group)
Custodian:	**JP Morgan Investor Services**
Medical Adviser:	**Dr Raymond Quinlan, RPS Business Healthcare Limited**

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

[1] Principal Investment Managers are defined as those managing at least 5% of the Scheme's Net Assets as at 31 March 2015.

[2] Martin Clarke replaced Trevor Llanwarne CB as Government Actuary on 1 September 2014.

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 Director vacancy a Nomination Group of two appointed and two elected Trustee Directors is established to recommend a suitable candidate to the Committee.

Philip Read retired as a Trustee Director and Chairman of the Scheme on 20 September 2014. Dame Kate Barker was appointed as his successor with effect from 21 September 2014.

Heather McGuire, who had served as a Trustee Director since 1 May 2006, retired as a member of the Committee of Management with effect from 30 April 2015. Alan Whalley was appointed as her successor with effect from 1 May 2015.

The Committee wishes to put on record its appreciation for the work carried out for the Scheme by both Mr Read and Mrs McGuire during their periods of office.

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

Bob Chappell's term of office as an elected Pensioner Representative for the East Midlands, Southern England and Overseas constituency ended on 30 September 2014, following the election in that constituency in summer 2014. The Committee wishes to put on record its appreciation for the work carried out by Dr Chappell for the Scheme during his 25 years as a Pensioner Representative. W John Sheldon was elected as his successor for a period of four years from 1 October 2014.

Attendance at meetings

During the year there were eight meetings of the Committee. One member was unable to attend two meetings and another member was unable to attend one meeting. All other members attended all of the meetings. 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 21 Sub-committee meetings during the year; 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 2015 the rates paid were £66,100 a year for the Chairman of the Committee, £52,400 a year for the Chairman of ISC, £36,100 for the Chairman of RASC, £19,750 a year for the Chairman of the Administration and Benefits Sub-committee (ABSC) and £17,150 a year for other members of the Committee.

The total remuneration paid in the year to the members of the Committee was £242,950 (2014: £238,050).

With effect from 1 April 2015 the rates of remuneration were increased in line with the increase in the Retail Prices Index. The rate of remuneration from 1 April 2015 paid to the Scheme Chairman is £66,700 a year, £52,900 a year for the Chairman of ISC, £36,450 a year for the Chairman of RASC, £20,000 for the Chairman of ABSC and £17,350 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. Meeting procedures require the declaration of any conflicts of interest at the commencement of each meeting.

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 2015 these were Dame Kate Barker, Richard Barfield, D Allen Clark and Stuart Jukes.

The Board met twice 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 four complaints were made using the procedure and one appeal case was considered by DASC. No disputes were taken to the Pensions Ombudsman.

In the year to 31 March 2013, two disputes were referred to the Pension Ombudsman and in the year to 31 March 2014 one dispute was referred to the Pensions Ombudsman. In all of these cases the complaints against the Scheme were not upheld.

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.

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 2014 Annual General Meeting (AGM) was held in Derby. 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 Scheme administrator were present to answer members' questions. 80 Scheme members attended the meeting.

Arrangements for the 2015 AGM in Edinburgh are shown at the front of this 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 focussed 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 and Rules, in line with the Trustee's objectives.

The Committee receives assurance over the operation of the system of internal controls from internal audit and other assurance reviews, according to a programme of audit and assurance 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 Consulting Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

Scheme Changes

On 13 February 2015 an agreement, hereafter referred to as "the Agreement", was signed between the Trustee and the Secretary of State for Energy and Climate Change ("the Guarantor") to amend the Scheme structure and provide certainty to members over increases to their pensions in the future. The Scheme continues to receive the support of a Government Guarantee.

Reasons for the changes

The effect of the global financial crisis on the Scheme's investment returns, together with increases in life expectancy, contributed to the 2009 and 2012 Actuarial Valuations reporting substantial deficits in the Guaranteed Fund. The deficits were eliminated primarily through the reallocation of funds from the Investment Reserve.

At subsequent valuations, in accordance with Scheme provisions, the first call on any Guaranteed Fund surplus would have been to repay the debt to the Investment Reserve including investment returns on that debt. As at the date of the Agreement the debt stood at approximately £2.2 billion.

The Trustee and Guarantor both agreed that the current Scheme provisions were unsustainable, as they constrained the ability of the Trustee to provide increases to members pensions over the foreseeable future and exposed the Guarantor to volatile and uncertain cash calls.

The Review

In April 2013, the Trustee and Guarantor commenced a review of the long-term sustainability of the Scheme, "the Sustainability Review", to consider options that provided a more sustainable model for the Scheme and were in the interests of both the members and the Guarantor. This resulted in the Agreement, which changed the structure and certain provisions of the Scheme.

Key points of the Agreement

Members' pensions will increase in the future as follows:

- Guaranteed pensions will continue to be increased annually in line with the percentage rise in the Retail Prices Index (RPI).
- Bonuses awarded up to and including 2013, all of which are now reducing bonuses, will continue to reduce in the same way up to and including 2019.
- The bonuses awarded in 2014 and 2015 will remain level throughout the future, as will the previously awarded bonus due in 2016.

- Three new bonuses of 2% of Guaranteed Pensions will be awarded in 2017, 2018 and 2019.
- No new bonuses will be awarded after 2019.
- From 2020 onwards, all the bonuses in payment at that time will be consolidated into one total bonus: this total bonus will neither increase nor be reduced thereafter.

Other key points of the Agreement were as follows:

- ***Surplus sharing:*** with the change to fixed benefits, the surplus sharing arrangements will no longer apply.
- ***Sub-fund structure:*** the Scheme is no longer split into four Sub-funds. On 13 February 2015 the assets and liabilities from all of the Sub-funds were transferred into the Guaranteed Fund to be referred to as "the Fund" going forward.
- ***Payments to the Guarantor from the Investment Reserve:*** Prior to the change, the Investment Reserve was to have been repaid in full to the Guarantor by 2019. The Trustee made a part payment of £500 million on 1 April 2015 with a further payment of approximately £1.7 billion being due within twelve months of 31 March 2033. The £1.7 billion will increase in line with increases in the Consumer Prices Index (CPI) between March 2015 and March 2033.
- ***Payments to the Guarantor from the Guarantor's Fund:*** Prior to the change the Guarantor's share of any surplus was distributed in ten annual payments. The tenth and final payment of £37.4 million arising from the 2006 Valuation, which was due to be paid on 31 March 2016, will now not be paid.
- ***Government Guarantee:*** The Government Guarantee remains in place, so the future security of pensions is unchanged.
- ***Actuarial Valuations:*** Actuarial Valuations will continue to be carried out on a three-yearly basis by the Government Actuary. The next Valuation is due as at 31 March 2015. A summary of the last Valuation, as at 31 March 2012, can be found on page 28. This Valuation was carried out under the previous Scheme structure.
- ***Discretionary Benefits:*** The Trustee continues to have some discretion to agree payments to members, or dependants of members, who are suffering financial hardship, in circumstances where they do not qualify automatically for benefits from the Scheme.

Statement of Trustee's Responsibilities in Respect of the Accounts

The British Coal Staff Superannuation Scheme is governed by the Scheme and 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 was required to obtain audited financial statements which includes specific disclosure in respect of the Sub-funds. Effective 13 February 2015, in accordance with the terms of the Agreement at that date, the requirement to include specific disclosure in respect of the Sub-funds ceased to apply. The Committee has resolved to apply the accounting principles followed in the United Kingdom by Pension Schemes as set out in the Statement of Recommended Practice 'Financial Reports 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 and liabilities other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- Include a statement that the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (revised May 2007) and, as required by the Scheme and Rules, include specific disclosure in respect of the Sub-funds up to 12 February 2015.

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.

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

During the year ended 31 March 2015

	Deferred pensioners	EPB only*
At the beginning of year	**4,727**	**1,135**
Re-Classifications	-	-
Additions during year:	**-**	**-**
Pension credit members **	1	-
Total additions	**1**	**-**
Reductions during year:		
Retirements:		
- normal retirement age	101	4
- commuted trivial pension	2	27
- early retirement with no actuarial reduction	128	-
- early retirement with actuarial reduction	142	-
- ill-health	3	-
- after further deferment	140	-
Deaths notified to the Scheme	13	2
Transfers out	15	-
Closed Records ***	-	623
Total reductions	**544**	**656**
Net reduction	543	656
Total at end of year	**4,184**	**479**

* 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.

*** Closed Records

Following a tracing exercise during the year of unclaimed EPB records for members aged over 70 years, 623 unclaimed records were closed. These remain a liability of the Scheme and benefits will be payable should a claim be made.

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

During the year ended 31 March 2015

	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	**40,336**	**415,318**	**16,111**	**108,995**	**168**	**498**
Adjustments	-	-	-	-	-	-
Additions during year:						
Awards on retirement	525	3,357	-	-	-	-
Awards on death of pensioners	-	–	759	5,830	8	28
Pension increases	-	6,713	-	1,832	-	10
Total additions	**525**	**10,070**	**759**	**7,662**	**8**	**38**
Deductions during year:						
Death of pensioners	1,540	16,028	1,262	8,286	-	-
Children attaining age 18 or ceasing full-time education	-	-	-	-	7	22
Total reductions	**1,540**	**16,028**	**1,262**	**8,286**	**7**	**22**
Total guaranteed pensions at end of year	**39,321**	**409,360**	**15,608**	**108,371**	**169**	**514**
Payments arising from surplus*:						
Reducing bonus	-	81,816	-	20,410	-	80
Level bonus	-	16,081	-	4,117	-	20
Total payments arising from surplus	-	97,897	-	24,527	-	100
Total	**39,321**	**507,257**	**15,608**	**132,898**	**169**	**614**

* Payments arising from surplus are bonuses paid to pensioners, as described on page 31.

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 investment adviser.

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.

Investment Review and Performance

The year to March 2015 saw ongoing unconventional monetary policy by the central banks which kept interest rates at record lows across the developed world. In the UK the Bank of England has had its Base Rate at 0.5% since May 2009. The US, Euro area and Japan also have rates close to zero and the European central bank (ECB) has embarked on quantitative easing (QE).

The Euro area appears to be recovering, partly due to the above mentioned QE. The US and Japanese economies are also growing at the upper end of recent real GDP ranges.

The global equity market rose 19.2% over the period with 2014 being a good year as investor confidence continued to respond positively to the expansionary policies of global central banks.

The expectation that interest rates would stay low for longer than previously expected meant bond yields fell. The FTSE All Gilt index returned +13.9% on the year.

Commercial property prices continued to rise as the UK economy improved. The improved performance of UK commercial property has been a benefit to the Scheme over the year.

Sterling rose 4.6% over the year on a trade weighted basis. It appreciated by over 12% against the euro, its most important trading partner. This dampened the rate of growth in the UK but was a positive for the Scheme's equity holdings in the Euro area.

As equity market valuations rose further against their historic norms, the Scheme has been gradually reducing some of its exposure to public equities to protect capital since August 2014. The Scheme has continued to increase its exposure to illiquid assets such as private debt, special situations debt and property. These moves were funded from cash proceeds arising from the equity sales. The levels of exposure to these assets are expected to increase over the next year, including an investment in shipping.

During the year the Scheme also took some positions in derivative markets which provided some downside protection for its holdings in European equities and potentially increased the income from the Scheme's Japanese equity holdings. The latter had expired by the Scheme year-end.

The Scheme's investment managers are shown below:-

	Total Net Asset Value £m
Cash and Fixed Income	
Cash	
Insight & other cash	1,544.0
Emerging Market Debt	
Legal and General	221.4
BlueBay	166.9
Stone Harbor	158.4
Private Debt	
Goldman Sachs MBD Private Debt	94.2
Sankaty Private Debt	276.0
Special Situations Debt	
Apollo	44.4
H.I.G.	2.5
M&G	21.7
Varde	6.8
	2,536.3
Equities	
Public Equity	
BlackRock	2,717.3
First State	160.3
Schroders	155.8
Lazard	191.8
Genesis	163.9
Edinburgh Partners	170.7
Baillie Gifford	184.2
Lansdowne	187.9
JO Hambro	143.2
Odey	155.0
Cantillon	187.5
Private Equity	1,149.7
	5,567.3
Property and Infrastructure	
Property	
LaSalle - UK Property	1,020.0
Infrastructure	
Alinda	99.9
Goldman Sachs	137.5
	1,257.4
Global Macro	
Bridgewater	218.6
	218.6
Residual cash, assets and liabilities	(8.6)
Net Investment Assets as at 31 March 2015	**9,571.0**

The manager totals include investment debtors, creditors and investment cash.

Investment Review and Performance (continued)

At the end of the year to 31 March 2015, 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 & Fixed Income		
Cash	10.6	0
Emerging Market Debt	5.7	7.2
Private Debt	3.9	7.0
Special Situations Debt	0.8	5.0
Equities		
Public Equity*	51.5	52.3
Private Equity	12.0	10.0
Property		
UK Property	10.7	13.0
Infrastructure	2.5	2.0
Global Macro	2.3	2.0
Shipping	0	1.5
Total Assets	**100.0**	**100.0**

*The actual allocation to Public Equity includes the market exposure achieved through European Options with a corresponding adjustment in the actual allocation to cash.

The Trustee has approved two new asset classes; special situations debt and shipping. As noted on page 10 the allocation to cash has temporarily increased, recognising the time required to achieve the desired positions in private debt, special situations debt, UK property and shipping, and recognising the reduction in the target allocation to public equity.

Special situations debt will comprise a diversified portfolio of investments that capitalise on opportunities in niche segments of the debt and credit markets, including distressed debt. Shipping will comprise a diversified portfolio of vessels looking to benefit from improved demand growth as global trade in consumer goods and commodities recover from what remain depressed levels.

Variations between actual and target allocations are monitored by ISC and are rebalanced as appropriate. These arise from the exercise of manager discretion, the relative returns of different asset classes and cash flow management.

The above analysis is based on the underlying investments and differs from the classification used in note 7 to the accounts.

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 2011 to 31 March 2015 are shown below.

	Scheme Return %	Benchmark %
2015	14.5	15.9
2014	6.8	5.0
2013	12.9	12.5
2012	3.0	2.0
2011	10.8	9.4

The following table compares the returns over the past one, three and five years.

	Trailing 1 Year		Trailing 3 Years		Trailing 5 Years	
	Scheme %	Benchmark %	Scheme %	Benchmark %	Scheme %	Benchmark %
Fixed Income*	-1.82	-0.20	-2.96	-2.21	0.69	1.13
Private Debt	6.53	7.78				
Equities**	17.99	19.17	14.90	14.00	11.00	10.15
Private Equity	26.83	19.17	16.94	15.07	14.06	11.20
Property	13.63	7.41	10.09	6.85	9.79	8.06
Infrastructure	35.53	0.90	17.23	2.21	9.16	3.10
Global Macro	19.40	19.17	9.34	14.00	11.75	9.45
Total Investments	**14.47**	**15.92**	**11.32**	**11.03**	**9.51**	**8.84**

* Fixed Income includes the historic performance of Developed Sovereign Bonds and Corporate Credit, as well as the current performance of Emerging Market Debt.
** The Equities return is for all equity holdings including Private Equity.

The table highlights that the returns on the investment portfolio were behind the composite benchmark during the year to 31 March 2015. The benchmark return over the period did not incorporate the increased allocation to cash during the year resulting from a reduction in equity exposure (as noted on page 10). As a result it adversely affected Scheme performance over the year relative to the benchmark. Over longer time periods, the Scheme and most of the asset classes, exceeded their benchmarks.

Custodial and Cash Arrangements

The Scheme's quoted securities are held by a custodian, JP Morgan Investor Services (JP Morgan), who also provides investment accounting, investment performance measurement, securities lending and other fund services.

Insight Investment manages most sterling cash balances within their Liquidity funds. The remaining cash is either deposited with JP Morgan Chase Bank N.A. 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 facilities with JP Morgan Chase Bank N.A. and Lloyds Bank plc.

Most public 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.

Private debt investments are held by BCSSS Investments Sárl and the shipping investments are to be held by Beeston Shipping Ltd. Both companies are wholly owned subsidiaries.

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 one case, a company 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 and special situations debt 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.

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 equity, foreign exchange and bond index futures and options, credit default swaps, currency, interest rate inflation and total return 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

The Scheme has hedged 100% of the existing Japanese yen exposure in the equity portfolio. Exposure to euros, Swedish krona and US dollars in relation to the private debt mandate is also 100% hedged.

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

Dame Kate Barker Chairman

Jon Heathfield Secretary

Fund Account

Year ended 31 March 2015

	Note	2015 £m	2014 £m
Contributions and Benefits			
Benefits	2	(656)	(665)
Payment to and on account of leavers	3	(3)	(1)
Payment due to Guarantor	4	(37)	(37)
Administrative expenses	5	(7)	(6)
Net withdrawals from dealings with members and Guarantor		**(703)**	**(709)**
Returns on Investments			
Investment income	6	143	140
Change in market value of investments	7	1,183	465
Investment management expenses	8	(25)	(22)
Net returns on Investments		**1,301**	**583**
Net Increase/(Decrease) in the Fund During the Year		**598**	**(126)**
Net Assets of the Scheme as at 1 April 2014		**8,973**	**9,099**
Net Assets of the Scheme as at 31 March 2015		**9,571**	**8,973**

Net Assets Statement

At 31 March 2015

	Note	2015 £m	2014 £m
Investments			
Investment assets	7	9,602	8,936
Investment liabilities	7	(102)	(34)
Investment in joint ventures	7	152	122
Net investment assets		**9,652**	**9,024**
Minority interests	7	(76)	(61)
		9,576	**8,963**
Current Assets	9	6	19
Current Liabilities	10	(11)	(9)
Net Assets of the Scheme at 31 March 2015		**9,571**	**8,973**

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 14 July 2015.

For and on behalf of the Committee of Management

Dame Kate Barker Chairman

Ray Proctor Committee Member

Scheme Registration Number: 10151637

1. Accounting policies

Basis of preparation

The Scheme and Rules set out in the Schedule to the British Coal Staff Superannuation Scheme (Modification) Regulations 1994 and as subsequently amended 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 and as required by section 12 of the Scheme and Rules include specific disclosure in respect of the Sub-funds until 12 February 2015. After that date the requirement to include specific disclosure in respect of the Sub-funds ceased to apply.

Basis of accounting

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

Basis of consolidation

The results of subsidiary undertakings are included from the date of acquisition and up to the date of disposal using the acquisition method of accounting.

Certain investments, including property investments, are held on behalf of the Scheme through interests in joint ventures with the Mineworkers' Pension Scheme (MPS). On consolidation this also results in a minority interest. Where the Scheme has significant influence or a direct or indirect interest in management of the business, then that interest is accounted for using the gross equity method in the case of joint ventures and is disclosed separately.

Equity accounting is based upon the latest available accounts for those undertakings with a year-end up to three months prior to that of the Scheme. 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. Adjustments are made to align the accounting policies of the relevant undertaking with those of the Scheme where appropriate.

Investment income

Income from fixed interest securities, private debt, 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 public 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 shown separately.

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 pension 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.

Transactions and investment income denominated in foreign currencies are recorded by applying the spot exchange rate ruling at the date on which the transactions and 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.

Fixed interest securities and private debt investments 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, private debt and special situations debt are valued at fair value for unlisted investments, or in accordance with the above policy for listed investments with the exception of the M&G mandate within special situations debt which is valued at cost less any impairment. Fair value is generally assessed by the General Partner or the investment manager responsible for selecting the underlying investments, according to standards applicable in the jurisdiction in which the General Partner or the investment manager 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 or the investment manager 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.

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.

Swaps

Swaps are valued at fair value, as determined by their market value at year-end. 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 the change in market value.

Options

Exchange 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 pricing models that consider the time value of money, volatility and 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.

Sub-funds

Until 12 February 2015 the Scheme was 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, were recognised following completion of the latest Actuarial Valuation as required by the Rules dated October 1994. Bonus pensions payable were charged to the Bonus Augmentation Fund on an accruals basis and each of the Sub-funds was allocated a proportional share of income, expenses and movements in asset values as shown in note 12.

In accordance with the Agreement dated 13 February 2015 between the Guarantor, the Trustee and the Committee, the Sub-funds were merged and the requirement to make specific disclosures in respect of the Sub-funds ceased to apply.

2. Benefits

	2015 £m	2014 £m
Pensions	507	514
Dependant benefits	132	133
Commutations and lump sum retirement benefits	17	18
Total	**656**	**665**

3. Payments to and on account of leavers

	2015 £m	2014 £m
Individual transfers to other schemes	3	1

4. Payments due to Guarantor

	2015 £m	2014 £m
Payments from the Guarantor's fund	37	37

Details of future payments to be made to the Guarantor are shown in note 13.

5. Administrative expenses

	2015 £m	2014 £m
Pension Administration	6	5
Legal, Actuarial and Other fees	1	1
Total	**7**	**6**

6. Investment Income

	2015 £m	2014 £m
Income from fixed interest securities	34	47
Income from private debt	18	1
Dividends from equities	40	47
Property rents	42	39
Interest on cash deposits and margin accounts	2	1
Income from joint ventures	3	1
Other	4	4
Total	**143**	**140**

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

7. Net Investments Assets

	Value brought forward £m	Purchases at cost and derivative payments £m	Sale proceeds and derivative receipts £m	Change in market value £m	Value carried forward £m
Fixed interest securities	513	353	(320)	(45)	501
Private debt	89	280	(26)	13	356
Special situations debt	-	74	-	1	75
Equities	1,987	500	(1,170)	175	1,492
Pooled investment vehicles	4,502	65	(1,924)	696	3,339
Derivative contracts	3	142	(88)	(39)	18
Property	670	201	(27)	63	907
Other investments	49	-	(11)	-	38
Private equity	974	160	(285)	301	1,150
Joint ventures	61	2	(2)	15	76
Cash and cash equivalents	95	1,531	-	3	1,629
Other financial assets and liabilities	20	-	(25)	-	(5)
Total	**8,963**	**3,308**	**(3,878)**	**1,183**	**9,576**

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 (2014: £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.

	2015 £m	2014 £m
Investment Assets		
Fixed interest securities	501	513
Private debt	356	89
Special situations debt	75	-
Equities	1,492	1,987
Pooled investment vehicles	3,339	4,502
Derivative contracts	89	7
Property	907	670
Other investments	38	49
Private equity	1,150	974
Cash equivalents	1,629	95
Other financial assets	26	50
Total	**9,602**	**8,936**

	2015 £m	2014 £m
Investment Liabilities		
Derivative contracts	71	4
Other financial liabilities	31	30
Total	**102**	**34**

	2015 £m	2014 £m
Fixed Interest Securities		
Overseas public sector quoted	487	501
Overseas corporate quoted	14	12
Total	**501**	**513**

	2015 £m	2014 £m
Private Debt	356	89

All of the Scheme's private debt investments are held through a wholly owned subsidiary company.
The investments are principally secured loans made direct to corporates through two investment managers and are principally made to businesses based in the UK, Continental Europe and the US. These investments represent long-term commitments which may restrict the ability of the Scheme to realise them at the accounting date. Details of private debt commitments are shown in note 13.

	2015 £m	2014 £m
Special Situations Debt	**75**	**-**

The majority of the Scheme's special situations debt investments are held through limited partnerships. The underlying investments are principally loans made to large, mid-size and small companies in Europe and the US. 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 special situations debt commitments are shown in note 13.

	2015 £m	2014 £m
Equities		
UK quoted	**261**	267
Overseas quoted	**1,231**	1,720
Total	**1,492**	**1,987**

	2015 £m	2014 £m
Pooled Investment Vehicles		
Managed funds	**3,339**	**4,502**

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 (2015: 76.1%, 2014: 81.1%) with the balance being other managed funds.

	Asset £m	Liability £m	Net Position £m
Derivative contracts			
Forward foreign exchange	14	(71)	(57)
Swaps	8	-	8
Options	67	-	67
Total	**89**	**(71)**	**18**

Forward foreign exchange

	Bought £m	Sold £m	Asset £m	Liability £m
US dollar	63	(323)	1	(20)
Euro	934	(539)	11	(42)
Yen	113	(381)	-	(8)
Other	116	(108)	2	(1)
Sterling	1,088	(1,239)	-	-
Total	**2,314**	**(2,590)**	**14**	**(71)**

The above table aggregates the exposures to currencies acquired or sold through over the counter forward foreign exchange contracts at year-end Sterling values. The Scheme's exposure to Japanese yen is hedged using forward currency contracts that are approximately three months in duration, with a third maturing each month.

Exposure to euros, US dollars and Swedish krona in relation to the private debt mandate is hedged using forward currency contracts that range from approximately three months to three years in duration.

Swaps

Contract	Expiration	Nature of swap	Principal £m	Asset £m	Liability £m
Total return swaps	6-14 years	Purchase of underlying bond security and receipt of coupon rate and market price movement	8	8	-
Total			**8**	**8**	**-**

Total return swaps all relate to local currency emerging market debt where the exposure has been obtained through a swap contract with reference to a specific bond. The principal amount of the reference bond was fully funded by the Scheme at the commencement date and is used to determine the total return from interest income and price movements. The principal amount is repaid to the Scheme on either maturity of the reference bond or termination of the swap contract.

Options

Type of option	Expiration	Underlying investment	Notional principal £m	Asset £m	Liability £m
Overseas equities - call	2 years	European equity options	514	67	-
Total			**514**	**67**	**-**

The notional principal represents the value of the underlying stock. The European equity options provide some downside protection for the Schemes exposure to European equities.

	2015 £m	2014 £m
Property	**907**	**670**

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 property commitments are shown in note 13.

	2015 £m	2014 £m
Other Investments		
Indirect property holdings	**38**	**49**

These represent investments in property funds which are not wholly owned by the Scheme.

	2015 £m	2014 £m
Private Equity	**1,150**	**974**

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 private equity commitments are shown in note 13.

	2015 £m
Joint Ventures	
Investment assets in joint ventures	211
Investment liabilities in joint ventures	(59)
Net investment in joint ventures	152
Minority interest	**(76)**
Scheme interest in joint ventures	**76**

	2015 £m	2014 £m
Cash and cash equivalents		
Sterling	1,579	50
Foreign currency	50	45
Total	**1,629**	**95**

	2015 £m	2014 £m
Other financial assets and liabilities		
Amounts due from broker	12	37
Other debtors	12	12
Outstanding income and withholding tax	2	1
Amounts due to brokers	(13)	(15)
Other creditors	(18)	(15)
Total	**(5)**	**20**

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 2015 was £0.5 million (2014: £0.5 million).

Securities Lending

The Scheme participates in public equity and fixed interest securities lending through its custodian, JP Morgan. Approved borrowers are required to provide collateral valued in excess of securities on loan. The value of securities on loan at the year-end was £145 million (2014: £182 million). The value of collateral provided was £153 million (2014: £192 million).

Concentration of investments

Investments in the following funds account for more than 5% of the Scheme's net assets as at 31 March 2015.

	2015 Market Value £m		2014 Market Value £m	
BlackRock Aquila Life US Equity Index Fund	1,014	10.6%	1,531	17.1%
BlackRock Aquila Life European Equity Index Fund	Less than 5%	-	539	6.0%
BlackRock Aquila Currency Hedged Japan Fund	Less than 5%	-	480	5.4%

8. Investment Management Expenses

	2015 £m	2014 £m
Administration, management and custody	25	22

9. Current Assets

	2015 £m	2014 £m
Cash at bank	6	18
Other debtors	-	1
Cash at bank	6	19

10. Current Liabilities

	2015 £m	2014 £m
Tax and VAT	(10)	(8)
Other creditors and unpaid benefits	(1)	(1)
Total	(11)	(9)

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 £37.4 million in respect of surpluses in earlier years.

As explained in the Trustee's Report and in accordance with the Agreement dated 13 February 2015, the Trustee paid £500 million to the Guarantor on 1 April 2015, being a part payment of the former Investment Reserve. The remaining balance of approximately £1.7 billion, adjusted for increases in CPI between March 2015 and March 2033, is due to be paid to the Guarantor within twelve months of 31 March 2033.

Six members of the Committee were in receipt of a pension from the Scheme. The aggregate amount paid was £274,000 (2014: £264,000).

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 £242,950 (2014: £238,050) 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 £3.8 million (2014: £3.4 million).

The Scheme and the MPS jointly invest in properties and partnerships with a value to the Scheme of £147 million (2014: £136 million).

12. Market Value of Sub-funds

The movements on the various Sub-funds up to the 12 February 2015, as confirmed by the Scheme Actuary, are set out below:

	Guaranteed Fund (to 12 February 2015)/ Fund (from 13 February 2015 £m	Bonus Augmentation Fund £m	Investment Reserve £m	Guarantor's Fund £m	Total Assets £m
Market Values at 31 March 2014	**8,097**	**773**	**23**	**80**	**8,973**
Transfers in respect of early redundancy costs	12	-	(12)	-	-
Benefits paid	(463)	(109)			(572)
Allocation of income, expenses and movement in net asset values	862	78	2	8	950
Market Values at 12 February 2015	**8,508**	**742**	**13**	**88**	**9,351**
Transfers to the Fund in accordance with he Agreement dated 13 February 2015	843	(742)	(13)	(88)	-
Benefits paid	(87)				(87)
Allocation of income, expenses and movement in net asset values	344				344
Payments due to Guarantor	(37)				(37)
Market values of the Fund at 31 March 2015	**9,571**	**-**	**-**	**-**	**9,571**

As explained in note 1, until 12 February 2015 the Scheme was 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. On 13 February 2015 the assets and liabilities of the Sub-funds were transferred into the Guaranteed Fund, which is now referred to as "the Fund" going forward. The basis of each Sub-fund applicable up to 12 February 2015 is as set out below.

Guaranteed Fund - 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 that restructuring. Such pensions were guaranteed to increase in line with RPI. A deficit in the Guaranteed Fund was 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 was 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.

Bonus Augmentation Fund - this represented the members' share of surpluses arising from Actuarial Valuations since 1994 and was 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 was all due to be paid to the Guarantor, but whilst it remained in the Scheme could be used to support the Guaranteed Fund as described above.

Guarantor's Fund - this represented the Guarantor's share of surpluses arising from Actuarial Valuations since 1994 which, prior to 13 February 2015, was to be paid in ten annual payments from the Guarantor's Fund, subject to review at successive Actuarial Valuations. The £37 million payment shown in the table above was paid to the Guarantor on 31 March 2015. This was an instalment of the Government's share of the surplus in the Guaranteed Fund calculated at the 2006 valuation. As part of the Agreement, the tenth and final payment of £37 million due in 2016 is no longer payable.

The transfer in respect of early redundancy costs represented early payment to those members under the age of 50 who were made redundant after privatisation. This represents costs met from the Guaranteed Fund for 2013, 2014 and 2015. This cost was borne by the Investment Reserve by a transfer to the Guaranteed Fund. The adjustment was not made in the 2013 or 2014 accounts as the amounts were not considered material.

Benefits, income, expenses and movements in asset values from 13 February 2015 onwards are allocated against the Fund.

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 property purchases and development costs of £85 million, infrastructure and private equity investments of £542 million, private debt investments of £33 million and special situations debt investments of £189 million. The timing of infrastructure and private equity investment funding is uncertain and has been estimated. It is assumed £136 million (25%) will fall due in the next twelve months and the remaining £406 million in later years.

Forward commitments in relation to private debt investments will be paid within nine months of the year-end whilst the special situations debt commitments are due to be paid within two years. Property purchases of £55 million were paid within two months of the year-end and it is expected that the balance which represents property development costs will be paid within twelve months.

Claims for the recovery of UK and overseas tax credits valued at approximately £75 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 £42 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 £8 million.

As explained in note 11, the Trustee paid £500 million to the Guarantor on 1 April 2015, being a part payment of the former Investment Reserve. The remaining balance of approximately £1.7 billion, adjusted for increases in CPI between March 2015 and March 2033, is due to be paid to the Guarantor within twelve months of 31 March 2033.

14. Subsequent Events

As explained in notes 11 and 12, on 1 April 2015, the Trustee paid £500 million to the Guarantor.

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 2015 which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 14. 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 the Scheme and Rules set out in the Schedule to the British Coal Staff Superannuation Scheme (Modification) Regulations 1994 and as subsequently amended. 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 Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 7 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 trustees; and the overall presentation of the financial statements. In addition, we read all the financial and non- financial information in the report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2015, 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 Section 12 of the Scheme and Rules in respect of the Sub-funds up to and including 12 February 2015.

Ernst & Young LLP
Statutory Auditor
London
15 July 2015

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

As noted on page 7 of the Trustee's Report, the summary above details the outcome of the last Actuarial Valuation, which was completed under the previous Scheme structure. The next Valuation is due as at 31 March 2015 and will be completed in line with the changes as a result of the Agreement.

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 2005.

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

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

6. The Scheme's registration number with the Pensions Regulator is 10151637.

7. The Scheme is a registered pension scheme under the provisions of Schedule 36 of the Finance Act 2004. Accordingly under the provisions of sections 186 and 187 of the Finance Act 2004 its income and investment gains are free of taxation. However, income from trading activity is not investment income and will be assessed to tax in the normal way.

8. Trevor Llanwarne CB retired as Government Actuary on 31 August 2014 and was replaced by Martin Clarke with effect from 1 September 2014.

Changes to the Scheme Constitution, Rules or Basic Information

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.

On 13 February 2015 the Agreement was entered into between the Guarantor, the Trustee and the Committee to amend the Scheme structure and provide certainty to members over increases to their pensions in the future. These changes are outlined in the Trustee's Report on pages 6 and 7.

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 twelve months to November 2014 was 2%; guaranteed pensions in payment and deferment were increased by this amount from 1 January 2015. However, standstill was triggered due to the outcome of the 2012 Actuarial Valuation and any previously awarded bonuses were, therefore, reduced by the same amount.

As noted in the Trustee's Report, following the Agreement members pensions will increase as follows:

- Guaranteed pensions will continue to be increased annually in line with the percentage rise in RPI.
- Bonuses awarded up to and including 2013, all of which are now reducing bonuses, will continue to reduce in the same way up to and including 2019.
- The bonuses awarded in 2014 and 2015 will remain level throughout the future, as will the previously awarded bonus for 2016.
- Three new bonuses of 2% of Guaranteed Pensions will be awarded in 2017, 2018 and 2019.
- No new bonuses will be awarded after 2019.
- From 2020 onwards, all the bonuses in payment at that time will be consolidated into one total bonus: this total bonus will neither increase nor be reduced thereafter.

Following the Agreement of 13 February 2015, the Scheme continues to receive the support of a Government Guarantee. Further details about the changes to the Scheme are provided on pages 6 and 7 of the Trustee's Report.

Position up to 12 February 2015

The terms of the Guarantee up to 12 February 2015 were that:

- the Government guaranteed the solvency of the Scheme so that, with the exception of Bonus Augmentations, it was 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 received, 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 surplus was used to improve benefits by way of Bonus Augmentations; and
- Bonus Augmentations were 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 would not be allowed to fall in cash terms.

To facilitate the operation of the Guarantee, the Scheme was 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 were paid, the Bonus Augmentation Fund, from which Bonus Augmentations were paid from the members' 50% share of post-1994 surpluses, and the Guarantor's Fund, from which payments to the Government were made from its share of post-1994 surpluses.

A fourth fund, the Investment Reserve, contained 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 was met by a transfer from the Investment Reserve to the Guaranteed Fund. These terms applied in perpetuity to deferred pensioners who were transferred to new employment when British Coal was privatised, as long as there was continuity of employment until their redundancy. To the extent that the Investment Reserve was not required for this purpose, it could have been drawn down by the Government over a period ending not earlier than 2019. The rate of draw down was determined by the Scheme's Actuary.

In the event of a valuation surplus, 50% of the surplus in the Guaranteed Fund was credited to the Bonus Augmentation Fund where it could 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 was 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 was 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 would have 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 revealed a surplus in the Guaranteed Fund, the first call on that surplus would have been to restore the Investment Reserve so that it was in the position it would have been in had the earlier transfer of assets to the Guaranteed Fund not been made.

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

Position from 13 February 2015

The Government Guarantee remains in effect to ensure that the Trustee will always be able to pay the promised benefits. As noted above on page 30, these benefits will also include the consolidated bonuses from 2020.

The Trustee paid £500 million to the Guarantor on 1 April 2015, being a part payment of the former Investment Reserve. The remaining balance of approximately £1.7 billion, adjusted for increases in CPI between March 2015 and March 2033, is due to be paid to the Guarantor within twelve months of 31 March 2033.

Actuarial Valuations are performed on a three-yearly basis by the Government Actuary in order to assess the future returns required on the Scheme's assets in order to pay the benefits and Investment Reserve repayment. The next Valuation is due as at 31 March 2015.

For More Information

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
PO Box 196
Huddersfield
HD8 1EG

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

British Coal Staff
Superannuation Scheme