BCSSS
British Coal
Staff Superannuation Scheme

For members of the British Coal Staff Superannuation Scheme

REPORT & ACCOUNTS

2017/2018

BCSSS British Coal Staff Superannuation Scheme

Notice of Meeting

Notice is hereby given that the
Seventy-First Annual General Meeting
of the Scheme will be held at
The Radisson Blu Hotel Durham, Frankland Lane, Durham, DH1 5TA
on Thursday 18 October 2018 at 2.00pm.

Business

To receive the Report and Accounts
for the year to 31 March 2018 and
to debate and vote on any Member Resolutions.
Resolutions to be received no later than 3 October 2018.
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 2018

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BCSSS British Coal Staff Superannuation Scheme

Committee of Management (the Committee)

Appointed Members

Dame Kate Barker (Chairman)
Alan Rubenstein[1]
G James Shearer
Alan Whalley

Elected Pensioner Representative Members

W John Sheldon – *East Midlands, Southern England & Overseas*
James Grant[2]– *Scotland & North East England*
Bleddyn Hancock – *North West England, West Midlands, Wales & Northern Ireland*
Stuart Jukes – *Yorkshire and North Lincolnshire*

Investment Sub-committee (ISC)

Alan Rubenstein (Chairman)[1]
Dame Kate Barker
Roger Bartley[3]
W John Sheldon
Bleddyn Hancock

Administration and Benefits Sub-committee (ABSC)

G James Shearer (Chairman)
Alan Whalley
James Grant[2]
Stuart Jukes

Discretions and Appeals Sub-committee (DASC)

G James Shearer (Chairman)
Alan Whalley
James Grant[2]
Stuart Jukes

Risk and Assurance Sub-committee (RASC)

Alan Whalley (Chairman)
G James Shearer
Stuart Jukes
W John Sheldon

[1]Alan Rubenstein was appointed as a Trustee and Chairman of the Investment Sub-committee (ISC) on 1 February 2018. Mr Rubenstein replaced Richard (Dick) Barfield who died suddenly on 8 November 2017.
[2]James Grant was elected as Pensioner Representative Trustee for Scotland & North East England with effect from 1 October 2017, replacing D Allen Clark who retired on 30 September 2017. Mr Grant also replaced Mr Clark as a member of the Administration and Benefits Sub-committee (ABSC) and Discretions and Appeals Sub-committee (DASC).
[3] Roger Bartley is an investment adviser to and non-voting member of the ISC.

Appointments as at 31 March 2018

Trustee Company:	Coal Staff Superannuation Scheme Trustees Limited
Executive:	Coal Pension Trustees Services Limited (CPT) *Co-Chief Executives: Geoffrey Mellor & Gerard Lane* *Chief Investment Officer: Mark Walker[1]* *Scheme Secretary: Jon Heathfield*
Investment Adviser:	Coal Pension Trustees Investment Limited (CPTI)
Actuarial Adviser:	PricewaterhouseCoopers LLP
Principal Investment Managers[2]:	BlackRock Investment Management (UK) Wellington Management International Limited PGIM Fixed Income LaSalle Investment Management Insight Investment Management
Actuary:	Martin Clarke, Government Actuary
Principal Legal Advisers:	Linklaters LLP
Pensions Administrator:	Capita Employee Benefits[3]
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 Pensions Regulator is 10151637.
[1]Mark Walker joined CPT as Chief Investment Officer on 1 January 2018. He replaced Stefan Dunatov, who resigned with effect from 31 July 2017.
[2]Principal Investment Managers are defined as those managing at least 5% of the Scheme's Net Assets by market value as at 31 March 2018.
[3]Capita Employee Benefits replaced Aon Hewitt as the Scheme's Pensions Administrator on 1 August 2017.

Chairman's Introduction

On behalf of the Committee of Management, I would like to introduce the Annual Report and Audited Financial Statements of the British Coal Staff Superannuation Scheme for the year ended 31 March 2018.

The Committee has continued to evolve its strategy over the year, with the best interests of the Scheme's members always at heart. We have been fortunate to have enjoyed healthy financial conditions for a number of years now, which has meant that the funding position of the Scheme has improved. Despite this good performance, the future funding challenges remain significant and I have summarised some of our initiatives in this area below.

The Committee has also delivered major change to the provision of benefits administration during the year, as well as reviewing and refreshing the Scheme's website. I explain the rationale for these changes and how they have been delivered below.

Funding and Investment

The changes to the structure of the Scheme that were announced and implemented in 2015 have led the Committee to review its funding strategy and objectives. Prior to 2015, much of the focus was on member bonuses, primarily on the protection of the total level of bonuses, recognising that they could be lost over time. The changes implemented in 2015 provided protection to the level of bonuses and certainty to members over pensions, and future pension increases. The existence of the Government Guarantee ensures that members and their dependants can be confident that their benefits will be paid in full throughout their lifetimes.

Following the changes to the Scheme the Committee reviewed its primary funding objective, which is to ensure that all future benefits can be paid to members as they fall due without requiring funding from the Guarantor.

The level of return required on the Scheme's assets over the future remains high, which means the Committee has to invest in assets that seek a significantly higher return than can be achieved with 'low risk' assets. Furthermore, the Scheme is now mature, with annual benefit payments in excess of £600 million. These payments exceed the income that can be delivered on the assets, meaning that we need to sell assets over time to pay the pensions. In developing our funding strategy, we therefore need to have regard to the return targets and the high cash payments.

As mentioned above, investment markets have been buoyant for a number of years, with high returns across a whole range of asset classes. The Committee has been able to take advantage of these high returns, and the funding position of the Scheme has improved. However, investing with markets at their current high levels is challenging. The expected future returns on assets are lower than we have projected historically. Furthermore, there are many investors competing for assets that provide cash yields, which has driven the price of those assets higher. The implication for the Committee has been that we have sought to broaden the investment universe to identify assets that provide both high cash yields and good return prospects. We now have significant allocations to a number of assets of this nature, including property, private debt and ships, and the Committee has also committed to a significant allocation to UK infrastructure. The Committee continues to consider the environmental, social and governance aspects of all investments, recognising that these factors can have a significant impact on long-term returns and risks.

Many of these assets are 'illiquid', i.e. they cannot be sold quickly to generate cash to pay benefits, and managing the portfolio with high levels of illiquid assets brings some new challenges. We have strengthened our internal investment team to recognise these challenges, including bringing in individuals with experience in these new investment areas. The Committee has also reviewed its risk management framework, with a greater focus on cash flows to and from investments, the management of illiquidity and the need for growth.

Benefits Administration and Member Communications

We highlighted in last year's report and in other member communications that the Committee had undertaken a major review of the administration contract with Aon Hewitt in 2016. This constitutes good governance, in that it enabled the Committee to ensure that the levels of service being delivered remained at a high quality and also allowed us to ensure that the Scheme was getting the best value for money. The review was partly prompted by our concerns about the long-term commitment of Aon Hewitt to the pension administration sector. Those concerns were borne out when Aon announced in 2017 that they were withdrawing from providing pension 'administration only' services to concentrate on their 'core' consulting business.

Following a market tendering exercise and further significant due diligence the Committee appointed Capita Employee Benefits. They are a very experienced provider of pension benefits administration in the UK, serving many other large Schemes. In addition, their costs for provision of the services were significantly lower than Aon's and the Committee were satisfied that they would offer a good service to our members and represent the best value for money. The services are provided from their Sheffield office which meant that nearly half of the existing Aon staff were able to transfer across to the new administrator. I am pleased to report that the transition to Capita Employee Benefits on 1 August 2017 went very smoothly and has been operating successfully since that time.

The Committee is aware that Capita Group has in recent times been in the press due to its financial performance and corporate restructuring plans. As a major service provider to the Scheme the Committee monitors Capita Group's financial strength very closely and regularly requests and receives updates from Capita Employee Benefits. We are assured that the Capita Employee Benefits business is a core part of the Group going forwards, will receive continued new investment to maintain and improve member services and that the financial position of the wider Capita Group will be improved following the transformation and strengthening of the balance sheet.

We have been working hard over the past year to improve the look and feel of member communications. We undertook an extensive review of member letters as part of the administration transition to simplify the language wherever possible and provided more clarity in the January pension increase letter. We launched a new Scheme website with improved navigation and colours to make it easier to read and to provide additional content about the Scheme, including some helpful videos. We have similarly refreshed Pension News to help deliver information about the Scheme in a clearer way.

Sustainable Organisation

I want to highlight a few other changes in the year. Following strengthening of the data protection legislation in the UK and across the EU from May 2018, the Committee have ensured that the administrator and any other third party who has access to members' data, are compliant with the new legislation. A new privacy statement was published on the website with a shorter version sent to all members to highlight the changes and explain how your personal data is handled.

The Committee appointed Alan Rubenstein as a Trustee Director and Chair of the Investment Sub-Committee, replacing Dick Barfield who died suddenly late last year. James Grant was elected as a Trustee Director for Scotland and North East England, replacing Allen Clark who had retired.

On the Coal Pensions Trustees Services executive we have welcomed Mark Walker as the Chief Investment Officer.

Finally, I would like to take this opportunity to thank my fellow Trustee Directors on the Committee for all their support and hard work over the past year to ensure the effective oversight and running of the Scheme, particularly given the extent of regulatory, legal and the Scheme changes I highlighted above. We are fortunate to have a strong executive team in both London and Sheffield offices working diligently and skilfully on your behalf.

Dame Kate Barker,
Chairman of BCSSS Committee of Management

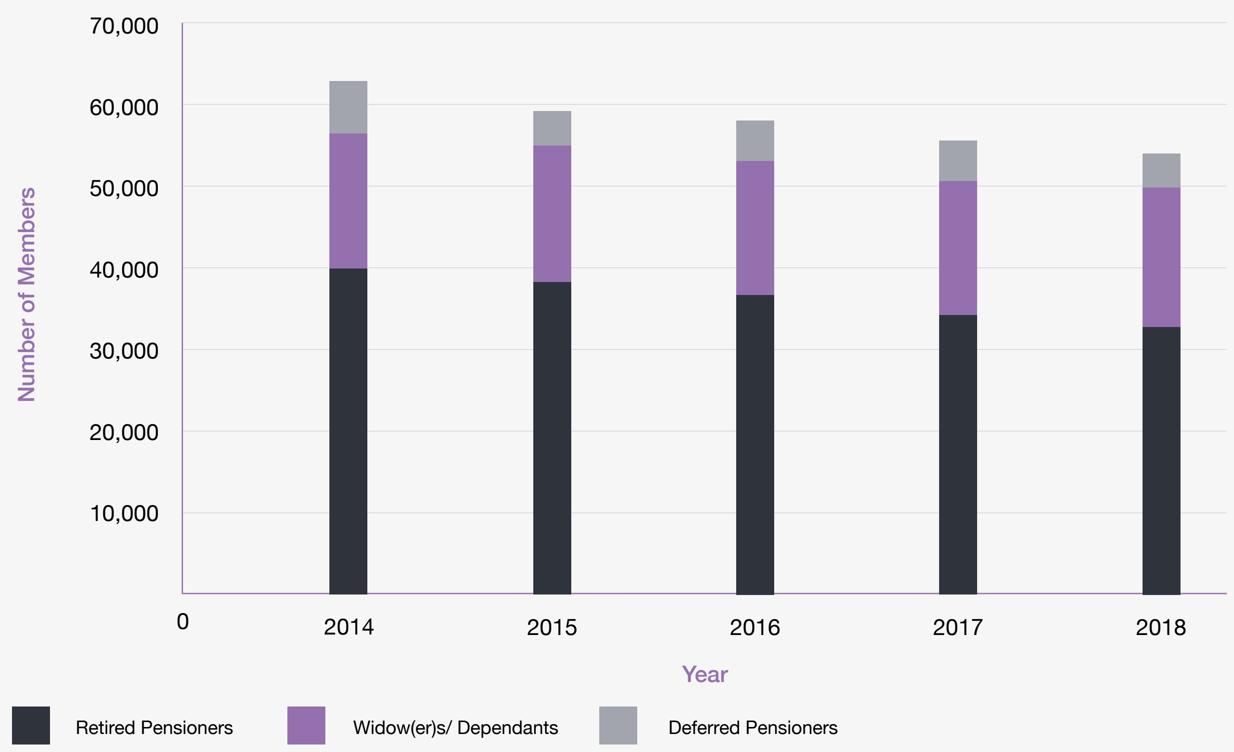
Key Statistics for 2018

Total number of pensioner members	49,684
Total number of deferred members	3,280
Total benefits paid and transfers out	£624m
Net increase in the Fund during the year	£11m
Net assets of the Scheme at the year-end	£9,367m

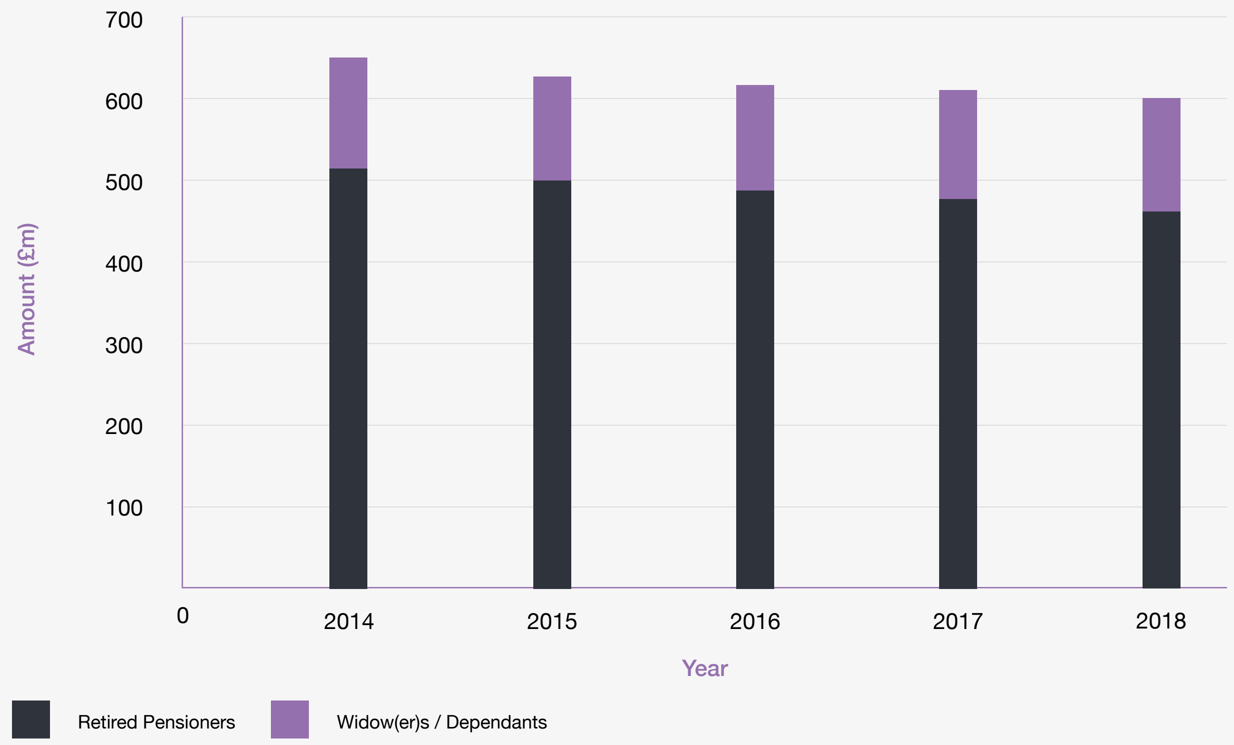
Five Year Summary of the Fund Account

	2014	2015	2016	2017	2018
	£m	£m	£m	£m	£m
Benefits and payments out of the Scheme					
Benefits and transfers out of Scheme	(666)	(659)	(648)	(638)	(624)
Payments to the Guarantor	(37)	(37)	(500)	-	-
Administrative expenses	(6)	(7)	(4)	(6)	(5)
Net withdrawals from the Scheme	**(709)**	**(703)**	**(1,152)**	**(644)**	**(629)**
Returns on investments					
Investment income	140	143	172	235	251
Change in market value of investments	465	1,183	92	1,152	421
Investment management expenses	(22)	(25)	(36)	(34)	(32)
Net returns on investments	**583**	**1,301**	**228**	**1,353**	**640**
Net increase/(decrease) in the Fund during the year	**(126)**	**598**	**(924)**	**709**	**11**
Net assets of the Scheme at the year-end	**8,973**	**9,571**	**8,647**	**9,356**	**9,367**

Membership



Pensions in Payment



Report of the Committee of Management

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.

Dick Barfield, appointed Trustee and Chairman of the Investment Sub-committee, died on 8 November 2017. Dick had been a much valued member of the Board during his eight and a half year tenure. The Committee wishes to put on record its appreciation for the work carried out for the Scheme by Mr Barfield during his period of office.

Alan Rubenstein was appointed as Mr Barfield's successor for a period of three years with effect from 1 February 2018.

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

D Allen Clark retired as an elected Pensioner Representative for the Scotland & North East England constituency on 30 September 2017. The Committee wishes to put on record its appreciation for the dedicated work carried out by Mr Clark for the Scheme during his 14 years as a Pensioner Representative.

James Grant was elected as Mr Clark's successor for a period of four years from 1 October 2017.

Attendance at meetings of the Committee

During the year there were five meetings of the Committee. Two members were each 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. In the case of an equality of votes, the Chairman of the meeting has a second or casting vote. 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 5. Sub-committee meetings are open to all members of the Committee to attend.

There were 23 Sub-committee meetings during the year. With the exception of two members who were each 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 Business, Energy and Industrial Strategy (Secretary of State).

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 2018 the rates paid were:

Chairman of the Committee	£69,950 pa
Chairman of ISC	£55,450 pa
Chairman of RASC	£38,200 pa
Chairman of ABSC	£23,100 pa
Other Committee Members	£18,200 pa

The total remuneration paid in the year to the members of the Committee was £246,870 (2017: £249,600).

With effect from 1 April 2018 the rates of remuneration were increased in line with the increase in the Retail Prices Index to:

Chairman of the Committee	£72,700 pa
Chairman of ISC	£57,650 pa
Chairman of RASC	£39,700 pa
Chairman of ABSC	£24,050 pa
Other Committee Members	£18,950 pa

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 the Scheme's 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 Director 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 5. 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 dealing with questions concerning the provisions of the Scheme and any correspondence addressed to the members of the Committee. The company also provides other services to the Committee, including secretariat, financial management, actuarial support and investment monitoring.

A subsidiary company of CPT, Coal Pension Trustees Investment Limited (CPTI), is authorised by the Financial Conduct Authority (FCA) to provide investment advice to the Committee.

Four members of the Committee sit on the Board of CPT. As at 31 March 2018 these were Dame Kate Barker, G James Shearer, Bleddyn W Hancock and Stuart Jukes. The Board met twice during the year.

Administration Services

The Scheme's benefits administration services contract transferred from Aon Hewitt to Capita Employee Benefits on 1 August 2017.

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 Committee or to a person appointed by them.

The Committee has appointed the Scheme Secretary to consider complaints made by members. Any members not satisfied with a decision can appeal to the Discretions and Appeals Sub-committee (DASC).

During the year four complaints were made using the procedure and two appeal cases were considered by DASC. None of the complaints were upheld. One complaint that had previously been taken to the Pensions Ombudsman was dismissed and not subsequently investigated.

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 Committee 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. The statement was updated in the year following the review by the Committee of the Scheme funding objectives and risk parameters.

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 16 to 17. The Scheme has no active members and is fully closed with no provision for new entrants.

Annual General Meeting

The 2017 Annual General Meeting (AGM) was held in Liverpool. The AGM was attended by 70 Scheme members who were given presentations by the Scheme Chairman, the Scheme Secretary and by the CPT Co-Chief Executive Officer (Gerard Lane). They covered specific topics of interest to Scheme members including the Annual Report and Accounts, Scheme investments, risks and costs, the administration changes and some facts and figures about the Scheme given that it was the 70th anniversary. In addition, representatives of the new Scheme administrator were present to answer members' questions. Further information, including a detailed account of the 2017 AGM, can be found within the Scheme Publications section on the BCSSS website (www.bcsss-pension.org.uk).

Arrangements for the 2018 AGM in Durham 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 Committee's objectives and can provide reasonable, but not absolute, assurance against material misstatement or loss.

The 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 high 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.

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 Actuary in accordance with the Pension Schemes Act 1993. The Committee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

Report of the Committee of Management

BCSSS British Coal Staff Superannuation Scheme

Format of the Accounts

The Committee has made some minor changes to the format of the accounts, in particular, reducing the number of investment categories shown in the Statement of Net Assets. This is to bring it more in line with the standard headings shown in the Statement of Recommended Practice – Financial Reports of Pension Schemes (November 2014) (SORP) and the Financial Reporting Standard 102 (FRS 102).

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 is required to obtain audited accounts. The Committee resolved to apply the accounting principles in accordance with applicable law and United Kingdom Accounting Standards including FRS 102 and for making available certain other information about the Scheme in the form of an Annual Report.

The Report of the Committee of Management and the Audited Accounts are the responsibility of the Committee. The Scheme and Rules require the Committee to prepare accounts and have them audited.

The accounts 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 accounts have been prepared in accordance with UK Generally Accepted Accounting Practice including FRS 102.

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

The Committee 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.

Report of the Committee of Management

Report on the 2015 Actuarial Valuation

The Scheme is exempt from the statutory scheme funding requirements (Part 3 of the Pensions Act 2004). Instead the funding requirements of the Scheme are set out in the Agreement signed on 13 February 2015 between the Trustee and the Guarantor.

Schedule 2 of the Agreement states that the Actuary is required to perform an Actuarial Valuation and produce a report every three years to advise the Guarantor and the Trustee of the following percentages:

1. The annual compound real return on the Scheme's total assets that would be needed over the lifetime of the Scheme to expect to be able to meet the Scheme's future benefits payments and the Scheme's expenses (the 'Obligations Percentage'); and

2. The annual compound real return on the Scheme's total assets that would be needed over the lifetime of the Scheme to expect to be able to meet the Scheme's future benefit payments, the Scheme's expenses and a payment to the Guarantor on 31 March 2033 equal to the Investment Reserve at 31 March 2015 increased in line with cumulative changes in the Consumer Prices Index (the 'Buffer Percentage').

The last Actuarial Valuation was conducted as at 31 March 2015 and concluded on 18 March 2016. A summary of the valuation results is given in the table below:

	Result at 31 March 2015
Value of the Scheme assets	£9,571 million
Obligations Percentage	1.8% pa
Buffer Percentage	2.8% pa

Method and significant assumptions adopted at the 2015 Actuarial Valuation

The valuation methodology is to project the expected cash flows of the Scheme (and target payment to the Guarantor, as appropriate) and then to calculate, at the valuation date, the annual real rates of return required on the Scheme's assets over the Scheme's lifetime, in order to meet the Scheme's expected cash flow requirements.

The following significant assumptions were adopted for this valuation:

- As at 31 March 2015 the Actuary assumed the following about future annualised inflation:

Scheme year	Retail Price Index	Consumer Price
2015	1.10% per annum	0.0% per annum
2016	2.15% per annum	1.0% per annum
2017 onwards	3.15% per annum	2.0% per annum

- Pension increases are derived from the assumed future inflation assumptions (as shown above) according to the provisions of the Scheme Rules.

- Baseline mortality rates are assumed to be in line with standard tables, adjusted to reflect recent Scheme membership experience, with future improvements projected to be in line with those underlying the Office of National Statistics 2012-based principal UK population projections.

Further details about the Actuarial Valuation are included in the Actuary's report on page 50.

The Actuarial Valuation as at 31 March 2018 is currently in progress and the results will be reported in the Report and Accounts as at 31 March 2019.

Analysis of changes in the number of deferred pensioners and Equivalent Pension Benefits (EPB)
During the year ended 31 March 2018

	Deferred pensioners	EPB only*
At the beginning of year	3,240	452
Additions during year:	1	-
Total additions	**1**	**-**
Reductions during year:		
Retirements:		
- normal retirement age	124	3
- commuted trivial pension	2	6
- early retirement with no actuarial reduction	46	-
- early retirement with actuarial reduction	130	-
- ill-health	-	-
- after further deferment	79	-
Deaths notified to the Scheme	13	-
Transfers out	10	-
Total reductions	**404**	**9**
Net reduction	403	9
Total at end of year	2,837	443

*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.

Analysis of changes in the number of pensioners and pensions in payment including bonuses
During the year ended 31 March 2018

	Former contributors		Widow(er)s and dependants		Children	
	Number	Annual rate	Number	Annual rate	Number	Annual rate
Guaranteed		£'000		£'000		£'000
At the beginning of year	37,207	393,877	14,551	104,289	148	455
Adjustments	1	-	-	-	-	-
Additions during the year:						
Awards on retirement	382	2,439	-	-	-	-
New pension credit members	4	27	-	-	-	-
Awards on death of pensioners	-	-	760	6,369	2	5
Pension increases	-	12,732	-	3,420	-	12
Total additions	387	15,198	760	9,789	2	17
Deductions during year:						
Death of pensioners	1,810	19,620	1,537	11,523	-	-
Children attaining age 18 or ceasing full time education	-	-	-	-	17	45
Commuted Benefits	5	-	2	-	-	-
Total Reductions	1,815	19,620	1,539	11,523	17	45
Total guaranteed pensions at end of year	35,779	389,455	13,772	102,555	133	427
Payments arising from surplus*						
Reducing bonus	-	50,553	-	11,830	-	33
Level Bonus	-	37,065	-	9,412	-	40
Total payments arising from surplus	-	87,618	-	21,242	-	73
Total	35,779	477,073	13,772	123,797	133	500

*Payments arising from surplus are bonuses paid to pensioners, as described on page 52.

Policy

The responsibility for setting the investment policy of the Scheme lies with the Committee. Decisions concerning the establishment of investment objectives, risk parameters and formulation of an investment strategy which seeks to achieve the objectives are made by the Committee. The Investment Sub-committee (ISC) 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 to the profile of expected benefit payments.

Investment Review and Performance

The year to March 2018 saw the US continue to lead the way in terms of the tightening of monetary policy. However, the Federal Reserve raised interest rates in a slow and gradual manner which meant that asset prices were generally supported. The other major central banks continued to engage in unconventional monetary policy but gave signals that they too may begin to withdraw monetary stimulus in the near future in response to a better growth outlook. Generally, asset prices increased over the year but volatility returned towards the end of the year as both economic and geo-political risks brought already elevated asset valuations under scrutiny.

Global equity markets as measured by the FTSE All World Index rose by 2.9% in sterling terms whilst the FTSE All Gilt Total Return Index rose by 0.5%.

UK commercial property as measured by the IPD All Property Index had a total return of 6.0%.

Sterling rose by 2.9% on a trade-weighted basis, however it experienced volatility over the year as Brexit negotiations continued. Sterling increased by 11.6% against the dollar but fell by 3.4% against the euro.

Over the year to March 2018 the Scheme continued to increase its exposure to illiquid assets such as property, special situations debt and shipping. The Scheme also started to invest in UK infrastructure, which is expected to provide a diversified form of return when compared to more traditional asset classes such as equities. In addition the Scheme has also invested in global investment grade credit. Most of these moves were funded from cash proceeds arising from equity sales.

Given sterling volatility, the Scheme continued to hedge its foreign equity exposure. 50% of developed public and private equity and the residual global infrastructure exposure in dollars and Swiss francs and 37.5% in euros and yen are currency hedged. Global government bonds, global investment grade credit, global multi-asset credit, private debt, special situations debt and shipping mandates are 100% currency hedged.

The Scheme's investment managers as at 31 March 2018 are shown below:

	Total Net Assets £m
Cash	
Insight	534
J P Morgan	55
Other cash	19
	608
Global government bonds	
BlackRock	578
Wellington	580
	1,158
Global investment grade credit	
Wellington	233
PGIM	233
	466
Global multi-asset credit	
Wellington	235
PGIM	240
	475
Private Debt	
Goldman Sachs MBD	142
Bain Capital	304
Apollo	427
Ares	112
	985
Special Situations Debt	
Apollo	34
HIG	13
M&G	178
Varde	33
Oak Hill	94
Castlelake	42
Atalaya	28
AnaCap	16
LCM	17
Bain Asia	3
TPG Special Situations	3
	461
Public Equity	
BlackRock	1,127
Schroders	78
Lazard	92
Genesis	141
Edinburgh Partners	116
AQR	341
Baillie Gifford	131
JO Hambro	141
Cantillon	152
	2,319
Private Equity	
Various	**1,230**
Property	
LaSalle	**1,233**
Global Infrastructure	
Alinda	4
Goldman Sachs	43
	47
UK Infrastructure	
Dalmore	**40**
Global Macro	
Bridgewater	**228**
Shipping	
Tufton Oceanic	**130**
Residual cash, assets and liabilities	**(13)**
Net Assets as at 31 March 2018	**9,367**

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

At the end of the year to 31 March 2018, 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	6.3	0.0
Global government bonds	12.4	12.5
Global investment grade credit	5.0	5.0
Global multi-asset credit	5.1	5.0
Private debt	10.5	14.0
Special situations debt	4.9	7.5
Public equity	24.8	24.0
Private equity	13.1	10.0
Property	13.2	13.0
Global infrastructure	0.5	0.0
UK infrastructure	0.4	5.0
Global macro	2.4	2.5
Shipping	1.4	1.5
Total Assets	**100.0**	**100.0**

During the year a 5% allocation to global investment grade credit, a 5% allocation to UK infrastructure and a further 0.5% increase to private debt were approved, with reductions to the global infrastructure (2%), public equity (6.0%) and private equity (2.5%) target asset allocations. Further actual investments in private debt, special situations debt and UK infrastructure will be funded primarily from cash and equity sales.

Variations between actual and target allocations are monitored by ISC and are rebalanced as appropriate.

The above analyses are based on the underlying investments and differ from the classification used in note 6 to the accounts.

The Committee uses JP Morgan Investor Services (JP Morgan) to provide an independent measure of investment performance. Annualised returns over one, three and five year periods are shown on the following table.

	Scheme Return %	Benchmark %
1 Year	7.22	5.37
3 Years	8.56	7.59
5 Years	9.52	8.67

The table shows that the aggregate returns on the investment portfolio were ahead of the benchmark during the year to 31 March 2018 and also ahead of the benchmark over longer periods.

The benchmark is a composite of individual asset class benchmarks, weighted in accordance with the investment strategy agreed by the Committee. It provides an indication of how effectively the Scheme's investment strategy has been executed in the period under review.

Custodial and Cash Arrangements

The Scheme's quoted securities are held by a custodian, 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.

Public equities and bonds are registered in the name of nominee companies controlled by the Scheme's custodian or sub-custodians. Passively managed securities are held in pooled funds, who appoint their own custodian.

Property investments are primarily registered in the name of Coal Pension Properties Limited (CPPL) or Crucible Residential Properties Limited (CRPL) which are nominee companies controlled jointly by the Scheme and the Mineworkers' Pension Scheme (MPS) and incorporated for the purpose of holding title to the Scheme properties. A further subsidiary company set up as a joint venture between the Scheme and MPS holds title to one property. Title deeds are held by firms of solicitors. Trust deeds between the nominee companies and the Schemes establish that the properties are held on behalf of the Schemes and which Scheme holds which property.

Private debt, private equity, special situations debt and shipping investments are held in the name of the Coal Staff Private Equity Trust on behalf of the Scheme.

Global and UK infrastructure investments are held in the name of Coal Staff Superannuation Scheme Ltd 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. The Scheme is a signatory to the Financial Reporting Council's (FRC) UK Stewardship Code, updated in 2016. This sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. It also describes steps asset owners can take to protect and enhance the value that accrues to the ultimate beneficiary. Effective intervention, however, requires a deep knowledge of the underlying businesses in which the Scheme effectively invests, which the Committee does not have. For this reason, engagement and voting activities for equity managers are delegated to Hermes Equity Ownership Services, or in some cases, the investment managers, and their reports are published on the Scheme's website. For other investment classes the Committee relies upon its investment adviser to undertake effective due diligence and ongoing monitoring to ensure that environmental, social and governance (ESG) considerations are taken into account in the selection, retention and realisation of investments through its investment managers. The Committee's focus on ESG considerations within the investment portfolio has increased during the year, with the subject being discussed in more detail at both Committee and Sub-committee level.

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

Exposure to all non-sterling currencies within global government bonds, global multi-asset credit, global investment grade credit, private debt, special situations debt and shipping is 100% hedged. Exposure to US dollars and Swiss francs is 50% hedged and exposure to euros and yen is 37.5% hedged in relation to developed market public and private equity and the residual global infrastructure mandates.

Appreciation

The Committee wishes to acknowledge the assistance it has received from all of 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

Alan Whalley Committee Member

BCSSS British Coal Staff Superannuation Scheme

Year ended 31 March 2018

	Note	2018 £m	2017 £m
Contributions and benefits			
Benefits	2	(623)	(636)
Payment to and on account of leavers	3	(1)	(2)
Administrative expenses	4	(5)	(6)
Net withdrawals from dealings with members		**(629)**	**(644)**
Returns on investments			
Investment income	5	251	235
Change in market value of investments	6	421	1,152
Investment management expenses	7	(32)	(34)
Net returns on investments		**640**	**1,353**
Net increase in the Fund during the year		**11**	**709**
Net assets of the Scheme at the beginning of the year		**9,356**	**8,647**
Net assets of the Scheme at the end of the year		**9,367**	**9,356**

The notes on pages 25 to 47 form part of these financial statements.

As at 31 March 2018

	Note	2018 £m	2017 £m Restated
Investment assets	**6**		
Equities		1,299	1,664
Fixed income securities	8	2,895	2,225
Property	9	1,170	1,099
Pooled investment vehicles	10	2,970	3,363
Derivatives	11	110	34
Shipping	12	122	90
Joint ventures	13	64	71
Cash and cash equivalents		829	937
Other financial assets	14	69	45
		9,528	**9,528**
Investment liabilities			
Derivatives	11	(58)	(53)
Other financial liabilities	14	(105)	(121)
Net investment assets		9,365	**9,354**
Current assets	20	12	**11**
Current liabilities	21	(10)	**(9)**
Net assets of the Scheme at 31 March		9,367	**9,356**

The accounts 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.

The notes on pages 25 to 46 form part of these financial statements.

These accounts were approved by the Committee on 12 July 2018.

For and on behalf of the Committee of Management

Dame Kate Barker Chairman

Alan Whalley Committee Member

Scheme Registration Number: 10151637

1. Accounting policies

Basis of preparation

The accounts have been prepared in accordance with Financial Reporting Standard 102 (FRS 102) - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidelines set out in the Statement of Recommended Practice – Financial Reports of Pension Schemes (November 2014) (SORP).
The principal accounting policies applied in the preparation of these accounts are set out below.

During the year the Committee reviewed the investment categories shown on the face of the Statement of Net Assets and decided to reduce the number of categories. This has resulted in the revised classes being more in line with the standard headings shown in the SORP and FRS 102. This resulted in allocating prior year global multi-asset credit and private debt investments into fixed income securities and allocating special situations debt and private equity into pooled investment vehicles. This does not impact the net assets or the increase in the Fund as previously reported. In order to show the comparability of the current year and prior year the Committee has restated the prior year figures and the relevant notes to the accounts.

Net Investment assets

	As previously reported 2017 £m	Reclassifications 2017 £m	As restated 2017 £m
Equities	1,664	-	1,664
Fixed income securities	997	1,228	2,225
Global multi-asset credit	302	(302)	-
Private debt	926	(926)	-
Property	1,099	-	1,099
Pooled investment vehicles	1,550	1,813	3,363
Special situations debt	427	(427)	-
Private equity	1,386	(1,386)	-
Derivatives	(19)	-	(19)
Shipping	90	-	90
Joint ventures	71	-	71
Cash and cash equivalents	937	-	937
Other financial assets and liabilities	(76)	-	(76)
	9,354	-	9,354

Investment income

	As previously reported	Reclassifications	As restated
	2017	2017	2017
	£m	£m	£m
Dividends from equities	32	-	32
Income from fixed income securities	47	71	118
Income from private debt	71	(71)	-
Property rents (net of expenses)	50	-	50
Income from pooled investment vehicles	-	10	10
Income from private equity	10	(10)	-
Income from shipping (net of expenses)	16	-	16
Income from joint ventures	3	-	3
Interest on cash deposits and margin accounts	3	-	3
Other	3	-	3
	235	-	235

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, Trustee or subsidiary 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.

Investment income

Revenue is recognised when the Scheme's right to receive payment is established as follows:

Income from equity investments is included in the accounts on the date when the securities are quoted ex-dividend, or where no ex-dividend is quoted, when the Scheme's right to receive the payment is established.

Income from fixed income securities, property, shipping and cash is taken into account on an accruals basis. Income from property and shipping is stated net of any expenses which relate directly to the income against which it has been incurred.

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. Where income is distributed it is included in investment income when the Scheme's right to receive payment is established. Distributions from pooled investment vehicles which are not split between income and realised gains are included in change in market value.

Income from joint ventures represents income from a jointly owned property and is stated net of any expenses which relate directly to the income against which it has been incurred.

Individual transfers

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

Benefits

Benefits payable are included in the accounts 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

Transactions in foreign currencies during the period, including purchases and sales of securities, investment income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Amounts denominated in foreign currencies at the year-end are translated into sterling, the Scheme's functional currency, at the rate of exchange ruling at the year-end date. 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.

Change in market value

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

Investment assets and liabilities

The Statement of Net Assets includes investments at fair value and details of the valuation techniques involved in estimating fair values of certain investments are included on the next page and in note 6.

Fair value measurement

The Committee measures all of its investments at fair value at each reporting date.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction. FRS 102 and the SORP require the use of a three-level hierarchy to disclose the level of estimation in the fair value of investments as shown in note 18.

The methods of determining fair value for the principal classes of investments are detailed below.

- Equities and fixed income securities which are traded in an active market are included at the quoted price, which is normally the bid price. Transaction costs arising on all investment purchases and sales are charged to the Fund Account within the change in market value by adding to purchase costs and netting against sale proceeds, as appropriate for all investment types.

- The fair value of fixed income securities which comprise various types of debt instruments which are unquoted or not actively traded on a quoted market are either based on advice from the respective investment manager or are evaluated by pricing vendors using financial models and comparable security data.

- The value of shipping and pooled investment vehicles which are unquoted or not actively traded on a quoted market are estimated by the Committee based on advice from the respective investment manager. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value. Where the last valuation provided by the investment manager is prior to the year-end, the valuation is adjusted for cash flows in the intervening period.

- Unitised pooled investment vehicles comprising unit linked insurance policies which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually substantially traded on all pricing days, are included at the last price provided by the manager at or before year-end.

- Property is valued at open market value as at 31 March 2018, determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by Cushman and Wakefield (C&W), Chartered Surveyors, an external independent valuer with recognised and relevant professional qualifications who has recent experience of the locations and types of properties held by the Scheme, taking account of, amongst other things, the current estimate of rental values and market yield.

- One property investment is held on behalf of the Scheme through an investment in a joint venture with Mineworkers' Pension Scheme (MPS) and is valued in the same way as the property investments described above.

- Futures are contractual arrangements to buy or sell a specified financial instrument at a specific price at a predetermined future date, are traded in standardised amounts on regulated exchanges, and are subject to daily cash margin requirements. They are valued at the fair value as determined by the closing exchange price as at the year-end.

- Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, and normally transacted OTC. They are valued at the current value of future expected cash flows arising from the swap, determined using a discounted cash flow model and market data at the reporting date.

- Options are contractual agreements that convey the right, but not the obligation, for the purchaser to either buy or sell a specified amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. 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. OTC options are valued at the fair value using options pricing models.

- Forward foreign exchange contracts are customised contracts transacted in the OTC market. They are valued by determining the gain or loss that would arise from closing out the contract at the year-end by entering into an equal or opposite contract at that date.

Notes to the Accounts

Other investment arrangements

The Committee continues to recognise assets it has lent under securities lending arrangements to reflect its ongoing interest in those securities. Collateral received in respect of these arrangements is disclosed in note 16 but not recognised as a Scheme asset.

Collateral payments and receipts in respect of OTC derivative contracts and initial margin deposits in respect of futures contracts are reported within cash.

2. Benefits

	2018 £m	2017 £m
Pensions	483	492
Dependant benefits	126	128
Commutations and lump sum retirement benefits	14	16
Total	**623**	**636**

3. Payments to and on account of leavers

	2018 £m	2017 £m
Individual transfers to other schemes	1	2

4. Administrative expenses

	2018 £m	2017 £m
Pension Administration	4	4
Legal, Actuarial and Other fees	1	2
Total	**5**	**6**

5. Investment income

	2018 £m	2017 £m Restated
Dividends from equities	29	32
Income from fixed income securities	130	118
Property rents (net of expenses)	51	50
Income from pooled investment vehicles	14	10
Income from shipping (net of expenses)	20	16
Income from joint ventures	3	3
Interest on cash deposits and margin accounts	2	3
Other	2	3
Total	**251**	**235**

Property expenses of £6 million (2017: £8 million) were deducted from property income. Shipping expenses of £17 million (2017: nil) were deducted from shipping income.

As explained in note 1 the number of asset categories has been reduced following a review of the structure of the Statement of Net Assets and therefore the 2017 figures in the above table have been restated.

6. Investment reconciliation table

	Value at 1 April 2017 Restated	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Change in market value	Value at 31 March 2018
	£m	£m	£m	£m	£m
Equities	1,664	577	(1,049)	107	1,299
Fixed income securities	2,225	3,451	(2,578)	(203)	2,895
Property	1,099	39	(23)	55	1,170
Pooled investment vehicles	3,363	492	(1,057)	172	2,970
Derivatives	(19)	640	(910)	341	52
Shipping	90	52	-	(20)	122
Joint ventures	71	-	-	(7)	64
Cash and cash equivalents	937	-	(90)	(18)	829
Other financial assets and liabilities	(76)	46	-	(6)	(36)
Total investments	**9,354**	**5,297**	**(5,707)**	**421**	**9,365**

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. As explained in note 1 the number of asset categories has been reduced following a review of the structure of the Statement of Net Assets and therefore the 2017 figures in the above table have been restated. The table below shows a restated 2017 investment reconciliation table had the investments been re-classified in line with the 2018 categories.

	Value at 1 April 2016	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Change in market value	Value at 31 March 2017
	£m	£m	£m	£m	£m
Equities	1,282	759	(727)	350	1,664
Fixed income securities	2,252	1,769	(2,010)	214	2,225
Property	1,006	115	(57)	35	1,099
Pooled investment vehicles	3,295	269	(948)	747	3,363
Derivatives	20	1,255	(1,091)	(203)	(19)
Shipping	30	64	-	(4)	90
Joint ventures	79	-	-	(8)	71
Cash and cash equivalents	661	258	-	18	937
Other financial assets and liabilities	(3)	-	(76)	3	(76)
Total investments	**8,622**	**4,489**	**(4,909)**	**1,152**	**9,354**

7. Investment management expenses

	2018 £m	2017 £m
Administration, management and custody	27	29
Other advisory fees	5	5
Total	**32**	**34**

Other advisory fees include £2.1 million (2017: £2.7 million) of costs relating to CPTI, the Scheme's investment adviser. Also included in other advisory fees are £3.1 million (2017: £2.3 million) of legal and other third party adviser costs.

8. Fixed income securities

	2018 £m	2017 £m Restated
Bonds	1,908	1,261
Loans	987	964
Total	**2,895**	**2,225**

Loans comprise secured loans made direct to entities through four investment managers principally to businesses based in the UK, continental Europe and the US and bank loans which are debt financing obligations issued by a bank or similar financial institution purchased via the secondary market. Loans are not traded on an active market which may restrict the ability of the Scheme to realise them at short notice.

9. Property

	2018 £m	2017 £m
UK property	1,170	1,099

Whilst property investments are traded on the real estate market, the period between the initiation and completion of the disposal process can take time.

10. Pooled investment vehicles

	2018 £m	2017 £m Restated
Equities	-	140
Global macro	228	219
Infrastructure	88	174
Private equity	1,230	1,386
Special situations debt	460	427
Unit linked insurance policies	964	1,017
Total	**2,970**	**3,363**

Pooled investment vehicles include holdings in UK and overseas equities, bonds, loans, derivatives and infrastructure. The underlying investments of the special situations debt investments are principally loans made to companies in Europe and the US. Infrastructure, private equity and special situations debt investments are not traded on an active market which may restrict the ability of the Committee to realise them at short notice.

11. Derivative contracts

Derivative contracts	2018 £m	2017 £m
Assets		
Futures contracts	2	1
Forward foreign exchange contracts	100	33
Swaps	8	-
Liabilities		
Futures contracts	(4)	(1)
Forward foreign exchange contracts	(44)	(52)
Swaps	(10)	-
Net derivative contracts	**52**	**(19)**

Objectives and policies for holding derivatives

The Committee has authorised the use of derivative financial instruments by its investment managers as follows:

- Forward foreign exchange contracts are used to provide the Scheme with protection against changes in exchange rates which may adversely affect the value of overseas investments in foreign currencies. As at 31 March 2018 the Committee's policy is to hedge 100% of investments in the fixed income securities, shipping mandates, 100% of the special situations debt mandate within pooled investment vehicles, 50% of investments in public and private equity held in Swiss francs and US dollars and 37.5% of investments in public and private equity held in euros and yen.
- Futures contracts are used to provide the Scheme with exposure to the equity and bond markets.
- Swaps are used for efficient portfolio and risk management as well as hedging purposes in pursuit of the Scheme's investment objective. They provide exposure to interest bearing assets and debt investments in both sterling and foreign currencies.

Forward foreign exchange contracts

	Bought £m	Sold £m	Asset £m	Liability £m
Euro	462	(1,222)	7	(3)
Sterling	6,001	(2,401)	-	-
US dollar	3,911	(6,565)	73	(38)
Yen	113	(309)	1	(1)
Other	577	(1,224)	19	(2)
Total	**11,064**	**(11,721)**	**100**	**(44)**

Futures contracts

The Scheme holds long and short index future contracts with economic exposure of £283 million (2017: £122 million) and £203 million (2017: £31 million) respectively. The majority expire in 3 months' time and are held on various global market indices. The market values of these positions are an asset of £2 million and a liability of £4 million giving a net liability position of £2 million.

Swaps contracts

Contract	Expiration	Nature of Swap	Principal £m	Asset £m	Liability £m
Credit default swaps	1 to 44 years	Buying and selling credit exposure	91	2	(2)
Interest rate swaps	1 to 30 years	Paying and receiving fixed for floating	1,013	6	(8)
Total				**8**	**(10)**

The notional principal amount of the swap is used for the calculation of cash flow only.

12. Shipping

	2018 £m	2017 £m
Shipping	122	90

The Scheme's shipping investments are held through wholly owned subsidiary undertakings. Whilst shipping investments are traded on the sale and purchase shipping market, the period between the initiation and completion of the disposal process can take time.

13. Joint ventures

	2018 £m	2017 £m
Investments in joint ventures	93	99
Investment liabilities in joint ventures	(29)	(28)
Net investment in joint ventures	**64**	**71**

The amounts above include £64 million (2017: £71 million) of property investments held through a joint ventures with MPS.

14. Other financial assets and liabilities

	2018 £m	2017 £m
Amounts due from brokers	26	24
Other debtors	41	19
Outstanding income and withholding tax	2	2
Amounts due to brokers	(64)	(98)
Other creditors	(41)	(23)
Total	**(36)**	**(76)**

15. 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 2018 was £0.2 million (2017: £0.3 million).

16. Securities lending

The Scheme participates in public equity and fixed income 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 and the collateral provided is shown in the table below.

	Securities on loan 2018 £m	Collateral provided 2018 £m	Securities on loan 2017 £m	Collateral provided 2017 £m
Equities	141	149	104	107
Fixed income securities	375	393	167	173
Total	**516**	**542**	**271**	**280**

17. Concentration of investments

Investments in the following funds account for more than 5% of the Scheme's net assets.

	Market Value 2017 £m	
BlackRock Aquila Life US Equity Fund	496	5.3%

There are no investments in funds as at 31 March 2018 which account for more than 5% of the Scheme's net assets.

18. Fair value hierarchy of assets and liabilities

FRS 102 requires the disclosure of financial instruments held at fair value by class under the following hierarchy:

- Level 1 - the unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the measurement date;
- Level 2 - inputs other than quoted prices included within level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;
- Level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Fair value hierarchy of investment assets and liabilities 2018

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	1,299	-	-	1,299
Fixed income securities	1,229	679	987	2,895
Property	-	-	1,170	1,170
Pooled investment vehicles	-	964	2,006	2,970
Derivatives	(2)	-	54	52
Shipping	-	-	122	122
Joint ventures	-	-	64	64
Cash and cash equivalents	295	534	-	829
Other financial assets and liabilities	(36)	-	-	(36)
Total investments	**2,785**	**2,177**	**4,403**	**9,365**

Fair value hierarchy of investment assets and liabilities 2017 (Restated)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	1,664	-	-	1,664
Fixed income securities	157	1,104	964	2,225
Property	-	-	1,099	1,099
Pooled investment vehicles	-	1,017	2,346	3,363
Derivatives	-	-	(19)	(19)
Shipping	-	-	90	90
Joint ventures	-	-	71	71
Cash and cash equivalents	463	474	-	937
Other financial assets and liabilities	(76)	-	-	(76)
Total investments	**2,208**	**2,595**	**4,551**	**9,354**

As explained in note 1 the number of asset categories has been reduced following a review of the structure of the Statement of Net Assets and therefore the 2017 figures in the above table have been restated.

Valuation techniques

Equities

Equities are normally quoted at bid prices which are readily available and regularly occurring in active markets from relevant securities exchanges. These are included at level 1 in the fair value hierarchy.

Fixed income securities

The Committee invests in fixed income securities (bonds) which are traded regularly on an active market. They are included at levels 1 and 2 in the fair value hierarchy. In the absence of a quoted price in an active market bonds which are investment grade are valued on a 'clean' basis which excludes accrued interest using observable market data such as recently executed transaction prices of securities of the issuer or comparable issuers. They are included at level 2 in the fair value hierarchy. Secured loans described in note 8 are valued by the investment manager using discounted cash flow techniques for which significant inputs are the amount and timing of future expected cash flows, market yields, current performance and recovery assumptions and applicable publicly available comparable company valuations. Bank loans described in note 8 are traded over the counter and are valued using an evaluated bid price provided by a pricing vendor using financial models and comparable market security data. These investments are included at level 3 within the fair value hierarchy.

Property

The valuation of investment property is performed by C&W at December each year with a further valuation at the Scheme's year-end. C&W are an external, independent valuer with current knowledge of the relevant markets and the skills and understanding to undertake the valuations competently. For properties in the course of development, construction and associated costs in respect of both the work completed and the work necessary for completion together with a completion date have been considered. Valuations of completed buildings have been based on an assumption that all works of construction have been carried out in accordance with the building contract and specifications, current British standards and any relevant codes of practice. The properties have been valued at market value which is primarily derived using comparable recent market transactions on arm's length terms and has taken account of current and estimated annual rents receivable and market yields such as net initial yield, nominal equivalent yield and true equivalent yield. Property investments are included at level 3 in the fair value hierarchy.

Pooled investment vehicles

Pooled investment vehicles which are traded regularly are included at level 2 of the fair value hierarchy. The prices are published by the pooled investment vehicle manager at bid price on a daily or weekly basis.

Unquoted pooled investment vehicles are reported using the net asset value (NAV) of the Fund. The NAV is determined by the pooled investment vehicle manager using fair value principles to value the underlying investments of the pooled arrangement.
These investments which can also be subject to redemption notice periods and are not traded regularly are included at level 3 of the fair value hierarchy.

Derivatives

The investment managers use valuation models which incorporate foreign exchange spot and forward and interest rate curves for determining fair values of OTC forward foreign exchange contracts. The valuation techniques include forward pricing using present value calculations and other inputs into these models. These investments are included at level 3 in the fair value hierarchy.

Exchange traded future contracts are stated at fair value using market quoted prices. These are included at level 1 in the fair value hierarchy.

Swaps are valued at the net present value of future cash flows arising therefrom. These are included at level 3 in the fair value hierarchy.

Shipping

With the exception of one vessel, the fair value of shipping investments is derived by obtaining a broker valuation for the vessels. The broker valuation uses the sales comparison approach which is then adjusted by the investment manager for differences in key attributes such as vessel type, features, age, cargo, capacity and potential freight earnings. For the vessel where a broker valuation is not available, the investment manager has determined the value using a discounted cash flow model where significant inputs are the amount and timing of expected future charter income. Shipping investments are included at level 3 in the fair value hierarchy.

Joint ventures

Property held through joint ventures with MPS are valued by C&W at the Scheme year-end and are valued in the same way as the property investments described above. These are included at level 3 in the fair value hierarchy.

Cash and cash equivalents

The Committee invests some Scheme cash in sterling liquidity funds. These funds are pooled investment vehicles which are traded regularly and are included at level 2 in the fair value hierarchy. Cash held in interest bearing bank accounts is included al level 1 in the fair value hierarchy.

19. Investment transaction costs

	Commissions 2018 £m	Taxes 2018 £m	Total 2018 £m	Total 2017 £m
Equities	2	-	2	1
Property	1	-	1	4
Total	**3**	**-**	**3**	**5**

Included within the purchases and sales figures in the investment reconciliation table are direct transaction costs comprising fees, commissions and taxes. The Scheme also incurs indirect transaction costs on private debt, special situations debt, private equity and pooled investment vehicles. Such costs are taken into account in calculating the bid-offer spread of these investments and are not separately reported.

20. Current assets

	2018 £m	2017 £m
Cash at bank	12	11

21. Current liabilities

	2018 £m	2017 £m
Tax and VAT	(9)	(9)
Other creditors and unpaid benefits	(1)	-
Total	**(10)**	**(9)**

22. Related party transactions

In accordance with the Agreement dated 13 February 2015, the Trustee paid £500 million to the Guarantor on 1 April 2015, being a part repayment of the former Investment Reserve which existed prior to the consolidation of the Sub-funds. It is intended that the remaining balance of the Investment Reserve, now known as the Adjusted Reserve (adjusted for increases in CPI between March 2015 and March 2033) will be paid to the Guarantor within twelve months of 31 March 2033. As at 31 March 2018 the balance of the Adjusted Reserve was £1.8 billion.

The Scheme owns UK Government bonds which at the year-end had a market value of £97 million (2017: £157 million).

During the year the Scheme paid £55,795 (2017: £100,326) to the Government Actuary's Department (GAD) for provision of actuarial services.

Six members of the Committee including a member who retired during the year and a member who was appointed during the year were in receipt of a pension from the Scheme. The aggregate amount paid was £218,400 (2017: £239,000).

Members of the Committee are entitled to receive remuneration from the Scheme. The total remuneration paid in the year was £246,870 (2017: £249,600) and is detailed in the Report of the Committee of Management.

CPT 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 4 and were £1.8 million (2017: £1.7 million). CPTI costs, which are in respect of investment advisory services, are included within other advisory fees in note 7 and were £2.1 million (2017: £2.7 million).

The Scheme and the MPS jointly invest in properties and partnerships with a value to the Scheme of £108 million (2017: £112 million). Included in this balance is £64 million (2017: £71 million) of joint venture interest which is shown in note 13.

23. Forward commitments and contingent 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 investments in infrastructure and private equity of £837 million (2017: £480 million) and special situations debt of £576 million (2017: £371 million) included within the pooled investment vehicle mandate, £45 million (2017: £26 million) of secured loans included within the fixed income securities mandate and property and development costs of £24 million (2017: £61 million).

The timing of infrastructure, private equity investment funding is uncertain and has been estimated. It is assumed £276 million (33%) will fall due in the next twelve months and the remaining £561 million in later years. Forward commitments in relation to the secured loans will be paid within approximately twelve months of the year-end whilst the special situations debt and property purchases and development costs will be paid within two years.

As explained in note 22 it is intended that the Adjusted Reserve will be paid to the Guarantor within twelve months of 31 March 2033. As at 31 March 2018, the balance of the Adjusted Reserve was £1.8 billion.

24. Contingent assets not provided for in the accounts

Claims for the recovery of UK and overseas tax credits valued at approximately £79 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. Dependant on rail track expansion into the Powder River Basin in North America, further contingent proceeds of up to £44 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 £9 million.

25. Investment risk and management objectives and policies

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- **Credit risk:** This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- **Market risk:** this comprises currency risk, interest rate risk and other price risk.
  - **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
  - **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
  - **Other price risk:** this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments the Committee makes to implement its investment strategy. The objective of the Committee is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet the Scheme's future benefit payments, the Scheme's expenses and the lump sum payment due to the Guarantor on 31 March 2033, as they fall due.

The Committee sets the investment strategy for the Scheme taking into account considerations such as the Government Guarantee, the Scheme's future payments and the funding requirements of the Scheme as set out in the Agreement.

The Committee bases its investment philosophy on an assessment of the economic situation, potential economic scenarios and the valuation of assets through time. As a result, the actual asset allocation will change through time as a result of changes to the underlying valuation of different assets and the economic situation. There are no minimum or maximum levels for any asset category or region.

Asset liability modelling, cash flow projections and other forms of risk analysis are used to estimate the return expectations of the portfolio, the probability of achieving the funding objective and the risks of failing to achieve the funding objective.

Consistent with the above objective and investment philosophy, the asset allocation is developed, which takes account of the need to grow assets and the need to meet benefit payments. The asset allocation has regard to the following:

- Return objective: Need to deliver returns over the future lifetime of the Scheme sufficient to be able to meet the Scheme's payment obligations in full.
- Probability of success: Improve the probability of being able to pay all future member benefits from the Scheme's assets.
- Cash flow coverage: Ensuring that the projected levels of cash, income and asset redemptions are sufficient to meet benefit payments and other contractual requirements over future periods.
- Economic scenarios: for all the above measures, consideration of the outcomes across a full range of economic scenarios.

The asset allocation will be reviewed regularly, having regard to the above measures.

Details of the present target asset allocation are set out in the Investment Report on page 18.

Mandates with the Scheme's investment managers are structured to reflect the investment objectives and risk tolerances. Progress towards the objectives and risk levels are monitored by the Committee by regular reviews of the investment portfolios. Further information on the Committee's approach to risk management and the Scheme's exposures to credit and market risks are set out below.

As explained in note 1 the number of asset categories has been reduced following a review of the structure of the Statement of Net Assets and therefore the 2017 figures in the tables below in respect of fixed income securities and pooled investment vehicles where applicable have been restated.

Credit risk

The Scheme is subject to credit risk because it directly invests in fixed income securities, holds cash balances and undertakes securities lending activities.

The Committee also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in some of the pooled funds. This is a result of the Committee being dependent on the pooled investment vehicle manager for delivery of the cash flows and for buying and selling of the shares within the pooled arrangement. The Scheme is also indirectly exposed to credit risks arising on the financial instruments held within the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, and the notes below, which explain how this risk is managed and mitigated for the different classes:

2018

	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Credit risk				
Fixed income securities	1,690	339	866	**2,895**
Pooled investment vehicles	-	-	2,970	**2,970**
Securities lending -collateral cash	142	-	-	**142**
Cash and cash equivalents	829	-	-	**829**
Total	**2,661**	**339**	**3,836**	**6,836**

2017 (Restated)

	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Credit risk				
Fixed income securities	1,108	183	934	**2,225**
Pooled investment vehicles	-	-	3,363	**3,363**
Securities lending - collateral cash	82	-	-	**82**
Cash and cash equivalents	937	-	-	**937**
Total	**2,127**	**183**	**4,297**	**6,607**

Fixed income securities includes a broad range of quoted and unquoted securities, including bonds and loans. Credit risk arising on bonds is mitigated by investing in securities which are rated at least investment grade in accordance with those deemed so by the major ratings agencies or investing in a portfolio of securities where the average credit quality of the portfolio is at least investment grade and limiting the net credit exposure to unrated securities and those below investment grade to 10% of the portfolio's value.

The Committee also manages the credit risk by requesting the investment managers to diversify the portfolio by sector, industry and issuer and limit investments to any one issuer.

Credit risk on secured loans which are unrated is mitigated by the credit analysis and due diligence work undertaken by the respective investment managers. They ensure that there is adequate security covenant against the loans and there are guidelines within their mandate that require diversification within the portfolio by region, sector and issuer. In the event that a loan becomes impaired and a credit event occurs the investment managers undertake any restructuring processes necessary to protect the interests of the Scheme.

The Scheme is directly exposed to credit risk in relation to the units it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held within the vehicles. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangement being ring-fenced from the pooled manager. The Committee ensures that due diligence checks are undertaken on the appointment of any new pooled investment vehicle managers and any changes to the regulatory and operating environment of the manager is monitored on an ongoing basis. The indirect risk is mitigated by the Committee investing in regulated markets and pooled arrangements where the portfolio of investments is diversified.

Credit risk on OTC derivative contracts (which include forward foreign exchange contracts and swaps) arises due to them not being traded on a regulated exchange and therefore the Scheme is subject to the risk of failure of the counterparty. The credit risk for OTC derivative contracts is mitigated through collateral arrangements and ensuring all transactions in financial instruments are with reputable counterparties.

As explained in the Investment Report the Scheme participates in securities lending to approved borrowers who are required to provide collateral valued in excess of securities on loan. The Committee re-invests cash collateral received. Credit risk arising is managed by re-investing in permissible securities only, limiting the amount that can be re-invested with a given issuer, re-investing in securities that mature within agreed time limits and have a minimum rating as provided by the major ratings agencies.

Cash is held with financial institutions which are at least investment grade credit rated.

Currency risk

The Scheme is subject to currency risk because some of the investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The table below summarises the Scheme's net unhedged exposure by major currency at the year-end.

	2018 £m	2017 Restated £m
Direct currency risk		
Brazilian real	32	46
Euro	83	61
Hong Kong dollar	133	171
Indian rupee	16	82
Indonesian rupiah	45	25
Japanese yen	44	49
Korean won	42	50
Mexican peso	14	26
Taiwan dollar	41	77
US dollar	423	423
South African rand	38	51
Other currencies	162	175
Indirect currency risk		
Pooled investment vehicles	1,231	1,292
Total	**2,304**	**2,528**

The Committee receives advice from CPTI regarding the management of currency risk which assists it in agreeing a currency hedging policy for the respective currency and asset class.

The Committee typically limits overseas currency exposure by hedging a proportion of the overseas investments' currency risk within agreed limits using forward foreign exchange contracts. The currency exposures within the bonds, private debt, special situations debt and shipping mandates were fully hedged at the reporting date. Within the public and private equity and infrastructure mandates exposure to US dollars and Swiss francs are 50% hedged whilst exposure to euros and yen are 37.5% hedged.

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in fixed income securities and debt included within pooled investment vehicles. The value of these investments is impacted by changes in interest rates which use valuation techniques where interest rates are an input.

Loans included within the fixed income securities mandate and debt within the pooled investment vehicles are all based on floating interest rates and therefore carry negligible interest rate risk. They have a duration close to zero and their prices show very little sensitivity to changes in market rates as they are subject to the interest fixing period.

The table below summarises the Scheme's exposure to interest rate risk at the year-end.

	2018 £m	2017 £m Restated
Interest rate risk		
Fixed income securities	2,895	2,225
Pooled investment vehicles	460	427
Total	**3,355**	**2,652**

Other price risk

Other price risk arises principally in relation to equities, property and shipping. Indirect price risk arises in relation to equity and commodity investments held within pooled investment vehicles.

The table below summarises the Scheme's exposure to other price risk at the year-end.

	2018 £m	2017 £m Restated
Direct price risk		
Equities	1,299	1,664
Property	1,170	1,099
Shipping	122	90
Joint ventures	64	71
Indirect price risk		
Equity pooled investment vehicles	2,282	2,543
Total	**4,937**	**5,467**

The Committee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

BCSSS British Coal Staff Superannuation Scheme

26. Related undertakings of British Coal Staff Superannuation Scheme

In accordance with The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015, a full list of related undertakings, the country of incorporation and the percentage of share class owned as at 31 March 2018 is disclosed below. All undertakings are indirectly owned by BCSSS other than those indicated.

Name of undertaking	Country of incorporation	Share class	% held by BCSSS
Coal Staff Superannuation Scheme Ltd[1]	England & Wales	Limited by guarantee	100[12]
Coal Pension Trustees Services Ltd[1]	England & Wales	£1.00 B Ordinary shares[11]	100[12]
Coal Pension Trustees Investments Ltd[1]	England & Wales	£1.00 Ordinary shares	50
Globe Investments UK Ltd[1]	England & Wales	£1.00 Ordinary shares	50
Coal Pension Securities Nominees Ltd[1]	England & Wales	Limited by guarantee	50
Coal Pension Venture Nominees Ltd[2]	England & Wales	Limited by guarantee	50[12]
Coal Pension Securities Nominees Ltd 1[3]	Guernsey	Limited by guarantee	50[12]
Coal Pension Properties Ltd[4]	England & Wales	Limited by guarantee	50[12]
CPPL (Sefton Park 1) Ltd[4]	England & Wales	£1.00 Ordinary shares	100
CPPL (Sefton Park 2) Ltd[4]	England & Wales	£1.00 Ordinary shares	100
Crucible Residential Properties Ltd[4]	England & Wales	£1.00 Ordinary shares	50[12]
BCSSS Property Holding Ltd[4]	England & Wales	£1.00 Ordinary shares	100
BCSSS Property GP Ltd[4]	England & Wales	£1.00 Ordinary shares	100
BCSSS The Curve Limited Partnership[4]	England & Wales	Limited Partnership	100
Darfield Investment Holdings Ltd[5]	British Virgin Islands	No par value Ordinary shares	50
Beeston Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Thira Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Bacaliaros Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Limassol Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Barbourni Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Cape Town Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Manzanillo Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Malmo ShippingLtd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Gwen Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Elsa Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Roma Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Piraeus Shipping Ltd[6]	Isle of Man	$1.00 Ordinary shares	100
BSL Heranger Shipping Ltd[7]	Singapore	$1.00 Ordinary shares	100
BCSSS Investments Sárl[8]	Luxembourg	£1.00 Ordinary shares	100
BCSSS Investments Sárl 2[8]	Luxembourg	£1.00 Ordinary shares	100
BCSSS AAIP Cayman Feeder Ltd[9]	Cayman Islands	$1.00 Ordinary shares	100
BCSSS SSD Ltd[10]	Cayman Islands	$1.00 Ordinary shares	100
BCSSS AEPF3 Ltd[9]	Cayman Islands	$1.00 Ordinary shares	100

26. Related undertakings of British Coal Staff Superannuation Scheme (continued)

The registered office addresses of the above undertakings are as follows:

1 Ground Floor, Ventana House, 2 Concourse Way, Sheaf Street, Sheffield, S1 2BJ
2 C/o Hackwoood Secretaries Ltd, One Silk Street, London, EC2Y 8HQ
3 East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3PP
4 One Curzon Street, London, W1J 5HD
5 Nemours Chamber, PO Box 3170, Road Town, Tortola, British Virgin Islands
6 St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE
7 4 Robinson Road, #05-01 The House of Eden, Singapore, 048543
8 7, rue Lou Hemmer, L-1748 Luxembourg - Findel
9 C/o Maples Corporate Services Ltd, PO Box 309, Ugland House, Grand Cayman, KY-1104, Cayman Islands
10 C/o Walkers Corporate Services Ltd, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman, KY1-9008, Cayman Islands
11 MPS holds 100% of the £1.00 A Ordinary shares of CPT Services Ltd. CPT Services Ltd is a jointly owned entity of the Scheme and MPS.
12 Entity held directly by the Scheme.

Independent Auditor’s Report 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 2018 which comprise the fund account, the statement of net assets and the related notes 1 to 26, including a summary of significant accounting policies. 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), including FRS 102 ‘The Financial Reporting Standard applicable to the UK and Republic of Ireland’.

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 2018, and of the amount and disposition at that date of its assets and liabilities, other than 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 including FRS102 ‘The Financial Reporting Standard applicable to the UK and Republic of Ireland’; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements and identified material uncertainties that may cast significant doubt about the Scheme’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, including the Trustee’s Report and Investment Report, other than the financial statements and our auditor’s report thereon. The Trustee is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the Trustees’ responsibilities statement set out on page 13, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at *www.frc.org.uk/auditorsresponsibilities*
This description forms part of our auditor’s report.

Use of our report

This report is made solely to the Scheme’s 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 Schemes’ 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 Schemes’ Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
Leeds
12 July 2018

The maintenance and integrity of the British Coal Staff Superannuation Scheme web site 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 web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2015 and is described in my report dated 18 March 2016.

The results of the 31 March 2015 review are set out below. The results are based on a total Scheme asset value of £9,071 million, being the market value as at 31 March 2015 excluding the £500 million payment to the Guarantor on 1 April 2015. Both the percentage figures quoted below are annual real returns (above RPI) which must be earned over the Scheme's lifetime.

Obligations Percentage: 1.8% pa	The real return required on the Scheme's total assets to meet the Scheme's expected future member benefit payments and associated expenses.
Buffer Percentage: 2.8% pa	The real return required on the Scheme's total assets to meet the Scheme's expected future member benefit payments, associated expenses and a payment to the Guarantor in 2033, equal to the *2015 Reserve** indexed in line with CPI inflation.

*The *'2015 Reserve'* is the Guarantor's share of the Scheme surplus when the coal industry was privatised, less the parts of that surplus already released to the Guarantor, accumulated with investment returns to 31 March 2015. The *2015 Reserve* is £1,707 million.

The actuary is also required to advise the Guarantor and the Trustee if, in his opinion, the total value of the Fund is less than will be needed to meet the Scheme's benefit payments and expenses over a period of three years. In my opinion, the Fund is sufficient to meet the Scheme's benefit payments and expenses for a period well in excess of three years.

The valuation results depend on the value of the Scheme assets at the valuation date as well as on the assumptions made; the most important being the assumed rates of inflation (both RPI and CPI) and the future mortality rates.

For more information, please refer to my report dated 18 March 2016. Copies are available from the Scheme Secretary.

Martin Clarke
Fellow of the Institute and Faculty of Actuaries
Government Actuary
27 May 2016

This statement is included to comply with recommendations contained in the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (revised November 2014), 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.

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 including the changes to the structure of the Scheme following the Sustainability Review and subsequent Agreement dated 13 February 2015.

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 twelve months to November 2017 was 3.9%; guaranteed pensions in payment and deferment were increased by this amount from 1 January 2018. 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 a result of the Agreement made between the Trustee and the Guarantor on 13 February 2015, funds were allocated to provide three separate level bonuses, equivalent to 2% of Guaranteed Pension, in 2017, 2018 and 2019. The second of these level bonuses was effective on 1 January 2018.

In future 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 between 2014 and 2017 will remain level throughout the future.
- New bonuses of 2% of Guaranteed Pensions will be awarded in 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.

Summary of Guarantee Arrangements

The Government Guarantee ensures that the Trustee will always be able to pay the promised benefits; these benefits will also include the consolidated bonuses from 2020.

Actuarial Valuations are performed on a three-yearly basis by the 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 Actuary's Report on the latest valuation as at 31 March 2015 can be found on page 50.

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 Scheme's website also contains a link to the member website, from which members can access their personal Scheme information and update the information the Scheme holds about them.

The administration office address is:

BCSSS
Hartshead House
2 Cutlers Gate
Sheffield
S4 7TL

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.

BCSSS British Coal Staff Superannuation Scheme

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 Ombudsman (TPO) to assist them in taking their complaint through the dispute process. TPO is appointed by the Government and can be contacted at:

10 South Colonnade
Canary Wharf
E14 4PU

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 9
Mail Handling Site A
Wolverhampton
WV98 1LU

www.gov.uk/find-pension-contact-details

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