

# MINEWORKERS' PENSION SCHEME



**Report & Accounts** 2012



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# Membership of Committees

as at 30 September 2012

## Committee of Management

The appointed and elected Trustee Directors are shown below.

	<b>Appointed Trustee Directors</b>	<b>Elected Pensioner Representative Trustee Directors</b>
<b>Committee of Management</b>	N Stapleton ( <i>Chairman</i> ) C Cheetham <sup>1</sup> V Cockerill S O'Connor <sup>2</sup> M Woodmore	R Clelland - Scotland, North West England & North Wales A Gascoyne - Derbyshire, Nottinghamshire & Lincolnshire J Stones - Yorkshire & North Lincolnshire J Wills <sup>3</sup> - Central & Southern England & South Wales A Young - North East England & Overseas
<b>Investment Sub-committee (ISC)</b>	C Cheetham ( <i>Chairman</i> ) M Woodmore <sup>5</sup> A Parry <sup>6</sup>	A Gascoyne <sup>4</sup> A Young
<b>Risk and Operations Sub-committee (ROSC) <sup>7</sup></b>	V Cockerill ( <i>Chairman</i> ) S O'Connor	R Clelland J Stones
<b>Discretions and Appeals Sub-committee (DASC)</b>	M Woodmore ( <i>Chairman</i> ) V Cockerill	R Clelland J Stones

<sup>1</sup> **Mr Cheetham** was re-appointed by the Committee as Trustee Director and Chairman of ISC, for a further three-year term to take effect from 1 September 2012.

<sup>2</sup> **Mrs O'Connor** was appointed by the Committee as Trustee Director from 18 July 2012. Mrs O'Connor replaced Mrs Dickson, who resigned as a Trustee Director on 20 April 2012.

<sup>3</sup> Following the election in the Central & Southern England & South Wales constituency during Summer 2012, Mr Jones has succeeded Mr Wills with effect from 1 October 2012.

<sup>4</sup> **Mr Gascoyne** replaced Mr Wills as a member of the ISC on 26 September 2012.

<sup>5</sup> **Mr Woodmore** replaced Ms Cockerill as a member of the ISC on 22 March 2012.

<sup>6</sup> **Mr Parry** is a non voting member of ISC.

<sup>7</sup> ROSC was created on 21 March 2012; both the Administration and Benefits and Risk and Assurance Sub-committees were subsequently disbanded.

# Appointments

as at 30 September 2012

<b>Trustee Company</b>	Trustees of the Mineworkers' Pension Scheme Limited
<b>Secretariat</b>	<b>Coal Pension Trustees Services Limited (CPT)</b> G Mellor, Chief Executive S Dunatov <sup>1</sup> , Chief Investment Officer A Moffatt <sup>2</sup> , Chief Risk Officer G Lane, Chief Operating Officer S Wilde, Shared Services Director M Furbank, Scheme Secretary
<b>Investment Advisers<sup>3</sup></b>	Coal Pension Trustees Investment Limited Cambridge Associates LLC
<b>Principal Investment Managers</b>	Baillie Gifford & Co (Baillie Gifford) BlackRock Advisors (UK) Ltd (BlackRock) BlueBay Asset Management plc (BlueBay) Brevan Howard Asset Management LLP (Brevan Howard) Bridgewater Associates LP (Bridgewater) Cantillon Capital Management LLC (Cantillon) DE Shaw & Co. LP (DE Shaw) Edinburgh Partners Ltd (Edinburgh Partners) GAM Fund Management Ltd (GAM) Genesis Investment Management Limited (Genesis) Goldman Sachs Mezzanine LP (GS Mezzanine) Insight Investment Management (Global) Limited (Insight) JO Hambro Investment Management Limited (JO Hambro) LaSalle Investment Management (LaSalle) Lazard Asset Management Limited (Lazard) Legal and General Investment Management (Legal & General) Mondrian Investment Partners (Mondrian) Schroder Investment Management (UK) Limited (Schroder) Stone Harbor Investment Partners (Stone Harbor) Vontobel Asset Management, Inc (Vontobel) Wellington Management Company Limited (Wellington) Western Asset Management Company Limited (Western)
<b>Actuary</b>	T Llanwarne, Government Actuary
<b>Principal Legal Adviser</b>	Linklaters LLP
<b>Pension Administrator</b>	Paymaster (1836) Limited
<b>Auditor</b>	Ernst & Young LLP
<b>Bankers</b>	JP Morgan Chase Bank, N.A. Lloyds TSB Bank plc
<b>Custodian</b>	JP Morgan Worldwide Security Services (JP Morgan)
<b>Medical Adviser</b>	Dr RM Quinlan RPS Business Healthcare

<sup>1</sup> Mr Dunatov succeeded Mr M Pratten as Chief Investment Officer on 2 April 2012.

<sup>2</sup> Mr Moffatt stood down as Chief Risk Officer on 28 February 2013.

<sup>3</sup> Mercer LLC was appointed on 10 January 2011 for consulting services in relation to the Equity transition which was completed in April 2011. The contract with Towers Watson LLP expired on 1 July 2012.

The Scheme's registration number with the Pension Schemes Regulator is 10058240.

# Trustee's Report

The Trustee is pleased to present the Annual Report and Accounts of the Mineworkers' Pension Scheme (the Scheme) for the year ended 30 September 2012.

The Investment Report on pages 10 to 13 and the Compliance Statement on page 28 form part of this Annual Report.

## Management of the Scheme

The Trustee has ten directors who form the Scheme's Committee of Management (the Committee). Of the ten members of the Committee, five are appointed, and may be removed, by the Committee. When there is an appointed trustee vacancy the Nomination Group recommends a suitable candidate to the Committee.

Olivia Dickson resigned as a Trustee Director on 20 April 2012. The Committee wishes to put on record its appreciation for the work carried out for the Scheme by Mrs Dickson during her period of office. Sophie O'Connor was appointed as a Trustee Director from 18 July 2012.

The remaining five members of the Committee are Pensioner Representatives elected by Scheme members from five geographical constituencies. Joe Wills' term of office as an elected Pensioner Representative Trustee Director for the Central & Southern England & South Wales constituency ended on 30 September 2012, following the election in that constituency in Summer 2012. The successful candidate in the election was Anthony Jones, who has been elected for a five-year term of office from 1 October 2012. The Committee wishes to put on record its appreciation for the work carried out by Mr Wills for the Scheme during his tenure of over 25 years.

## Attendance at Meetings

During the year there were four meetings of the Committee. Trustee Directors are notified of all meetings in advance. For decisions to be valid a minimum of four Trustee Directors must be present (of whom two must be Appointed Directors and two Pensioner Representatives). In the case of an equality of votes, the Chairman of the meeting has a second or casting vote.

## Sub-committees

Individual Sub-committees review the investment, risk and operations, and discretions and appeals arrangements with Terms of Reference agreed by the Committee.

During the year the Administration and Benefits (ABSC) and the Risk and Assurance (RASC) Sub-committees were disbanded. A new Sub-committee, the Risk and Operations Sub-committee (ROSC), was created on 21 March 2012.

In total, the Sub-committees met on 13 occasions during the year.

## Remuneration

Members of the Committee are entitled to remuneration for the work they undertake for the Scheme. The rates of remuneration are set by the Secretary of State for Energy and Climate Change for Committee posts other than the Chairman, the Chairman of ISC and the Chairman of ROSC which are set by the Committee after showing that the pay rates have been benchmarked to the satisfaction of the Secretary of State.

Trustee remuneration rates are reviewed annually with effect from 1 April to reflect any increase in the Retail Prices Index. From 1 April 2012, the rate of remuneration for the post of Chairman increased in line with the 3.6% rise in the Index to £62,700 a year, to £49,700 a year for the post of Chairman of ISC, to £34,200 a year for the post of Chairman of ROSC, to £18,650 for the post of Chairman of DASC and to £16,250 a year for other members of the Committee.

The total remuneration paid in the year to the members of the Committee was £207,065.

## Appointments

A list of the key appointments made by the Committee is on page 4. All of these appointments are periodically reviewed by the Committee. The principal investment managers and custodians are also identified on page 4.

## Pension Administrator

Day to day administration of the Scheme benefits is carried out by Paymaster (1836) Limited (trading as Xafinity Paymaster).

## Coal Pension Trustees Services Limited

Coal Pension Trustees Services Limited (CPT), a company owned jointly by the Scheme and the British Coal Staff Superannuation Scheme (BCSSS), acts as the Scheme's Executive. Four members of the Committee of Management sit on the Board of Directors of CPT. At the year-end these were Mr Stapleton, Mr Woodmore, Mr Gascoyne and Mr Young. The Board met three times during the year.

## Further Information

Enquiries about the Scheme should be sent to the Secretary at the address shown below.

## Internal Dispute Resolution Procedure

It is expected that most queries about benefits can be resolved by the Scheme's administrator. In the event that a complaint cannot be resolved, Scheme members can lodge a formal complaint using the Scheme's Internal Dispute Resolution Procedure (IDRP).

The Scheme's IDRP complies 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 IDRP is the route under which any disputes between the Trustee and Scheme beneficiaries may be resolved.

Details of the IDRP can be obtained from the Scheme Secretary at:

### Coal Pension Trustees Services Limited

Ventana House, 2 Concourse Way, Sheaf Street, Sheffield S1 2BJ

IDRP forms can also be downloaded from the 'forms' section of the Scheme's website.

Complainants have recourse to The Pensions Advisory Service (TPAS) to assist them in taking their complaint through the dispute procedure. TPAS gives free and independent advice to members of the public to help them deal with pension problems.

TPAS can be contacted at:

11 Belgrave Road, London SW1V 1RB  
[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

## Transfers out of the Scheme

Transfer values paid during the year in respect of transfers to other pension schemes have been calculated on a basis provided by the Actuary. The Trustee has directed the Actuary not to take discretionary pension increases into account in the calculation of transfer payments.

## 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 9A of the Scheme and Rules the Trustee is required to prepare and maintain a written statement of the principles governing decisions about investments for the purposes of the Scheme. The Statement is reviewed at least every three years and immediately after any significant change in investment policy.

## Discretionary Benefit Fund

The Trustee may, in certain circumstances, pay discretionary benefits where MPS benefits are not yet in payment. The Trustee currently has a discretionary power to grant early payment of unreduced MPS benefits in extreme and exceptional circumstances, whatever a member's age. For example, discretionary benefits may be paid where a deferred member provides medical evidence to show that life expectancy is limited to eighteen months or less as a result of terminal illness.

## Conflicts of Interest Policy

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

# Trustee's Report

## Membership of the Scheme

Details of changes in the numbers of pensioners and deferred pensioners during the year are shown below.

<b>Deferred members at 30 September 2011</b>	<b>55,830</b>
<b>Additions:</b>	
Reinstatements	24
Pension sharing credits	27
Adjustments*	9
	<u>60</u>
<b>Reductions:</b>	
Retirements	4,407
Deaths	346
Transfers	52
Commutations paid	538
Adjustments*	10
	<u>5,353</u>
<b>Deferred members at 30 September 2012</b>	<b>50,537</b>
<b>Pensioners in payment at 30 September 2011</b>	<b>175,122</b>
<b>Additions:</b>	
Retirements	4,413
Dependants' Pensions	1,960
Adjustments*	66
Children's pensions	73
	<u>6,512</u>
<b>Reductions:</b>	
Deaths	8,996
Commutations paid	54
Children's benefits	100
Adjustments*	46
	<u>9,196</u>
<b>Pensioners at 30 September 2012</b>	<b>172,438</b>

\*'Adjustments' consist of records where members moved between the various categories shown above during the year, and late notifications.

During the year, 33 pension sharing orders relating to divorce petitions were received from the courts. In three cases, the Scheme member's former spouse became entitled to an immediate pension, 27 others became entitled to a deferred pension from the Scheme in their own right (although a further six of these have since taken their pensions). An external transfer was taken in the remaining three cases.

## Actuarial Valuation

The Actuarial Valuation as at 30 September 2011 is now complete. A summary of the Scheme Actuary's report on the Actuarial Valuation of the Scheme as at 30 September 2011 is on page 27. Details of the outcome of the valuation of each of the notional Sub-funds, reflecting the Guarantee arrangements in the Scheme Rules, are included in the Actuary's report and the notes to the accounts on page 24.

# Trustee's Report

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

Sub-fund	Assets £m	Liabilities £m	Surplus/(Deficit) £m
Guaranteed Fund	8,961	8,187	774
Bonus Augmentation Fund	1,162	1,163	(1)
Guarantor's Fund	204	139	65

The fourth Sub-fund, the Investment Reserve, has no quantifiable liabilities, is not subject to a valuation and had a market value at 30 September 2011 of £118m.

In accordance with Scheme provisions the following actions were taken:

- the surplus of £774m in the Guaranteed Fund (plus £11m to cover the projected future expenses of this Fund) was transferred to the Investment Reserve, as partial repayment of the £1,044m which was transferred from the Investment Reserve to the Guaranteed Fund as a result of the shortfall in the Guaranteed Fund following the 2008 Actuarial Valuation. The remaining debt owed by the Guaranteed Fund to the Investment Reserve is £398m;
- previous Bonus Augmentations (bonuses) awarded from the Bonus Augmentation Fund were converted to reducing bonuses (called Crystallised Augmentations in the Scheme Rules). This means that these bonuses collectively are now reduced each year by the amount of the RPI increase added to benefits paid from the Guaranteed Fund. The first such reduction occurred in September 2012. Bonus lump sums not yet in payment are also reduced each year;
- as a consequence of the conversion of the bonuses to reducing bonuses, the liabilities in the Bonus Augmentation Fund fell from £1,163m to £915m, leaving a residual surplus, referred to in the Scheme and Rules as a Bonus Augmentation Residue, of £247m;
- with the agreement of the Guarantor, the Bonus Augmentation Residue at 30 September 2011 was allocated to pay a one-off increase of 4.65% of guaranteed pensions (including any GMP element but excluding bonuses), effective from 10 September 2012.

Pension earned up to privatisation will continue to be increased in line with inflation measured by the RPI, although, as stated above, bonuses will now be reduced each year by the amount of the RPI increase added to benefits paid from the Guaranteed Fund, the net effect of which is that benefits will remain level in cash terms until at least the next valuation.

The Actuary recommended that the current stream of payments due to the Guarantor from the Guarantor's Fund be increased from 1 October 2012 for the remaining four payments to £50m (from £30.8m) in light of the better than expected investment performance in the period since the last valuation.

In accordance with the provisions of the Scheme, the Actuary considered whether, taking into account the outcome of the 2011 valuation, monies could be released to the Guarantor from the Investment Reserve. He concluded that no payments should be made to the Guarantor prior to completion of the Scheme's next valuation.

## Risk Management

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

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

The Committee has established a Risk and Operations Sub-committee (ROSC), with the remit to review and monitor the Risk Management Framework and make 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.

# Trustee's Report

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

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

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

## Statement of Trustee's Responsibilities

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

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

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

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

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it 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.

## Investment Review and Performance

Following large economic and political uncertainty after the financial crisis in 2008/09, the year to September 2012 saw relatively calm financial markets. Although budget deficits and the euro zone crisis continue to dominate headlines, the ongoing support from global central banks and more stable economic data has been a positive surprise.

Although the current economic environment stabilised the outlook remains difficult and the Bank of England kept its policy rate at almost zero. Combined with generally falling inflation over the period, interest rates continued to fall to record lows. The FTSE All Gilt market index recorded a total return of 8.3% in the year.

Bolstered by the more stable political and economic environment and in spite of ongoing concerns relating to the euro zone, global equity markets saw total returns for the year of 17.3% in Sterling terms.

UK commercial property prices, as measured by the UK IPD Index, rose 3.5% during the year.

Sterling rose against the US Dollar by 3.7% to £/\$1.62. Currency volatility remained relatively low over the period.

At the end of 2011, three global macro funds were selected for the Opportunities portfolio. The intention behind these investments was to put together a combination of investments with return expectations comparable to equities but which exhibit a different risk profile.

Since the end of the period, the Committee has agreed to invest in a portfolio of euro zone sovereign bonds and increase holdings in emerging market sovereign bonds, reducing exposure to cash and other developed market sovereign bonds. In addition, the exposure within the equity portfolio to the euro zone has been increased.

The Committee uses JP Morgan as its independent investment performance measurer. Annualised returns over the one, three and five year periods are shown below.

	<b>Scheme Return</b>	<b>Benchmark</b>
	<b>%</b>	<b>%</b>
1 Year	12.84	14.13
3 Years	8.52	6.89
5 Years	1.22	1.11

The benchmark shown is the strategic benchmark of the Scheme, and is the composite of benchmarks applied to individual asset classes and Investment managers.

# Investment Report

The Scheme's investment managers and the nature of each mandate are shown below:-

	<b>£m</b>
<b>Cash and Fixed Income</b>	
Insight	291
Wellington	475
Western	379
Mondrian	297
GAM	246
Stone Harbor	202
BlueBay	194
	<b>2,084</b>
<b>Equities</b>	
Legal & General	3,108
Private Equity	1,180
Lazard	479
Cantillon	447
Baillie Gifford	364
Vontobel	329
Edinburgh Partners	343
BlackRock	355
Schroder	302
Genesis	234
JO Hambro	143
	<b>7,284</b>
<b>Property</b>	
LaSalle	1,061
Mezzanine	23
	<b>1,084</b>
<b>Opportunities</b>	
Brevan Howard	160
DE Shaw	176
GS Mezzanine	21
Bridgewater Alpha	160
	<b>517</b>
Residual cash, assets, and liabilities	<b>(9)</b>
<b>Net Assets at 30 September 2012</b>	<b>10,960</b>

The manager totals include investment debtors and creditors and investment cash. Residual cash, assets and liabilities represent non investment balances.

# Investment Report

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

	<b>Actual</b>	<b>Target asset allocation</b>
	%	%
<b>Cash &amp; Fixed Income</b>		
Cash	2.4	2.0
Fixed Income	16.4	18.0
<b>Equities</b>		
Passive equity	31.7	32.5
Active equity	24.1	22.5
Private equity	10.8	10.0
<b>Property</b>		
UK property	9.9	10.0
<b>Opportunities</b>	4.7	5.0
	<b>100.0</b>	<b>100.0</b>

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

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

The ten largest equity holdings at 30 September 2012 were:

	<b>Market Value</b>	<b>Percentage of total Scheme net assets</b>
	£m	%
Apple Inc.	101.3	0.93
Google Inc.	76.5	0.70
Exxon Mobil Corp.	62.7	0.57
Samsung Electronics Co.	60.5	0.55
Amazon.com Inc.	53.9	0.49
Microsoft Corp.	50.3	0.46
Baidu Inc.	40.8	0.37
Wal-Mart Stores Inc.	40.8	0.37
Oracle Corp	40.1	0.37
International Business Machines Co.	39.3	0.36
	<b>566.2</b>	<b>5.17</b>

The basis of the valuation of investments is shown in note 1 of the financial statements.

## Custodial and Cash Arrangements

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

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

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

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

Property investments are primarily registered in the name of Coal Pension Properties Ltd, a nominee company controlled jointly by the Scheme and BCSSS or, in a few cases, jointly owned companies of the Scheme. Title deeds are held by firms of solicitors. A trust deed between Coal Pension Properties Ltd and the Scheme establishes that the properties are held on behalf of the Scheme.

Private equity investments are held in the name of the Mineworkers' Private Equity Trust through limited partnerships, on behalf of the Scheme.

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

## Corporate Governance

The Scheme became a signatory to the UK Stewardship Code during November 2011, at which time the Committee updated the Scheme's Corporate Governance policy. The Scheme utilises Hermes Equity Ownership Services, in conjunction with its investment managers, in order to implement and monitor the Scheme's Stewardship. Voting and Engagement activity with investee companies is published on the Scheme website.

## 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. The Scheme also benefits from an indemnity from JP Morgan against losses on borrower default. The value of securities on loan at the year-end was £411m (2011: £534m).

## Transaction costs

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

## Derivatives

The Committee has authorised the use of stock and bond index futures and options, credit default swaps, currency, interest rate and inflation swaps to facilitate efficient asset allocation changes. 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 limits on total tracking errors.

Futures contracts were cleared through Bank of America Merrill Lynch and JP Morgan during the year.

## Currency Hedge

The currency exposures arising from developed overseas equities are typically hedged 50% into Sterling. The purpose of the currency hedging is to reduce the impact of currency volatility on investment returns as measured in Sterling terms.

On behalf of the Trustee:

Chairman

Committee Member

5 March 2013

# Consolidated Fund Account

## Year ended 30 September 2012

<b>Contributions and Benefits</b>	<b>Note</b>	<b>2012 £m</b>	<b>2011 £m</b>
Benefits	2	(742)	(707)
Payments to and on account of leavers	3	(3)	(1)
Payments to the Guarantor	4	(31)	(31)
Administrative expenses	5	(10)	(11)
<b>Net Withdrawals from Dealings with Members and the Guarantor</b>		<u><b>(786)</b></u>	<u><b>(750)</b></u>
<b>Returns on Investments</b>			
Investment income	6	207	207
Change in market value of investments	7	1,127	(56)
Investment management expenses	8	(33)	(30)
<b>Net Returns on Investments</b>		<u><b>1,301</b></u>	<u><b>121</b></u>
<b>Net Increase/(Decrease) in the Fund during the year</b>		<b>515</b>	<b>(629)</b>
<b>Net Assets of the Scheme as at 1 October 2011</b>		<b>10,445</b>	<b>11,074</b>
<b>Net Assets of the Scheme as at 30 September 2012</b>		<u><b>10,960</b></u>	<u><b>10,445</b></u>

# Consolidated Net Assets Statement

at 30 September 2012

	Note	2012 £m	2011 £m
<b>Investments</b>			
Investment Assets	7	11,045	10,566
Investment Liabilities	7	(149)	(214)
Investment in joint ventures	7	100	-
<b>Net Investment Assets</b>		<u>10,996</u>	<u>10,352</u>
Minority interest	7	(50)	-
		<u>10,946</u>	<u>10,352</u>
<b>Current Assets</b>	9	18	98
<b>Current Liabilities</b>	10	(4)	(5)
<b>Net Assets of the Scheme at 30 September 2012</b>		<u>10,960</u>	<u>10,445</u>

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

These financial statements were approved by the Trustee on the 5 March 2013.

Signed on behalf of the Trustee:

Chairman

Committee Member

Scheme Registration Number: I0058240

## I. Accounting policies

### Basis of Preparation

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

### Basis of accounting

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

### Basis of consolidation

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

Certain investments are held on behalf of the Scheme through companies which are owned jointly with the British Coal Staff Superannuation Scheme (BCSSS). Where the Scheme has significant influence, a direct or indirect interest in management of the business then that interest is accounted for using the gross equity method in the case of joint ventures.

The Scheme holds a number of property investments through interests in joint ventures. Such investments are accounted for by including the Scheme's share of assets, liabilities and revenues. Equity accounting is based on the latest available annual accounts for those undertakings with a year-end up to three months prior to that of the Scheme. In the case where a joint venture has a year-end more than three months prior to that of the Scheme, unaudited management information is used. Adjustments are made to align the accounting policies of the relevant undertaking with those of the Scheme, where appropriate.

### Investment income

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

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

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

### Individual Transfers

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

### Benefits

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

### Administrative Expenses and Investment Management Expenses

Administrative expenses and investment management expenses are accounted for on an accruals basis. Irrecoverable VAT is reflected within the appropriate expense heading.

### Foreign Currencies

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

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

# Notes to the Accounts

## Investment Assets

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

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

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

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

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

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

## Derivatives

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

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

## Futures

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

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

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

## Forward foreign exchange contracts

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

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

## Options

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

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

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

## Swaps

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

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

# Notes to the Accounts

## Sub funds

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

	2012 £m	2011 £m
<b>2. Benefits</b>		
Pensions	520	481
Dependant benefits	146	145
Commutations and lump sum retirement benefits	76	81
	<u>742</u>	<u>707</u>
<b>3. Payments to and on account of leavers</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Individual transfers to other schemes	<u>3</u>	<u>1</u>
<b>4. Payments to the Guarantor</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Payments from the Guarantor's Fund	<u>31</u>	<u>31</u>
<b>5. Administrative Expenses</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Pension Administration	8	9
Legal, Actuarial and Other fees	2	2
	<u>10</u>	<u>11</u>
<b>6. Investment Income</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Income from fixed interest securities	77	78
Dividends from equities	59	60
Property rents	59	63
Interest on cash deposits and margin accounts	5	5
Income from joint ventures	3	-
Other	4	1
	<u>207</u>	<u>207</u>

Overseas investment income is stated net of withholding taxes.

# Notes to the Accounts

## 7. Investments

	Value brought forward £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value carried forward £m
Fixed interest securities	1,773	1,407	(1,501)	33	1,712
Equities	2,236	851	(850)	325	2,562
Private equity	1,249	152	(274)	74	1,201
Pooled investment vehicles	3,441	660	(720)	585	3,966
Derivative contracts	(67)	657	(658)	126	58
Property	1,032	13	(48)	(25)	972
Other investments	57	17	(15)	3	62
Joint ventures	–	60	(11)	1	50
Cash equivalents	561	–	(197)	3	367
Other financial assets and liabilities	70	–	(76)	2	(4)
	<b>10,352</b>	<b>3,817</b>	<b>(4,350)</b>	<b>1,127</b>	<b>10,946</b>

Following a review of a number of owned entities during the year, the Trustee Directors concluded that the nature of some investments previously accounted for as subsidiaries meant they were more appropriately accounted for as joint ventures. As this does not represent a change in accounting policy opening figures have not been restated, and changes to the categorisation of opening values of £60m have been reflected within sales of other asset classes. This change in treatment has not resulted in any change to the net assets of the Scheme.

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

Transaction costs are included in the cost of purchases and sales proceeds. Transactions costs include costs charged directly to the Scheme, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £3m (2011: £4m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments with pooled investment vehicles. The amount of indirect cost is not separately identified.

## Notes to the Accounts

<b>Investment Assets</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Fixed interest securities	1,712	1,773
Equities	2,562	2,236
Private Equity	1,201	1,249
Pooled investment vehicles	3,966	3,441
Derivative contracts	78	63
Property	972	1,032
Other investments	62	57
Cash equivalents	367	561
Other financial assets	125	154
	<b>11,045</b>	<b>10,566</b>
<b>Investment Liabilities</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Derivative contracts	20	130
Other financial liabilities	129	84
	<b>149</b>	<b>214</b>
<b>Fixed Interest Securities</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
UK public sector quoted	60	57
Overseas public sector quoted	842	968
UK corporate quoted	98	67
Overseas corporate quoted	712	681
	<b>1,712</b>	<b>1,773</b>
<b>Equities</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
UK quoted	576	498
Overseas quoted	1,986	1,735
UK unquoted	-	1
Overseas unquoted	-	2
	<b>2,562</b>	<b>2,236</b>
<b>Private equity</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Private equity	<b>1,201</b>	<b>1,249</b>

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

# Notes to the Accounts

<b>Pooled Investment Vehicles</b>	<b>2012</b>	<b>2011</b>
	<b>£m</b>	<b>£m</b>
Managed funds	<b>3,966</b>	<b>3,441</b>

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

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

The majority of the Scheme's pooled funds represent unitised insurance policies 2012: 87.3%, (2011: 99.7%) with the balance being other managed funds.

At the year-end the holding in the L&G North America Equity index fund represented 16.9% of Scheme assets (2011: 17.4%).

<b>Derivative Contracts</b>	<b>Asset</b>	<b>Liability</b>	<b>Net position</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Options	-	-	-
Futures	-	(1)	(1)
Swaps	4	(5)	(1)
Forward foreign exchange	74	(14)	60
	<b>78</b>	<b>(20)</b>	<b>58</b>

## Options

<b>Type of Option</b>	<b>Expiration</b>	<b>Underlying investment</b>	<b>Notional principal</b>	<b>Asset</b>	<b>Liability</b>
			<b>£m</b>	<b>£m</b>	<b>£m</b>
Purchased FX Call	4 months	Currency Contracts	5	-	-
Purchased FX Put	1 month to 3 months	Currency Contracts	-	-	-
Written FX Put	3 months to 12 months	Currency Contracts	-	-	-

The notional amount of outstanding contracts represents the value of underlying stock.

## Futures

The Scheme holds long and short interest rate and index future contracts with economic exposure of £95m and (£262m) respectively. The majority expire within three months and are held in Sterling, Euro, Yen, Australian Dollars, Canadian Dollars and US Dollars.

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

# Notes to the Accounts

## Swaps

Contract	Expiration	Nature of Swap	Notional principal £m	Asset £m	Liability £m
Interest rate swaps (OTC)	1-11 years	Paying and receiving fixed for floating	303	3	(3)
Credit default swaps	1-38 years	Buying & selling credit exposure	113	1	(2)
Cross Currency Swaps	1-9 years	Buying & selling loans denominated in foreign currency	26	-	-
				<u>4</u>	<u>(5)</u>

Interest rate swaps are in Brazilian Real, Chilean Peso, Chinese Renminbi, Euros, Sterling, Indian Rupee, Polish Zloty, Mexican Peso, New Turkish Lira, South African Rand, Swiss Francs and US Dollars.

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

## Forward foreign exchange

	Bought £m	Sold £m	Asset £m	Liability £m
US Dollar	1,076	(3,183)	57	(4)
Euro	249	(928)	1	(5)
Yen	97	(419)	7	-
Other	401	(952)	9	(5)
Sterling	5,174	(1,455)	-	-
	<u>6,997</u>	<u>(6,937)</u>	<u>74</u>	<u>(14)</u>

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

<b>Property</b>	<b>2012 £m</b>	<b>2011 £m</b>
UK	<u>972</u>	<u>1,032</u>
<b>Other investments</b>	<b>2012 £m</b>	<b>2011 £m</b>
Indirect property holdings	<u>62</u>	<u>57</u>
<b>Joint ventures</b>	<b>2012 £m</b>	
Investment assets in joint ventures	192	
Investment liabilities in joint ventures	(92)	
Net investment in joint ventures	<u>100</u>	
<b>Minority interest</b>	<u>50</u>	
<b>Scheme interest in joint ventures</b>	<u>50</u>	

# Notes to the Accounts

	2012 £m	2011 £m
<b>Cash equivalents</b>		
Sterling	296	401
Foreign currency	71	160
	<u>367</u>	<u>561</u>

	2012 £m	2011 £m
<b>Other financial assets and liabilities</b>		
Amounts due from broker	83	116
Other debtors	7	7
Outstanding income and recoverable withholding tax	35	31
Amounts due to brokers	(102)	(52)
Other creditors	(27)	(32)
	<u>(4)</u>	<u>70</u>

## 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 debtors above, and movements in the AVC fund value are included in the Fund Account. The AVC fund value at 30 September 2012 was £0.3m (2011: £0.3m).

<b>8. Investment management expenses</b>	2012 £m	2011 £m
Administration, management and custody	32	29
Other advisory fees	1	1
	<u>33</u>	<u>30</u>

<b>9. Current assets</b>	2012 £m	2011 £m
Prepaid benefits	8	27
Cash at bank	10	71
	<u>18</u>	<u>98</u>

<b>10. Current liabilities</b>	2012 £m	2011 £m
Tax and VAT	4	5

## 11. Related party transactions

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

The Secretary of State for Energy and Climate Change acts as Guarantor to the Scheme.

During the year ended 30 September 2012 the Government received £31m from the Scheme (2011: £31m). This payment represents the Government's share of the surplus arising from the 2005 Actuarial Valuation.

The Scheme owns UK Government bonds which at the year-end had a market value of £61m (2011: £57m).

Three members of the Committee of Management are in receipt of a pension from the Scheme. The aggregate amount paid was £33,372 (2011: £31,737).

# Notes to the Accounts

Members of the Committee of Management are entitled to receive remuneration from the Scheme. The total remuneration paid to the Trustee Directors in the year was £207,065 (2011: £198,897) and is detailed in the Trustee's Report.

Coal Pension Trustees Services Limited is jointly owned by the Scheme and BCSSS with each appointing four members of their Committees of Management as directors. CPT costs which are in respect of support services are included within Pension administration costs in note 5 and were £3m (2011: £4m).

The Scheme and BCSSS jointly invest in properties and partnerships with a value to the Scheme of £133m (2011: £149m).

## 12. Market value of Sub-funds

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

	Guaranteed Fund	Bonus Augmentation Fund	Investment Reserve	Guarantor's Fund	Total Assets
	£m	£m	£m	£m	£m
<b>Market values at 30 September 2011</b>	<b>8,979</b>	<b>1,144</b>	<b>118</b>	<b>204</b>	<b>10,445</b>
Transfers in respect of Early Retirement Factors	(18)	18	-	-	-
Transfer of surplus to Investment Reserve	(785)	-	785	-	-
<b>Revised values at 30 September 2011 following Actuarial valuation</b>	<b>8,176</b>	<b>1,162</b>	<b>903</b>	<b>204</b>	<b>10,445</b>
Benefits paid	(572)	(173)	-	-	(745)
Payment due to Guarantor	-	-	-	(31)	(31)
Allocation of income, expenses and movement in net asset values	1,015	139	115	22	1,291
<b>Market values at 30 September 2012</b>	<b>8,619</b>	<b>1,128</b>	<b>1,018</b>	<b>195</b>	<b>10,960</b>

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

**Guaranteed Fund** - this is used to fund the pensions which accrued before the Scheme was restructured in October 1994, including the benefit improvements which were made immediately prior to restructuring. Such pensions are guaranteed to increase in line with RPI. A deficit in the Guaranteed Fund is met first by a call on the Investment Reserve, then by equal calls on the Bonus Augmentation Fund and Guarantor's Fund. Any surplus in the Guaranteed Fund is first used to repay any previous transfers from the Investment Reserve, with any remaining surplus thereafter being split equally between the Bonus Augmentation Fund and the Guarantor's Fund. The £785m transfer shown above represents a partial repayment of the transfer to the Guaranteed Fund from the Investment Reserve after the 2008 valuation. It is made up of the £774m surplus in the Guaranteed Fund at the 2011 valuation plus a further £11m allowance for projected future expenses.

**Bonus Augmentation Fund** - this represents the members' share of surpluses arising from Actuarial Valuations since 1994 and is used to fund bonus pensions. A deficit in this Fund would lead to bonuses being restructured and becoming reducing amounts over time.

**Investment Reserve** - this originally represented the Guarantor's share of surpluses present in the scheme at the time of restructuring in 1994. Ultimately it is due to all be paid to the Guarantor, but whilst it remains in the Scheme can be used to support the Guaranteed Fund as described above.

**Guarantor's Fund** - this represents the Guarantor's share of surpluses arising from Actuarial Valuations since 1994, which is paid out to the Guarantor over 10 years. The £31m payment shown above is an instalment of the Government's share of the surplus in the Guaranteed Fund at the 2005 valuation.

When a member chooses to take early retirement, the Trustee applies a common reduction factor to the benefits payable from the Guaranteed Fund and the Bonus Augmentation Fund. This generally leads to a surplus arising in the Guaranteed Fund and a (broadly) equal deficit in the Bonus Augmentation Fund. A transfer is made from the Guaranteed Fund to the Bonus Augmentation Fund to offset this effect. Such transfers are calculated on a triennial basis. The transfer of £18m shown above covers the period between the 2008 and 2011 valuations.

# Notes to the Accounts

## 13. Forward Commitments and Contingent Assets and Liabilities not provided for in the Accounts

### Financial Commitments for investments at 30 September 2012

	Payments due in next financial year	Payments due in later years	Total commitment
	£m	£m	£m
Contractually committed	104	314	418

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 private equity investments of £418m. The timing of private equity investment funding is uncertain and has been estimated. It is assumed £104m (25%) will fall due in the next twelve months and the remaining £314m in later years.

The Guarantor's share of any actuarial surplus is distributed in ten annual payments, subject to review at successive actuarial valuations. £31m was paid to the Guarantor during the year and £50m is payable over the next four years.

Claims for the recovery of UK and overseas tax credits valued at approximately £60m 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 Scheme subsidiary was sold for initial consideration of £33m on 10 October 2007. Further contingent proceeds of up to £41m (at year-end exchange rates) may be payable in the period to 2025 which would give rise to an additional tax liability of approximately £6m.

# Report by the Auditor

## Independent Auditor's Report to the Trustee of the Mineworkers' Pension Scheme

We have audited the financial statements of the Mineworkers' Pension Scheme for the year ended 30 September 2012 which comprise the fund account, the Net Assets Statement and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 9, the Scheme's Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on the Financial Statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2012, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and,
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Ernst & Young LLP  
Statutory Auditor  
London

6 March 2013

1. The maintenance and integrity of the Mineworkers' Pension 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 website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Summary of the Actuarial Review

## as at 30 September 2011

An actuarial review of the Scheme is carried out by the Government Actuary every three years. The most recent review was as at 30 September 2011, and is described in my report dated 3 August 2012.

The main purpose of a review is to determine whether there is a surplus or a deficiency in each of the Scheme's sub-funds by comparing the assets to the liabilities. Under the terms of an agreement reached in 1994, any surplus arising in the Guaranteed Fund (which pays the core pensions) is shared equally between the members and the Government (by means of transfers to the Bonus Augmentation Fund to finance increases in members' pensions and to the Guarantor's Fund to finance phased payments to Government).

The actuarial methodology adopted for the 2011 review reflects the market value of the assets at the valuation date. The liabilities are valued consistently, by choosing assumptions which have regard to current market values. This ensures a fair comparison between assets and liabilities in the valuation balance sheets.

The most important assumptions required to carry out the review are in respect of investment returns, pension increases (in line with prices in the Guaranteed Fund) and mortality.

In the Guaranteed Fund (which contains the members' core benefits, which accrued up to 1994) the value of the benefits was assessed to be £8,187 million (including an allowance for future expenses) and the market value of the assets was £8,961 million. The 2011 review therefore revealed a surplus in the Guaranteed Fund of £774 million. This surplus was used to repay some of the debt which was owed to the Investment Reserve as a result of a transfer from the Investment Reserve to the Guaranteed Fund following the 2008 review.

In the Bonus Augmentation Fund (which contains new pensions awarded to members since 1994, from their share of emerging surpluses) the value of the benefits was assessed to be £1,163 million (including an allowance for future expenses) and the market value of the assets was £1,162 million. This deficiency triggered 'standstill' (whereby level Bonus Augmentations are converted into reducing bonuses, called 'Crystallised Augmentations'). The conversion to Crystallised Augmentations resulted in a surplus of £247 million, which allowed the Trustees to award new Bonus Augmentations in 2012 that increased the members' benefits by 4.65% of Guaranteed Fund benefits. There are no further bonuses planned before the next actuarial review due as at 30 September 2014.

In the Guarantor's Fund (which contains the Government's share of surpluses emerging since 1994) the review revealed a surplus of £65 million on assets of £204 million. Consequently, the outstanding payments to Government from 2012 were increased by 62%, which means that the Guarantor can expect to receive £50 million for each of the following four years.

The Investment Reserve contains the share of the unapplied surplus which was allocated to British Coal at the 1993 review. The market value of the assets in the Investment Reserve as at 30 September 2011 was £118 million. The transfer from the Guaranteed Fund relating to the surplus was equal to £785 million (including an allowance for expenses) resulting in a total of £903 million in the Investment Reserve. There remains a debt owed to the Investment Reserve from the Guaranteed Fund of £398 million. As seen at the previous review in 2008, the Investment Reserve acts as a buffer against adverse experience in the Guaranteed Fund. Given the stated objectives of the trustees and the Guarantor and the uncertain economic climate, I did not consider it appropriate to recommend for any payments to be made to the Guarantor from the Investment Reserve in the period up to the 2014 review.



Trevor Llanwarne - Government Actuary

30 November 2012

# Compliance Statement

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

A printable version of the Pensions Regulator's (TPR) Guidance for Trustees is available from the TPR website: [www.thepensionsregulator.gov.uk](http://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.

Trustees of the Mineworkers' Pension Scheme Limited is registered with the Information Commissioner's Office under the terms of the Data Protection Act 1998.

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

The Scheme has no participating employers.

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

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

Details of pooled funds which represent more than 5% of net assets are shown in note 7 to the accounts.

## Composite Benchmarks

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

## Constitution of the Scheme

The Mineworkers' Pension Scheme is governed by a Definitive Trust Deed and Rules dated October 1994 with subsequent amendments. The registration number of the Scheme with the Pensions Regulator is 10058240.

## Taxation Status

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 a trading activity is not investment income and so will be assessed to tax in the normal way.

## Amendments to the Scheme and Rules

The ninth schedule to the Rules was amended during the year to give effect to the changes arising out of the 2011 Actuarial Valuation.

## Increases to Pensions in Payment

Guaranteed pensions (in excess of any Guaranteed Minimum Pension (GMP) element) are reviewed annually in line with the percentage change in the Retail Prices Index (RPI) in June. The 2012 increase to guaranteed pensions as above, effective from 10 September 2012, was 2.8%. However, standstill was triggered due to the outcome of the 2011 Actuarial Valuation, and any previously awarded bonuses were therefore reduced by the same amount.

Changes to the Guaranteed pension do not apply to the element of the pension in payment representing any Guaranteed Minimum Pension (GMP) which the Scheme is required to provide as a consequence of contracting out of the State pension arrangements as these increases are provided by the State.

The State will pay any increase to the GMP for Scheme membership before 5 April 1988.

The Scheme will pay the first 3% of any annual cost of living increase due on the GMP for Scheme membership after 5 April 1988. In any year that the increase is more than 3% the State will make up the increase to the cost of living level.

As a result of a residue following completion of the 2011 Actuarial Valuation, a one-off increase of 4.65% of guaranteed pensions (including any GMP element but excluding bonuses) was awarded. This increase was effective from 10 September 2012.

## Increases to Benefits in Deferral

Pensions in deferral are generally reviewed annually in line with price inflation either under statutory revaluation or the Guarantee arrangements. Deferred pensioners have also been awarded bonus increases following distributions of members' share of surplus declared at previous Actuarial Valuations.

All increases were in accordance with the Trust Deed and Rules of the Scheme or legislative requirements.

## For more information

A range of publications is available to members.

Requests for copies should be addressed to the Secretary of the Scheme at:

**The Secretary**  
**Mineworkers' Pension Scheme**

**Coal Pension Trustees Services Limited**

Ventana House, 2 Concourse Way, Sheaf Street, Sheffield S1 2BJ.

This is also the registered office of Trustees of the Mineworkers' Pension Scheme Limited.

The Scheme's website, [www.mps-pension.org.uk](http://www.mps-pension.org.uk), gives members access to information about the Scheme, on-line copies of Scheme publications, and forms which can be printed off and used to notify the Scheme of changes in circumstances.

The Scheme can be contacted by email using the facility on the website.

### Other useful addresses and contact details:

#### **The Pensions Advisory Service (TPAS)**

11 Belgrave Road  
London SW1V 1RB

[www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk)

#### **The Pensions Ombudsman**

11 Belgrave Road  
London SW1V 1RB

[www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

#### **Pension Tracing Service**

The Pension Service  
Tyneview Park,  
Whitley Road,  
Newcastle upon Tyne NE98 1BA

[www.direct.gov.uk/en/Pensionsandretirementplanning](http://www.direct.gov.uk/en/Pensionsandretirementplanning)

#### **The Pensions Regulator**

Napier House  
Trafalgar Place  
Brighton BN1 4DW

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)









*Published by:*

**COAL PENSION TRUSTEES SERVICES LIMITED**

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