

# 2014

## Report & Accounts



# MINeworkERS' PENSION SCHEME



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# Membership of Committees

as at 30 September 2014

## 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> ) <sup>1</sup> C Cheetham V Cockerill S O'Connor I Maybury <sup>2</sup>	R Clelland - Scotland, North West England & North Wales A Gascoyne - Derbyshire, Nottinghamshire & Lincolnshire <sup>3</sup> AW Jones - Central & Southern England & South Wales J Stones - Yorkshire & North Lincolnshire A Young - North East England & Overseas
<b>Investment Sub-committee (ISC)</b>	C Cheetham ( <i>Chairman</i> ) I Maybury A Parry <sup>4</sup> I Harwood <sup>4</sup>	A Gascoyne A Young
<b>Risk and Operations Sub-committee (ROSC)</b>	V Cockerill ( <i>Chairman</i> ) S O'Connor	R Clelland J Stones
<b>Discretions and Appeals Sub-committee (DASC)</b>	V Cockerill ( <i>Chairman</i> ) S O'Connor	R Clelland J Stones

<sup>1</sup> Mr Stapleton has been re-appointed by the Committee as Trustee Director and Chairman, for a further three year term to take effect from 10 December 2014.

<sup>2</sup> Mr Maybury was appointed by the Committee as Trustee Director from 21 September 2014. Mr Maybury replaced Mr M Woodmore, who retired as a Trustee Director on 20 September 2014.

<sup>3</sup> Following the election in the Derbyshire, Nottinghamshire & Lincolnshire constituency during summer 2014, Mr J Bonser replaced Mr A Gascoyne with effect from 1 October 2014.

<sup>4</sup> Mr Parry and Mr Harwood are advisers to the Investment Sub-committee.

# Appointments

as at 30 September 2014

<b>Trustee Company</b>	Trustees of the Mineworkers' Pension Scheme Limited
<b>Executive</b>	<b>Coal Pension Trustees Services Limited (CPT)</b> G Mellor, Chief Executive S Dunatov, Chief Investment Officer G Lane, Chief Operating Officer D Whincup, Head of Pensions Strategy & Scheme Secretary <sup>1</sup>
<b>Investment Advisers</b>	Coal Pension Trustees Investment Limited
<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) Genesis Investment Management Limited (Genesis) Goldman Sachs Merchant Bank Division (Goldman Sachs MBD) Goldman Sachs Mezzanine LP (Goldman Sachs 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) Sankaty Advisors, LLC (Sankaty) Schroder Investment Management (UK) Limited (Schroder) Stone Harbor Investment Partners (Stone Harbor) Vontobel Asset Management, Inc (Vontobel) Wellington Management Company Limited (Wellington)
<b>Actuary</b>	M Clarke, Government Actuary <sup>2</sup>
<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 Bank plc (formerly Lloyds TSB Bank plc) RBS Global Banking (Luxembourg) SA
<b>Custodian</b>	JP Morgan Investor Services
<b>Medical Adviser</b>	Dr RM Quinlan RPS Business Healthcare

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

<sup>1</sup> Jonathan Storer resigned as Head of Pensions Strategy and Scheme Secretary on 24 December 2013 and was replaced by Dan Whincup with effect from 1 April 2014.

<sup>2</sup> Martin Clarke replaced Trevor Llanwarne as Government Actuary with effect from 1 September 2014.

# 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 2014.

The Investment Report on pages 9 to 12 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.

Michael Woodmore who had served as a Trustee from 21 September 2005, retired as a Member of the Committee of Management with effect from 20 September 2014. The Committee wishes to put on record its appreciation for the work carried out for the Scheme by Mr Woodmore during his period of office.

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

Alan Gascoyne's term of office as an elected Pensioner Representative Trustee Director for the Derbyshire, Nottinghamshire & Lincolnshire constituency ended on 30 September 2014, following the election in that constituency in Summer 2014. The Committee wishes to put on record its appreciation for the work carried out by Mr Gascoyne for the Scheme during his eight years as an Elected Trustee.

## 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

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

In total, the Sub-committees met on twelve 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 2014, the rate of remuneration for the post of Chairman increased in line with the 2.5% rise in the Index to £66,450 a year, to £52,650 a year for the post of Chairman of ISC, to £36,250 a year for the post of Chairman of ROSC and to £17,250 a year for other members of the Committee.

The total remuneration paid in the year to the members of the Committee was £220,232.

## 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 custodian 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 Equiniti 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, Mrs O'Connor, Mr Jones and Mr Young. The Board met once during the year.

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

## 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 Benefits

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.

## Evaluation of Trustee Performance

The Committee formally evaluates its performance and the performance of its Sub-committees on a periodic basis. An independent Board Effectiveness review was carried out during the year to assist the Trustees in evaluating their performance. This identified that the Committee and Sub-committees were operating effectively and had provided an appropriate balance of review and supportive challenge during the year to the Scheme's Executive (CPT) and the Scheme's advisers and service providers.

# 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 2013</b>	<b>45,401</b>
<b>Additions:</b>	
Reinstatements	27
Pension sharing credits	19
<b>Reductions:</b>	
Retirements	3,782
Deaths	243
Transfers	23
Commutations paid	329
Adjustments*	18
<b>Deferred members at 30 September 2014</b>	<b>41,052</b>
<b>Pensioners in payment at 30 September 2013</b>	<b>169,559</b>
<b>Additions:</b>	
Retirements	3,800
Dependants' Pensions	1,846
Adjustments*	55
Children's pensions	58
<b>Reductions:</b>	
Deaths	8,491
Commutations paid	105
Children's benefits	66
Adjustments*	59
<b>Pensioners at 30 September 2014</b>	<b>166,597</b>

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

During the year, 27 pension sharing orders relating to divorce petitions were received from the courts. In eight cases, the Scheme member's former spouse became entitled to an immediate pension. In 18 cases the member's former spouse became entitled to a deferred pension from the Scheme in their own right (although two of these have since taken their pensions). An external transfer was subsequently taken in the remaining case.

## Actuarial Valuation

An actuarial review is carried out by the Government Actuary usually every three years. However, at the request of the Trustee an actuarial valuation was carried out as at 31 March 2013 and the Sub-fund movements arising from this valuation were reflected in the Report and Accounts as at 30 September 2013. The summary of the Scheme Actuary's Report on the actuarial valuation of the Scheme as at 31 March 2013 is on page 27. The Scheme's next actuarial valuation is as at 30 September 2014 and the results are expected to be published during 2015.

## 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 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.

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 and other assurance reviews, according to a programme of reviews 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's Report and audited financial statements are the responsibility of the Trustee. The Trustee has supervised the preparation of the financial statements, and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis. The financial statements comply with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and:

- 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
- Include a statement that the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes' (revised May 2007) and, as required by the Scheme and Rules, relating to specific disclosure in respect of Sub-funds.

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

During the year the developed world continued to see record low interest rates. At times, rates were even at negative levels in Germany and Japan. This provides further evidence that the global economy is taking longer than hoped to recover from the financial crisis of 2008.

The UK economy was one of the strongest of the world's major economies over the year. The US economy also grew consistently apart from a fall in the first quarter of 2014, but growth in Europe was low and it is possible that a recession has already started on the continent. Despite that, stock markets rose around the world and were up 11.8% in the year to September 2014, as measured by the FTSE All World index.

The ongoing presence of close to zero interest rates in the US, UK, Euro area and Japan helped bond investors who saw yields decline over the course of the year. Consequently the FTSE All Gilt market total return index rose 5.7% in the year.

UK commercial property prices, as measured by the IPD Index, rose 19.7% during the year up to the end of September 2014. Commercial property prices continue to rise as the economy improves.

Sterling strengthened over the course of the year. Money was attracted to the UK given its better growth prospects than in much of the rest of the world. The UK stopped its quantitative easing policy in October 2012 whereas the US and Japan continued. Consequently sterling was relatively attractive against the US dollar and the yen and rose 5.4% in the year against a weighted basket of currencies.

The main investment changes undertaken in the year were to increase holdings in property and private equity. The Scheme also undertook its first exposure to private debt in the fourth quarter of 2013 and has been steadily adding to it during the year. These moves were funded from selling some of its exposure to corporate credit and Opportunities. In August 2014 the Scheme sold some public equity investments, retaining the proceeds in cash. The Scheme also took some positions in derivative markets which provided some downside protection for its holdings in European equities and potentially increased the income from the Scheme's Japanese equity holdings.

The 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	11.12	10.11
3 Years	11.78	11.78
5 Years	9.61	8.36

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

# 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 & Other Cash	1,401
Wellington Global Credit	419
Legal & General Passive EM Debt	290
Sankaty Private Debt	220
BlueBay EM Debt	218
Stone Harbor EM Debt	206
Goldman Sachs MBD Private Debt	60
Goldman Sachs Mezzanine	18
	<hr/> <b>2,832</b>
<b>Equities</b>	
Legal & General	2,212
Private Equity	1,227
BlackRock	488
Edinburgh Partners	430
Lazard	428
Baillie Gifford	428
Cantillon	390
Schroder	266
Genesis	243
Vontobel	223
JO Hambro	222
Other	1
	<hr/> <b>6,558</b>
<b>Property</b>	
LaSalle	1,364
Mezzanine	30
	<hr/> <b>1,394</b>
<b>Opportunities</b>	
Bridgewater	179
Brevan Howard	42
DE Shaw	17
	<hr/> <b>238</b>
	<hr/> <b>11,022</b>
<b>Net Assets at 30 September 2014</b>	

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

# 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	8.4	-
Global Credit	3.8	-
Emerging Market Debt	6.5	7.2
Special Situations Debt	-	5.0
Private Debt	2.7	7.0
<b>Equities</b>		
Public equity	52.6	52.8
Private equity	11.1	11.0
<b>Property</b>	12.7	15.0
<b>Opportunities</b>	2.2	2.0
	<b>100.0</b>	<b>100.0</b>

As noted on page 9 the allocation to cash has temporarily increased due to the reduction in the allocation to public equity. The Trustee has approved a new asset class, special situations debt, which aims to build a diversified portfolio of investments that capitalise from opportunities in niche segments of the debt and credit markets, including distressed debt. The mandate is a complementary source of risk and will be funded from cash.

The increases in allocations to private debt and property will be funded from the reduction in global credit and cash.

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

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

The ten largest public equity holdings at 30 September 2014 were:

	<b>Market Value</b>	<b>Percentage of total Scheme net assets</b>
	£m	%
Google Inc.	86.8	0.79
Baidu Inc.	65.5	0.59
Apple Inc.	50.4	0.46
Amazon.com Inc.	47.4	0.43
Microsoft Corporation	43.0	0.39
Tencent Holdings Ltd.	39.8	0.36
Samsung Electronics Co.	35.9	0.33
Exxon Mobil Corp.	35.1	0.32
Novartis	32.3	0.29
Illumina Inc.	31.0	0.28
	<b>467.2</b>	<b>4.24</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 Investor Services (JP Morgan), who also provides investment accounting, investment performance measurement, securities lending and derivatives valuation services.

Private debt investments are held by MPS Investments Sàrl, a wholly owned subsidiary company domiciled in Luxembourg.

Insight Investment manages most sterling cash balances within their Liquidity funds. RBS Global Banking (Luxembourg) SA operates cash accounts for the purpose of managing the private debt investments. 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 overdraft facilities with JP Morgan Chase Bank, N.A. and Lloyds Bank plc.

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

Property investments are primarily registered in the name of Coal Pension Properties Ltd (CPPL), a nominee company controlled jointly by the Scheme and BCSSS. A trust deed between CPPL and the Scheme establishes that the properties are held on behalf of the Scheme. One property is registered in the name of Darfield Investment Holdings Ltd, a company controlled jointly by the Scheme and BCSSS, and three further property investments are registered in the name of wholly owned subsidiary companies of CPPL. Title deeds are held by firms of solicitors.

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 and value held by the custodian with records maintained by the Scheme's investment managers.

## Corporate Governance

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

## Securities Lending

The Scheme participates in securities lending through its custodian, JP Morgan. Approved borrowers are required to provide collateral valued in excess of securities on loan. Additional controls include limits on lending to borrowers. The Scheme also benefits from an indemnity provided by JP Morgan against losses on borrower default. The value of securities on loan at the year-end was £264m (2013: £347m). The value of collateral provided was £279m (2013: £365m).

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

## Currency Hedge

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

On behalf of the Trustee:

**Nigel Stapleton** Chairman

**John Stones** Committee Member 4 December 2014

# Fund Account

## Year ended 30 September 2014

	Note	Consolidated 2014 £m	Non- Consolidated 2013 £m
<b>Contributions and Benefits</b>			
Benefits	2	(739)	(749)
Payments to and on account of leavers	3	(3)	(2)
Payments due to Guarantor	4	(750)	(50)
Administrative expenses	5	(9)	(8)
<b>Net Withdrawals from Dealings with Members and the Guarantor</b>		<u>(1,501)</u>	<u>(809)</u>
<b>Returns on Investments</b>			
Investment income	6	212	218
Change in market value of investments	7	978	1,033
Investment management expenses	8	(36)	(33)
<b>Net Returns on Investments</b>		<u>1,154</u>	<u>1,218</u>
<b>Net (Decrease)/Increase in the Fund During the Year</b>		<b>(347)</b>	<b>409</b>
<b>Net Assets of the Scheme as at 1 October 2013</b>		<b>11,369</b>	<b>10,960</b>
<b>Net Assets of the Scheme as at 30 September 2014</b>		<u><b>11,022</b></u>	<u><b>11,369</b></u>

# Net Assets Statement

at 30 September 2014

	Note	Consolidated 2014 £m	Non- Consolidated 2013 £m
<b>Investments</b>			
Investment Assets	7	11,076	11,386
Investment Liabilities	7	(131)	(63)
Investment in joint ventures	7	146	-
<b>Net Investment Assets</b>		<b>11,091</b>	<b>11,323</b>
Minority interest	7	(73)	-
		<b>11,018</b>	<b>11,323</b>
<b>Current Assets</b>	9	12	52
<b>Current Liabilities</b>	10	(8)	(6)
<b>Net Assets of the Scheme at 30 September 2014</b>		<b>11,022</b>	<b>11,369</b>

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 4 December 2014.

Signed on behalf of the Trustee:

**Nigel Stapleton** Chairman

**John Stones** Committee Member

Scheme Registration Number: I0058240

## I. Accounting policies

### Basis of preparation

The Scheme and Rules set out in the Schedule to the Mineworkers' Pension Scheme (Modification) Regulations 1994 and as subsequently amended require the Trustee to prepare financial statements and have them audited. The financial statements have been prepared in accordance with the guidelines set out in the Statement of Recommended Practice (SORP), Financial Reports of Pension Schemes (revised May 2007), published by the Pensions Research Accountants Group and as required by the Scheme and Rules include specific disclosure in respect of the Sub-funds.

### Basis of accounting

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

### Change to consolidated accounts presentation

In the previous year accounts were prepared on a non-consolidated basis as the only remaining Scheme subsidiary had been placed into liquidation during the year. In the current year new Scheme subsidiary undertakings were incorporated for the purpose of the private debt investments and some property transactions. As a result, the Scheme has reverted to producing accounts on a consolidated basis. The results of subsidiary undertakings are included from the date of acquisition and up to the date of disposal using the acquisition method of accounting.

Certain investments, including some property investments, are held on behalf of the Scheme through interests in joint ventures with the British Coal Staff Superannuation Scheme (BCSSS). On consolidation this also results in a minority interest. In the previous year joint ventures were included within the relevant investment asset class by including the Scheme's share of net assets of the joint venture rather than being disclosed separately. In the current year, where the Scheme has significant influence or a direct or indirect interest in management of the business, then that interest is accounted for using the gross equity method in the case of joint ventures and is disclosed separately.

Equity accounting is based upon the latest available accounts for those undertakings with a year-end up to three months prior to that of the Scheme. In the case where a joint venture has a year-end more than three months prior to that of the Scheme, unaudited management information is used. Adjustments are made to align the accounting policies of the relevant undertaking with those of the Scheme where appropriate.

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

### Investment income

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

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

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

Income from joint ventures in the current year is shown separately. In the prior year joint venture income was included under the relevant investment asset class.

### Individual transfers

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

### Benefits

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

### Administrative expenses and investment management expenses

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

# Notes to the Accounts

## Foreign currencies

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

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

## Investment assets

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

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

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

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

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

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

## Derivatives

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

Derivative contracts are included in the Net Assets Statement at fair value.

## Futures

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

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

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

## Forward foreign exchange contracts

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

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

## Options

Exchange traded options are valued at the fair value as determined by the exchange price for closing out the option as at the year-end. Options which are over the counter contracts are valued at fair value using pricing models that consider the time value of money, volatility and market data at the year-end.

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

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

# Notes to the Accounts

## Swaps

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

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

## Sub funds

The Scheme is notionally split into four Sub-funds; Guaranteed Fund, Bonus Augmentation Fund, Guarantor's Fund and Investment Reserve, in accordance with the Rules of the Scheme as set out in the 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 as shown in note 12.

	<b>Consolidated 2014</b>	<b>Non- Consolidated 2013</b>
	<b>£m</b>	<b>£m</b>
<b>2. Benefits</b>		
Pensions	522	517
Dependant benefits	143	147
Commutations and lump sum retirement benefits	74	85
	<u>739</u>	<u>749</u>

	<b>Consolidated 2014</b>	<b>Non- Consolidated 2013</b>
	<b>£m</b>	<b>£m</b>
<b>3. Payments to and on account of leavers</b>		
Individual transfers to other schemes	3	2

	<b>Consolidated 2014</b>	<b>Non- Consolidated 2013</b>
	<b>£m</b>	<b>£m</b>
<b>4. Payments due to the Guarantor</b>		
Payments from the Guarantor's Fund	50	50
Payments from the Investment Reserve	700	-
	<u>750</u>	<u>50</u>

Details of the above payments and future payments to be made to the Guarantor are shown in notes 12 and 13 respectively.

	<b>Consolidated 2014</b>	<b>Non- Consolidated 2013</b>
	<b>£m</b>	<b>£m</b>
<b>5. Administrative Expenses</b>		
Pension administration	8	7
Legal, actuarial and other fees	1	1
	<u>9</u>	<u>8</u>

# Notes to the Accounts

6. Investment income	Consolidated	Non-Consolidated
	2014	2013
	£m	£m
Income from fixed interest securities	67	85
Income from private debt	8	-
Dividends from public equities	61	69
Property rents	65	57
Interest on cash deposits and margin accounts	-	4
Income from joint ventures	3	-
Other	8	3
	<b>212</b>	<b>218</b>

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

Following the addition of new subsidiary undertakings as described in note 1, the Scheme is required to prepare consolidated accounts. As a result, investments in joint ventures and income relating to joint ventures are disclosed separately in the current year. In the previous year they were shown within the respective investment class.

## 7. Investments

	Value brought forward	Purchases at cost and derivative payments	Sale proceeds and derivative receipts	Change in market value	Value carried forward
	£m	£m	£m	£m	£m
Fixed interest securities	1,302	1,012	(1,217)	(52)	1,045
Private debt	-	254	(14)	5	245
Public equity	3,044	827	(1,533)	259	2,597
Private equity	1,196	181	(341)	209	1,245
Pooled investment vehicles	4,517	277	(2,307)	397	2,884
Derivative contracts	45	226	(338)	44	(23)
Property	1,015	182	(58)	105	1,244
Other investments	54	-	(10)	(1)	43
Joint ventures	-	59	-	14	73
Cash and cash equivalents	134	1,517	-	(1)	1,650
Other financial assets and liabilities	16	-	-	(1)	15
	<b>11,323</b>	<b>4,535</b>	<b>(5,818)</b>	<b>978</b>	<b>11,018</b>

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

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme, such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £3 million (2013: £3 million). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect cost is not separately provided to the Scheme.

As described in note 1, joint ventures have been re-categorised and are shown separately, rather than in the investment asset class to which they relate. The purchase of joint ventures shown above reflect the reallocation of the opening assets. The related sales are included in the relevant asset class.

## Notes to the Accounts

	<b>Consolidated</b>	<b>Non-Consolidated</b>
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Investment assets</b>		
Fixed interest securities	1,045	1,302
Private debt	245	-
Public equity	2,597	3,044
Private equity	1,245	1,196
Pooled investment vehicles	2,884	4,517
Derivative contracts	54	55
Property	1,244	1,015
Other investments	43	54
Cash and cash equivalents	1,650	134
Other financial assets	69	69
	<u>11,076</u>	<u>11,386</u>

	<b>Consolidated</b>	<b>Non-Consolidated</b>
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Investment liabilities</b>		
Derivative contracts	77	10
Other financial liabilities	54	53
	<u>131</u>	<u>63</u>

	<b>Consolidated</b>	<b>Non-Consolidated</b>
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Fixed interest securities</b>		
UK public sector quoted	2	21
Overseas public sector quoted	661	741
UK corporate quoted	32	71
Overseas corporate quoted	350	469
	<u>1,045</u>	<u>1,302</u>

	<b>Consolidated</b>	<b>Non-Consolidated</b>
	<b>2014</b>	<b>2013</b>
	<b>£m</b>	<b>£m</b>
<b>Private debt</b>		
Private debt	<u>245</u>	<u>-</u>

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

## Notes to the Accounts

<b>Public equity</b>	<b>Consolidated 2014 £m</b>	<b>Non-Consolidated 2013 £m</b>
UK quoted	489	487
Overseas quoted	2,102	2,549
UK unquoted	1	3
Overseas unquoted	5	5
	<u>2,597</u>	<u>3,044</u>

<b>Private equity</b>	<b>Consolidated 2014 £m</b>	<b>Non-Consolidated 2013 £m</b>
Private equity	<u>1,245</u>	<u>1,196</u>

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

<b>Pooled investment vehicles</b>	<b>Consolidated 2014 £m</b>	<b>Non-Consolidated 2013 £m</b>
Managed funds	<u>2,884</u>	<u>4,517</u>

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

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

The majority of the Scheme's pooled funds represent unitised insurance policies 2014: 91.8%, (2013: 88.4%) with the balance being other managed funds.

<b>Derivative contracts</b>	<b>Asset £m</b>	<b>Liability £m</b>	<b>Net position £m</b>
Futures	1	-	1
Forward foreign exchange	21	(38)	(17)
Swaps	1	(1)	-
Options	31	(38)	(7)
<b>Total</b>	<u>54</u>	<u>(77)</u>	<u>(23)</u>

### Futures

The Scheme holds long and short interest rate and index future contracts with economic exposure of £7 million and (£397 million) respectively. The majority expire in three months and are held in sterling, euro, yen, Australian dollars, Canadian dollars and US dollars. The market values of these positions are an asset of £1 million.

The economic exposure represents the notional value of securities (or bonds) purchased under the futures contract.

## Notes to the Accounts

Forward foreign exchange	Bought £m	Sold £m	Asset £m	Liability £m
US Dollar	230	(760)	2	(12)
Euro	1,041	(715)	3	(23)
Yen	161	(572)	12	-
Other	122	(105)	4	(3)
Sterling	1,693	(1,324)	-	-
<b>Total</b>	<b>3,247</b>	<b>(3,476)</b>	<b>21</b>	<b>(38)</b>

The above table aggregates the exposures to currencies acquired or sold through over the counter forward foreign exchange contracts at year-end sterling values. The Scheme's exposure to Japanese yen is hedged using forward currency contracts that are approximately three months in duration with a third maturing each month whilst those relating to US dollars are hedged on a monthly basis using one month forward currency contracts. Exposure to currencies in relation to the private debt mandate is hedged using forward currency contracts that range from approximately three months to three years in duration.

### Swaps

Contract	Expiration	Nature of Swap	Notional principal £m	Asset £m	Liability £m
Credit default swaps	1 to 48 years	Buying & selling credit exposure	46	1	(1)
<b>Total</b>				<b>1</b>	<b>(1)</b>

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

### Options

Type of option	Expiration	Underlying investment	Notional principal £m	Asset £m	Liability £m
<b>Exchange traded</b>					
Overseas equities - call	2 years	European equity options	396	31	-
Overseas equities - put	2 years	European equity options	(449)	-	(35)
<b>Over the counter</b>					
Overseas equities - call	1 month	Japanese equity options	156	-	(3)
<b>Total</b>				<b>31</b>	<b>(38)</b>

The notional principal represents the value of the underlying stock.

Property	Consolidated 2014 £m	Non-Consolidated 2013 £m
UK	<u>1,244</u>	<u>1,015</u>

Following the change to the basis of consolidation, as described in note 1, joint venture investments of £71 million which relate to Darfield Investment Holdings Limited are now separately disclosed as part of joint ventures investments. In 2013 the equivalent holding of £57 million was included within the amount shown above.

# Notes to the Accounts

<b>Other investments</b>	<b>Consolidated 2014 £m</b>	<b>Non-Consolidated 2013 £m</b>
Indirect property holdings	<u>43</u>	<u>54</u>

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

<b>Joint ventures</b>	<b>Consolidated 2014 £m</b>
Investment assets in joint ventures	206
Investment liabilities in joint ventures	(60)
Net investment in joint ventures	<u>146</u>
<b>Minority interest</b>	<b>(73)</b>
<b>Scheme interest in joint ventures</b>	<b><u>73</u></b>

<b>Cash and cash equivalents</b>	<b>Consolidated 2014 £m</b>	<b>Non-Consolidated 2013 £m</b>
Sterling	1,518	70
Foreign currency	132	64
	<u>1,650</u>	<u>134</u>

Included within the above cash balance is £110 million of collateral held at Legal and General in respect of the equity options described on page 21.

<b>Other financial assets and liabilities</b>	<b>Consolidated 2014 £m</b>	<b>Non-Consolidated 2013 £m</b>
Amounts due from broker	41	36
Other debtors	-	1
Outstanding income and recoverable withholding tax	28	32
Amounts due to brokers	(28)	(30)
Other creditors	(26)	(23)
	<u>15</u>	<u>16</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 financial assets, and movements in the AVC fund value are included in the Fund Account. The AVC fund value at 30 September 2014 was £0.3 million (2013: £0.3 million).

## Concentration of investments

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

	<b>2014 Market Value £m</b>		<b>2013 Market Value £m</b>	
L&G North America Equity Index Fund	1,259	11.4%	1,961	17.2%
L&G Europe (ex UK) Equity Index Fund	Less than 5%		585	5.2%

# Notes to the Accounts

<b>8. Investment management expenses</b>	<b>Consolidated 2014 £m</b>	<b>Non- Consolidated 2013 £m</b>
Administration, management and custody	35	32
Other advisory fees	1	1
	<u>36</u>	<u>33</u>

<b>9. Current assets</b>	<b>Consolidated 2014 £m</b>	<b>Non- Consolidated 2013 £m</b>
Prepaid benefits	4	6
Cash at bank	6	46
Other debtors	2	-
	<u>12</u>	<u>52</u>

<b>10. Current liabilities</b>	<b>Consolidated 2014 £m</b>	<b>Non- Consolidated 2013 £m</b>
Tax and VAT	7	6
Other creditors	1	-
	<u>8</u>	<u>6</u>

## 11. Related party transactions

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

The Secretary of State for Energy and Climate Change acts as Guarantor to the Scheme. A payment was made to the Guarantor during the year of £50 million in respect of surpluses in earlier years. In addition a one-off payment of £700 million was made to the Guarantor from the Investment Reserve on 27 February 2014 as agreed between the Trustee and the Guarantor as part of the discussions relating to the Actuarial Valuation at 31 March 2013.

The Scheme owns UK Government bonds which at the year-end had a market value of £2 million (2013: £21 million).

Four members of the Committee of Management are in receipt of a pension from the Scheme. The aggregate amount paid was £47,778 (2013: four members, £47,058).

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 £220,232 (2013: £214,325) 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 pensions administration costs in note 5 and were £4 million (2013: £4 million).

The Scheme and the BCSSS jointly invest in properties and partnerships with a value to the Scheme of £148 million (2013: £134 million).

# Notes to the Accounts

## 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 2013</b>	<b>8,080</b>	<b>1,277</b>	<b>1,633</b>	<b>379</b>	<b>11,369</b>
Transfers in respect of serious ill health benefits	11	(11)	-	-	-
Payments due to Guarantor	-	-	(700)	(50)	(750)
Benefits paid	(562)	(179)	-	-	(741)
Allocation of income, expenses and movement in net asset values	847	129	133	35	1,144
<b>Market values at 30 September 2014</b>	<b>8,376</b>	<b>1,216</b>	<b>1,066</b>	<b>364</b>	<b>11,022</b>

The most recent actuarial valuation was carried out as at 31 March 2013, and was dated 21 February 2014. The Sub-fund movements arising from that valuation were reflected in the prior year's accounts as an adjusting post-balance sheet event.

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 the Guarantor's Fund. Any surplus in the Guaranteed Fund is first used to repay any previous transfers from the Investment Reserve, with any remaining surplus thereafter being split equally between the Bonus Augmentation Fund and the Guarantor's Fund.

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

**Investment Reserve** - this originally represented the Guarantor's share of surpluses present in the Scheme at the time of restructuring in 1994. Ultimately it is all due to be paid to the Guarantor, but whilst it remains in the Scheme can be used to support the Guaranteed Fund as described above. The payment of £700 million shown in the table above was made following a signed agreement between the Trustee and the Guarantor as part of discussions relating to the additional actuarial valuation as at 31 March 2013.

**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. Following the September 2011 valuation, the Actuary recommended that the remaining four payments in the existing series arising from the September 2005 surpluses should be increased to £50 million with effect from 1 October 2012. The second of these payments of £50 million is shown in the table above. Following the March 2013 valuation, with effect from 1 October 2014, the remaining two payments of £50 million will be increased to £62 million. An additional new series of ten annual payments of £30.1 million, arising from the March 2013 Valuation, will also commence from 1 October 2014.

The transfer of £11 million from the Bonus Augmentation Fund to the Guaranteed Fund is a reallocation of serious ill health benefits paid in earlier years. The transfer includes an allowance for investment returns in the relevant periods as advised by GAD.

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

Forward commitments comprises expenditure on investments authorised and contractually committed before the year-end which is not provided for in the accounts as it is not yet due. This includes property purchases of £34 million, private equity investments of £534 million and private debt investments of £67 million. The timing of private equity investment funding is uncertain and has been estimated. It is assumed £134 million (25%) will fall due in the next twelve months and the remaining £400 million in later years. Forward commitments in relation to private debt investments are usually paid within two months. Property commitments were paid within one month of the year-end.

The Guarantor's share of any actuarial surplus is distributed in ten annual payments, subject to review at successive actuarial valuations. £50 million was paid to the Guarantor during the year and £92.1 million (being £62 million and £30.1 million as described above) was paid on 1 October 2014. A further £92.1 million is payable in 2015 and then £30.1 million is payable over the eight years from 2016 to 2023.

The balance of the Investment Reserve is all due to be paid to the Guarantor by 2029 unless the Guarantor, after consultation with the Trustee, resolves to bring the repayment forward to 2024.

Claims for the recovery of UK and overseas tax credits valued at approximately £80 million are being processed through the Courts as part of a Group Order with other UK pension funds. Receipts are recognised on a cash received basis.

An investment in the Dakota, Minnesota and Eastern Railroad Corporation held through a joint venture was sold for initial consideration of £33 million on 10 October 2007. Further contingent proceeds of up to £38 million (at year-end exchange rates) may be payable in the period to 2025 which would give rise to an additional tax liability of approximately £6 million.

## 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 2014 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 the Scheme and Rules set out in the Schedule to the Mineworkers' Pension Scheme (Modification) Regulations 1994 and as subsequently amended. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or the opinions we have formed.

## Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 8, 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 report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on the Financial Statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2014, 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 Clause 14 of the Scheme and Rules in respect of specific disclosure in relation to the Sub-funds.

Ernst & Young LLP  
Statutory Auditor,  
London

4 December 2014

# Summary of the Actuarial Review

## as at 31 March 2013

An actuarial review of the Scheme is carried out by the Government Actuary usually once every three years. The last full actuarial review was carried out as at 30 September 2011. At the request of the Trustee, and with the consent of the Guarantor, an additional actuarial review has been carried out as at 31 March 2013. This is described in my report dated 21 February 2014. The next actuarial review will revert to the normal cycle and will be carried out as at 30 September 2014.

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 2013 review reflects the market value of the assets at the review date. The liabilities are valued consistently, by choosing assumptions which have regard to current market values. The 2013 review has been performed using membership data from the September 2011 valuation updated appropriately to value the liabilities rather than requesting and utilising detailed individual membership data at 31 March 2013. This reflects the relatively short period since the previous review and consideration of summary data on the scheme's experience since September 2011 indicating no material unexpected adverse membership experience.

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 £8,308 million (including an allowance for future expenses) and the market value of the assets was £9,227 million. The 2013 review therefore revealed a surplus in the Guaranteed Fund of £919 million. Of this surplus, £496 million was used to repay the remaining 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. The remainder of the surplus (after allowing for the effect of asset transfers on expenses) was transferred in equal shares of £216 million to the Bonus Augmentation Fund and the Guarantor's Fund.

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 £982 million (including an allowance for future expenses) and the market value of the assets was £1,368 million following the transfer of £216 million from the Guaranteed Fund. The surplus of £386 million allowed the trustees to award new Bonus Augmentations in 2014 that increased the members' benefits by 4% of their relevant pension (broadly Guaranteed Fund benefits in excess of Guaranteed Minimum Pensions) and an allocation of £2 million was made to the Discretionary Fund. After the award of these bonuses, £208 million of surplus remained. The Trustee and the Guarantor have agreed that no further bonuses will be paid before the next actuarial review 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 £236 million on assets of £376 million (after the transfer of £216 million from the Guaranteed Fund). Consequently, from 2014 each of the remaining two expected payments to the Government were increased from £50 million to £62 million. Additionally, a new series of ten annual payments to the Government of £30.1 million from 2014 was established.

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 31 March 2013 was £1,126 million. The transfer from the Guaranteed Fund of £496 million results in total assets of £1,622 million in the Investment Reserve. There is no remaining debt owed by the Guaranteed Fund to the Investment Reserve. The Trustee and the Guarantor have previously agreed that a payment of £700 million will be made to the Guarantor from the Investment Reserve, effective by 28 February 2014, whilst the lifetime of the Investment Reserve will be extended from 2019 to 2029 (unless the Guarantor, after consultation with the Trustee, resolves to bring it forward to 2024).



Trevor Llanwarne CB  
Fellow of the Institute and Faculty of Actuaries  
Government Actuary  
6 March 2014

# 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 registration number of the Scheme with the Pensions Regulator is 10058250.

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.

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

The indices against which investment returns are benchmarked are the Barclays Global Aggregate Credit index, JPM Government Bond Index Emerging Market Global Diversified and FTSE All World. The benchmark for total assets is based on the asset allocation benchmarks set by the Committee.

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.

## Changes to the Scheme Constitution, Rules or Basic Information

### Constitution of the Scheme

The Mineworkers' Pension Scheme is governed by a Definitive Trust Deed and Rules dated October 1994 with subsequent amendments.

### Amendments to the Scheme and Rules

The Rules were amended during the year to give effect to the changes arising out of the 2013 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 2014 increase to guaranteed pensions as above, effective from 6 October 2014, was 2.6%. However, due to standstill 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 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 surplus in the Bonus Augmentation Fund, following completion of the 2013 Actuarial Valuation, a one-off increase of 4% of guaranteed pensions (excluding any GMP entitlement) was awarded. The increase was effective from 6 April 2014.

### 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)









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