VAILLANT GROUP PENSION SCHEME

Pension Newsletter October 2015

Message from the Chairman of the Trustees

I am pleased to introduce the Annual Newsletter of the Vaillant Group Pension Scheme (the Scheme), which keeps you up to date on matters affecting the Scheme and which is sent to all Scheme members.

The newsletter, as in previous years, provides a summary of the Trustees' Annual Report for the Scheme year. During the year to 5 April 2015, the Scheme's investments performed positively, returning 11.6% against a benchmark of 10.4%. However, the funding level for the Scheme dropped from 79% to 73% over the year. This drop in the funding level was due to lower gilt yields used to estimate the Scheme's liabilities. However, advanced contributions paid by the Company and higher than expected investment returns on the Scheme's assets reduced the impact.

If you would like a copy of the full report, which includes the Scheme's accounts, please write to the Pensions Department using the details on page 15.

Next year, the Scheme will have its formal triennial valuation with effect from 5 April 2016. The results of this valuation will be expected towards the end of 2016, and members will be updated in a special newsletter during 2017.

Looking at developments after the Scheme year end, the Scheme closed to future accrual with effect from 6 April 2015. All active members of the Scheme as at 5 April automatically joined the Company's Defined Contribution Scheme.

In other Scheme news, Andy Gregory, a Member Nominated Trustee (MNT) for the Scheme, reached the end of his term on 31 July 2015. He was replaced by a new MNT, Steve Adams, whose appointment commenced on 1 August 2015. The Board of Trustees wish to extend their thanks to Mr Gregory for his commitment to the Scheme whilst serving as MNT, and welcome Mr Adams to the Board.

I hope you find the newsletter helpful and informative. Your feedback is very much welcomed.

Mike Hampton
Chairman of Trustees

October 2015

New Pension Flexibility and Choice

There has been a lot in the news recently about the new pension flexibilities and increased choice at retirement. Whilst the changes do not directly affect your benefits in this Scheme as it is a final salary scheme, it does mean that from April 2015, anyone saving for retirement in a defined contribution (DC) or personal pension scheme no longer needs to buy a pension when they come to retire. This may be something which you can take advantage of with other pension benefits you have. If this applies to you, you may be able to:

- Fully withdraw your pension account as cash – but beware as anything over 25% of your pension account will be taxed as income.
- Use your pension account to buy a drawdown product where the balance of the account will remain invested and cash can be withdrawn from it at certain intervals as and when agreed or required until the account is fully spent.
- Use your pension account to buy a guaranteed pension, with or without the first 25% being taken as cash.

These options do not apply to your benefits in this Scheme. However, there is a way that you can achieve the same level of flexibility, and that is to transfer your benefits under this Scheme into an arrangement that has the DC flexibility. Under the Rules of the Scheme, such transfers are only allowed before age 64 and before you have started to take a pension. For the vast majority of Scheme members this is unlikely to be an attractive option.

To protect individuals, the Government now requires that any individual looking to transfer benefits worth £30,000 or more out of a final salary scheme must take, and pay for, independent financial advice. This is to ensure that you do not lose valuable benefits. As such, even if your benefits are less than £30,000 it is still strongly recommended that you take financial advice before transferring. The adviser must be authorised and regulated by the Financial Conduct Authority (FCA).

For help finding an independent financial adviser in your area, visit **www.moneyadviceservice.org.uk** and search 'choosing a financial adviser'. Alternatively you can use **www.unbiased.co.uk**

Pension Scams – a word of warning

Whilst pensions have become more flexible from April 2015, legislation will still not allow access to benefits before the age of 55 (unless you meet the Scheme requirements for ill health). If you are approached by anyone offering early access to your benefits it is very likely to be a scam!

The changing pension landscape has also led to scammers preying on members looking to make the most of the new flexibilities. Therefore you should always take appropriate independent advice from an FCA authorised adviser if you are considering transferring your benefits out of the scheme.

You can read more about pension scams by looking at:

www.thepensionsregulator.gov.uk/pension-scams

Cashing in small pensions

The Government has introduced some changes to the rules on small pensions. If you have savings in a pension scheme worth less than £10,000 then this can be taken wholly as cash (with the first 25% being paid tax-free). Individuals can take up to three separate small pensions in respect of their retirement savings under different schemes.

Alternatively, if the total of your pension savings across all schemes have a value of less than £30,000, then these can all be taken as cash.

Please note, under the rules of this Scheme, you currently need to be aged at least 60 to take up this option, and have not yet started to receive your pension.

Tax allowance changes

Income tax changes

The Government will increase the income tax personal allowance from £10,600 for the 2015/16 tax year to £11,000 from 6 April 2016. The higher rate threshold, above which individuals pay income tax at 40%, has also been increased to £43,000.

The basic, higher and additional rates of income tax for employment income will remain at 20%, 40% and 45% respectively.

Lifetime Allowance

The Lifetime Allowance is the maximum amount of tax efficient pension savings which can be made over a person's lifetime. Currently this is £1.25 million but the Government has announced that this will reduce to £1 million from 6 April 2016. Protection will be available up to the existing £1.25 million where individuals have already accrued sufficient pension benefits to be caught by the reduced allowance. Please note that the vast majority of members will not be affected by the reduced allowance.

State Pension age is on the rise

The State Pension age will increase from 65 to 66 between March 2019 and September 2020. It will then increase from 66 to 67 between April 2026 and April 2028 and then again from 67 to 68 between April 2044 and April 2046.

This has no impact on the Scheme as your Normal Retirement Age under the Scheme is not linked to State Pension age.

However, in the recent Budget announcement, the Government also stated its intention to increase the minimum age at which an individual can begin to draw a pension (currently age 55) so that it remains broadly 10 years before State Pension age. As a result, the minimum retirement age is expected to rise to 57 in 2028.

Changing State Pension benefits

The Government are in the process of introducing a new, single-tier State Pension which will be based on your age and National Insurance record. The main points to note are:

- If you reach State Pension age before 6 April 2016 you will not be affected.
- If you contribute entirely to the new single-tier scheme, it will replace today's complicated State Pension.

If you would like an estimate of what pension you can expect from the State, you can find this at:

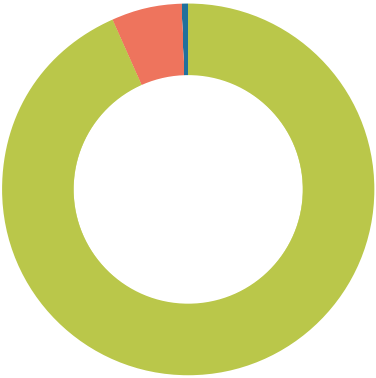
www.gov.uk/calculate-state-pension

Review of the Accounts

At 5 April 2015 the net assets of the Scheme were £549.5 million compared with £493.3 million as at 5 April 2014. The increase in the value of the Scheme's assets is a result of significant investment returns during the year and the Company paying deficit reduction contributions.

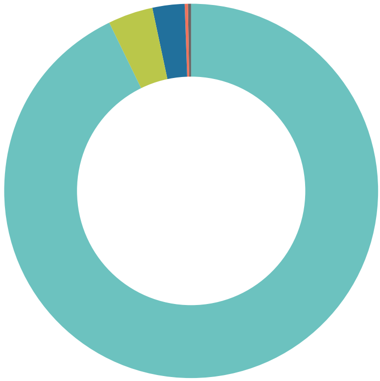
Receipts and Payments 2014/2015

Cash received



Contributions	£29.8m
Investment income received	£2.0m
Other	£0.1m
Total	£31.9m

Cash paid



Benefits paid	£26.2m
Leavers	£1.1m
Administration expenses	£0.8m
Life assurance premium	£0.08m
Investment management fees	£0.03m
Total	£28.2m*

*rounded to nearest £100,000

Fund Movement

Payments less receipts
£3.7m

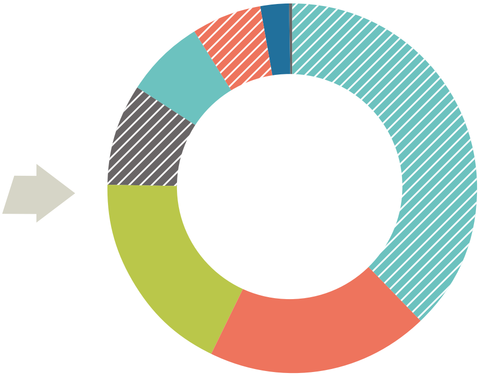
Change in market value of investments
£52.5m

Net increase in fund
£56.2m

What assets does the scheme invest in?

The Trustees invest contributions in a range of assets and the amounts invested in a particular class of assets are as follows:

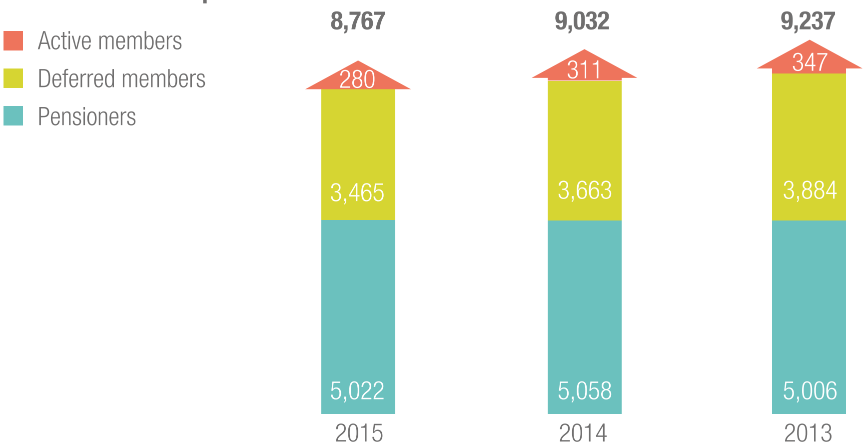
% allocation of assets



Asset type	% allocation	Asset value (£)
Fixed income	37.9	208,046,308
UK equities	19.4	106,461,304
Global equities	18.2	100,102,668
GARS*	8.9	48,647,528
Emerging markets	6.9	37,700,027
European loan fund	6.1	33,881,724
Cash and other balances	2.5	13,499,108
AVCs	0.1	877, 118
Total	100	549,215,785

*Global Absolute Return Strategies (similar to a diversified growth fund)

Scheme Membership



Scheme closure update

As members are already aware, the Scheme closed to future accrual with effect from 5 April 2015, and all active members at that date joined the Company's DC Scheme.

The Scheme Administrators issued deferred benefit statements to those members at the end of June. It is important to keep this statement in a safe place as you will not automatically be sent a new statement each year, although you are able to request one.

Please note – this change does not impact members who had already left the scheme before 5 April 2015.

New Member Nominated Trustee

In May 2015, we issued a newsletter requesting nominations for the position of Member Nominated Trustee (MNT). By the end of May two members, who both met the criteria, had put their names forward. A selection panel interviewed the eligible nominees and, after consideration, decided to appoint Mr Steve Adams as your new MNT. We would like to give our thanks to Andy Gregory for his work whilst serving as an MNT.

Summary Funding Statement

Why have you sent me this Summary Funding Statement?

The Trustees are required to issue an annual Summary Funding Statement to update all members on the financial security of the Scheme. This statement gives details of the latest three-yearly valuation of the Scheme undertaken as at 5 April 2013.

How is the Scheme's financial security measured?

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's 'liabilities'.

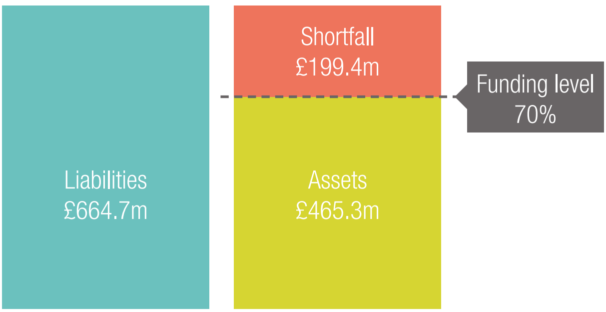
The Trustees receive contributions from the Company and invest these to help provide your benefits. The contributions and investments of the Scheme are known as 'assets' and are held in a communal fund for the benefit of all members.

To check the Scheme's financial security, the Trustees look at its financial position and compare the value of its liabilities to its assets. If the Scheme's assets are less than its liabilities, there is a shortfall or deficit. If the assets are more than the liabilities then the Scheme is in surplus.

Every three years the Trustees carry out an in-depth look at the Scheme's finances, which is known as an actuarial valuation. This is undertaken by an actuary, who is a qualified professional and independent of the Scheme.

What is the Scheme's financial position?

The latest actuarial valuation of the Scheme showed that on 5 April 2013:



Although there was a shortfall at 5 April 2013, all members who have retired have still received the full amount of their pension and will continue to do so.

Is the shortfall at 5 April 2013 going to be paid off and, if so, how will this be done?

The Company and the Trustees have agreed a new recovery plan to deal with the 2013 shortfall, which replaced the one previously agreed following the completion of the 2010 valuation. The Company agreed to pay deficit contributions between 2014 and 2024 as follows:

- a one-off payment of £12m by 5 April 2014
- £10 million between January 2014 and April 2014
- £20 million a year from May 2014 to April 2017
- £17 million a year from May 2017 to April 2024
- £8.5 million for the six-month period between May 2024 and October 2024.

"In December 2014, the Company paid to the Scheme £20 million of the contributions due in 2015 as an advance payment."

In December 2014, the Company paid to the Scheme £20 million of the above contributions due in 2015 as an advance payment.

To calculate the amount of the shortfall, assumptions have to be made about what will happen in the future, for example, improvements in life expectancy, changes to the future rate of inflation and the rate at which the Scheme's assets will grow. These assumptions need to be exactly right for the shortfall to be paid off by October 2024.

What has happened to the Scheme's financial position since 5 April 2013?

The Actuary is required by law to provide the Trustees with an update of the Scheme's financial position each year when a full valuation is not being undertaken.

At 5 April 2015 the deficit was £204.3 million, which is equivalent to a funding level of 73%. This fell short of the expected funding level of 77%, based on the assumptions used for the 2013 valuation. The drop in the Scheme's funding position compared to that expected is due to lower gilt yields, which are used to estimate the Scheme's liabilities. However, the advanced contributions paid by the Company and higher than expected investment return on the Scheme's assets has helped reduce the impact of lower gilt yields.

The next three-yearly valuation will be carried out as at 5 April 2016 with the results expected to be known sometime during 2017.

How safe is my pension?

The Trustees' objective is to ensure that there is enough money in the Scheme to pay pensions now and in the future, but this depends on the Company carrying on in business and continuing to pay for the Scheme. This cannot be guaranteed.

If the Company goes out of business or decides to stop paying for the Scheme, the Trustees would expect the Company to pay the Scheme enough money to secure from an insurance company all the benefits built up by members. This is known as the Scheme being 'wound-up'.

What happens if the Scheme is wound up and there is not enough money to pay for all my benefits?

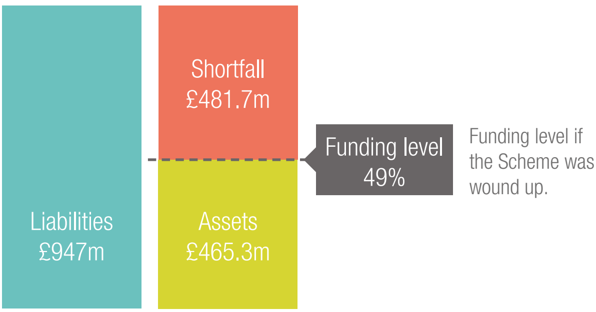
If the Scheme winds up without enough money to buy all the benefits with an insurer then, unless the Company can afford to pay the difference, you are unlikely to receive the full benefits you were expecting. To help members in this situation, the Government set up the Pension Protection Fund (PPF). The PPF provides compensation to members where their pension scheme or employer cannot cover the cost of their benefits with an insurer.

If the Scheme were to be wound up and go into the PPF, the pension you would receive from the PPF may be less than the full benefit you have earned in the Scheme.

Further information and guidance is available on the PPF website at **www.pensionprotectionfund.org.uk** or you can write to the Pension Protection Fund at Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

Is there enough money in the Scheme to provide my full benefits if the Scheme was wound up?

The actuarial valuation at 5 April 2013 showed that the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound-up at that date.



The fact that we have shown the wind up position does not mean that the Company is thinking of winding up the Scheme. It is just another piece of information we are required to show.

If you have any questions, or would like more information, please write to the Pensions Department at the address on page 15.

The Scheme's advisers

The Trustees

The Trustees are responsible for administering the Scheme, paying members' benefits and ensuring the Scheme meets the requirements of pension legislation. The Trustees meet four times a year to discuss matters relating to the Scheme. In addition there are a number of sub-committees that meet as and when required to discuss matters such as investment strategy, the performance of the investment managers and the funding of the Scheme.

As at October 2015 the Trustees were:

Trustees appointed by the Company:

Mike Hampton	(Chairman) Independent Trustee appointed on 31 July 2014 to replace Norman Braithwaite who retired on that date
Carolan Dobson	Independent Trustee
Neil Partridge	Human Resources Director, Vaillant Group (UK) Ltd. Deferred member
Steve Wakely	Finance Director, Vaillant Group (UK) Ltd. Deferred member

Trustees nominated by Scheme Members:

Steve Adams	Retired, previously employed by Vaillant Holdings Ltd. Pensioner
Brian Powell	Retired, previously employed by Hepworth Heating Ltd. Pensioner

Advisers to the Trustees:

The Trustees have delegated certain tasks to specialised professional advisers whose performance they monitor. At the Scheme year end the advisers were:

Actuary	H Sime, Mercer
Auditors	PricewaterhouseCoopers LLP
Solicitors	Pinsent Masons LLP
Investment Consultant	Mercer Ltd

More information

The following documents provide further information, and copies can be obtained by putting your request in writing to the Pensions Department:

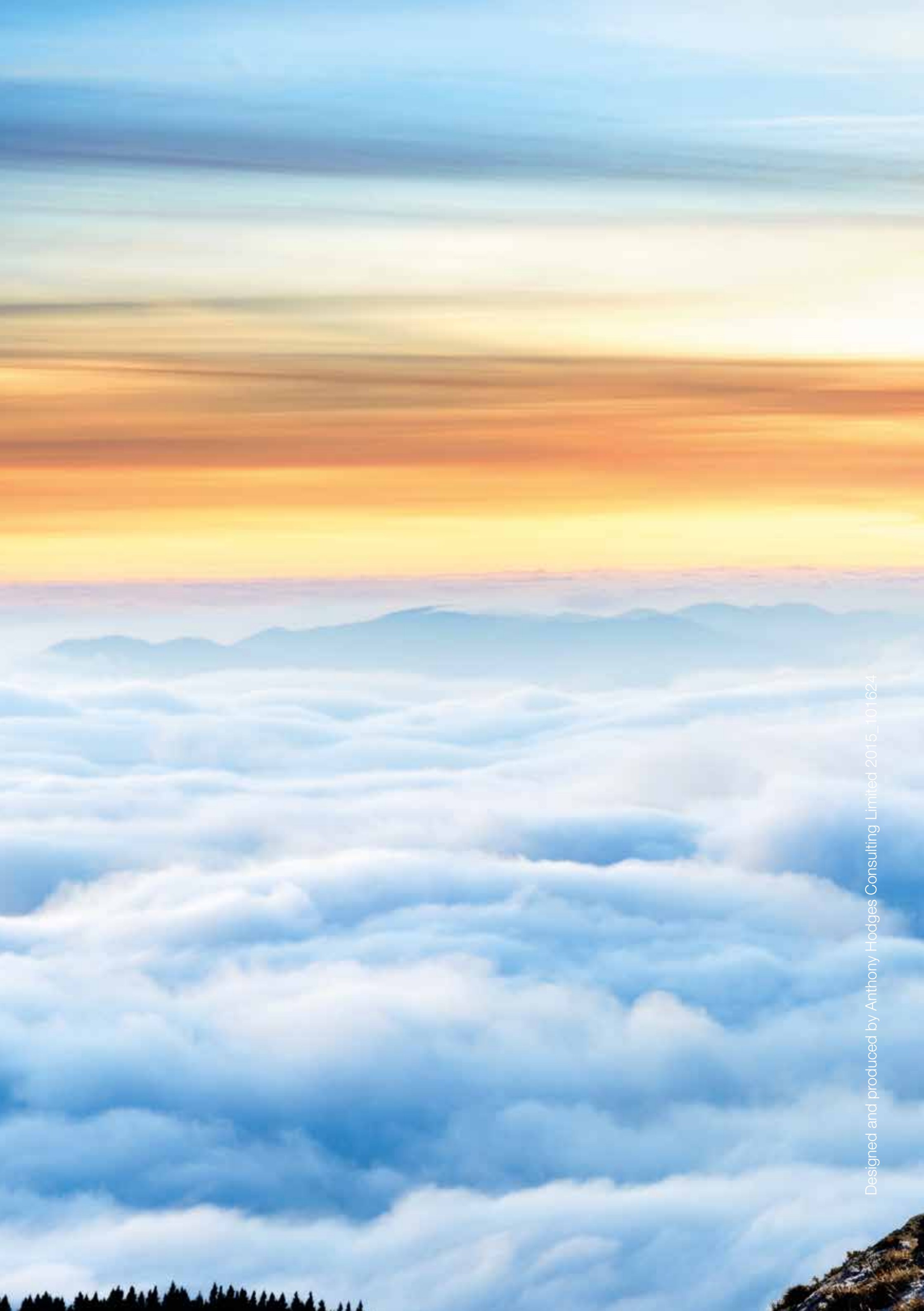
- Statement of Funding Principles. This explains how the Trustees plan to manage the Scheme with the aim of being able to continue to provide the benefits that members have built up.
- Statement of Investment Principles. This explains how the Trustees invest the money paid into the Scheme.
- Schedule of Contributions. This shows how much money is being paid into the Scheme by the Company and the contributing members, and includes a certificate from the actuary showing that the contributions are sufficient to meet the requirements set out by law.
- Annual Report and Accounts. This shows the Scheme's income and expenditure during the year ended 5 April 2015.
- The formal Actuarial Valuation Report as at 5 April 2013 and the Actuarial Report as at 5 April 2015. These contain the details of the actuary's check of the Scheme's situation as at those dates.

Pensions Department

The Company's Pensions Department carries out the administration of members' benefits and you should contact them if you need more information about the Scheme or if you have a specific query about your own benefits. The contact details are:

Vaillant Group Pension Scheme, Nottingham Road, Belper, Derbyshire, DE56 1JT

Telephone: 01773 596048



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