VAILLANT GROUP PENSION SCHEME

Pension Newsletter November 2016

Your Defined Benefit Scheme

Member's message

Welcome to this year's edition of your Pension Newsletter, keeping you updated on matters affecting your pension in the Vaillant Group Pension Scheme (the Scheme).

The year in summary

It has been a difficult year for pension schemes, including this one. Investments returned -0.8% against a benchmark of -0.7% for the year to 5 April 2016. The Scheme is also undergoing its regular health check, known as an Actuarial Valuation. This check is carried out every three years and looks at how much money is in the Scheme, and the cost of the pensions that members have built up in the Scheme.

The last Actuarial Valuation was at April 2013, and the current check is looking at the position of the Scheme at April 2016.

When the 2016 results are known, we will send you the details in a special Newsletter. You should expect this towards the middle of next year. In the meantime, we have included an update on the information we know at this stage on pages 8 and 9.

Electronic newsletters

We are planning on issuing you with electronic newsletters next year, so please can you let us have your current email address so we can let you know when the Newsletter is available. You can do this by contacting us on the email address you wish us to use, confirming your name and date of birth. Please send this to: vaillant.pensions@vaillant-group.com

Also in this Newsletter, we include an update on the following…

Brexit and keeping your pension safe
On page 3, we give an update on what the Scheme is doing in response to the UK's vote to leave the European Union. We also look at how scammers are using the uncertainty surrounding Brexit to persuade savers into making pension transfers into fraudulent pension schemes.

Small pensions
On page 4, we tell you about a change in the rules to accessing small pension funds as a cash sum.

Changes to the State Pension and pension increases
From April 2016, the new State Pension came into effect. You can read about the changes, as well as information on how your pension is increased on page 5.

Accounts and general information
Finally, on pages 6 and 7, you can find out how the Scheme's assets and membership has changed over the year.

I hope that you find the Newsletter helpful and informative. Please let the Pensions Department know if you have any feedback or questions.

Mike Hampton
Chairman of Trustees
2016

Brexit and your pension Scheme

As you will be aware, the UK's referendum on membership of the European Union was held on 23 June 2016 with the result yielding a victory for the 'leave' campaign, with 52% in favour of exiting the EU compared to 48% who voted to remain.

At the time of printing, exactly when the UK will withdraw from the EU, and the terms of the future relationship are not currently known. The Trustees and their professional advisors are monitoring, and will continue to monitor the situation and any impact this may have on the pension Scheme and pension industry. The recent steps taken by the Trustees to move away from UK equities into Global equities (which includes some UK exposure) has put the Scheme's investments in a better position when looking at the risks associated with Brexit. Please see the breakdown of assets on page 7.

Scams – don't lose your savings!

With the economic uncertainties surrounding Brexit, pension savers could find themselves at an increased risk from fraudsters trying to steal their hard-earned funds.

Following the outcome of the referendum in June, there have been reports of people being contacted out of the blue by scammers, warning them to transfer their savings to off-shore funds in order to safeguard them from any potential risks of Brexit. Whilst some offers may seem tempting, they could result in you losing some or even all of your savings, so it's important to be vigilant.

It's also important to be wary of anyone offering early access to your pension fund before the age of 55. You can only do this under current pension law if you are ill, and meet certain conditions.

Scammers may attempt to sell you a too-good-to-be-true, 'one-off' investment, usually via a cold call, text message or email, or even in person after calling to your door. They may even attempt to entice you with upfront cash payments.

You may be offered a 'free pension review' to give you the impression that they are honest and independent advisers. However, you should only get a review from an Independent Financial Adviser registered with the Financial Conduct Authority (FCA). You can check whether someone is registered with the FCA by looking on: **https://register.fca.org.uk/**

Please think very carefully if you are looking at transferring your pension, it may stop a lifetime's worth of savings being lost.

In particular, we would strongly advise you not to consider any opportunities which result from a cold call. If you wish to consider transfering your pension you should only seek advise from an Independent Financial Advisor.

Options for small pensions

If you have a small pension, you may be able to take this as a cash sum. This is allowed by law and is different to the pension scams mentioned on page 3, which involve a total transfer of your pension to another scheme.

The rules of this Scheme have recently changed so that you can look at this option from age 55, provided you have not yet started to receive your pension, and if your pension is small enough. Part of the cash sum which can be paid is subject to tax.

If you are interested in looking at this option further, and are over age 55, please contact the Scheme Administrators to find out more (see back page for details).

Pension increases

Whether you are currently receiving your pension, or you are going to get a pension from the Scheme in the future, parts of that pension increase each year in line with inflation.

If inflation is negative, the Scheme does not reduce your pension, but it does mean that no increases will be applied to that part of your pension.

Changes to State Pensions and minimum retirement age

What age will you get your State Pension?

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

Please note, whilst there are changes planned to the age you receive the State Pension, your retirement age under the Vaillant Scheme will not change.

Currently the minimum age at which you can take a private pension is age 55 (unless you are ill and meet certain conditions). This minimum age is broadly 10 years before State Pension age (SPA), so it is expected to rise to age 57 in 2028. This will have an impact on members looking to retire early, although not until 2028.

New State Pension

A new State Pension system started from 6 April 2016. What you might get depends on when you will reach your SPA.

Reaching your SPA before 6 April 2016:

If you had already reached your SPA before 6 April 2016 you will not be affected by the new system.

Reaching your SPA on or after 6 April 2016:

The starting value of the new state pension will be £155.65 a week and you will be required to have 35 qualifying years' of National Insurance contributions or credits to get the full amount. If you do not have the full 35 years you will get a reduced amount, provided you have National Insurance contributions or credits for at least 10 years.

You may get less than the new full State Pension if you were what is known as 'contracted out' before 6 April 2016. The Vaillant Scheme was contracted out, so it is likely that this would apply to you. Contracting out means that your employer's pension scheme has promised to pay part of the State Pension in return for you paying lower National Insurance contributions, whilst you were an active member of your employer's pension scheme.

If you would like an estimate of what state pension you can expect, you can find this at:
www.gov.uk/calculate-state-pension

Review of the Accounts

At 5 April 2016, the net assets of the Scheme were £531.1 million compared with £549.5m million as at 5 April 2015. The decrease in the value of the Scheme's assets is due, in the main to:

- negative overall investment returns experienced by the Scheme;
- an aging Scheme (more benefits being paid out); and
- lower contributions, as the Scheme shut to future accrual from 6 April 2015.

Receipts and payments 2015/2016

Net assets at beginning of year
£549.5m

Cash received

Company contributions	£20.0m
Investment income received	£2.4m
Other	£0.2m
Total	£22.6m

Cash paid

Benefits paid	(£28.1m)
Administration expenses	£0.03m
Investment management fees	(£0.09m)
Transfers	(£1.5m)
Total	(£29.7m)

Fund movement

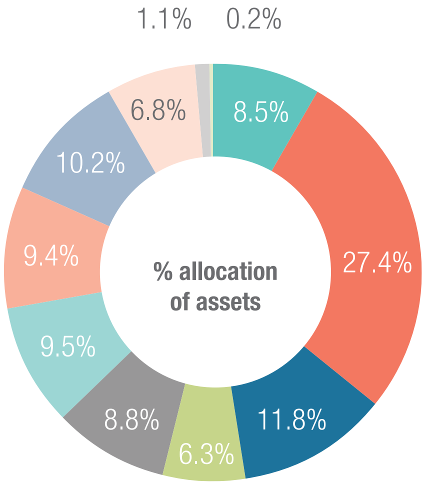
Payments less receipts
(£7.1m)

Change in market value of investments
(£11.3m)

Net assets at end of year
£531.1m

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:

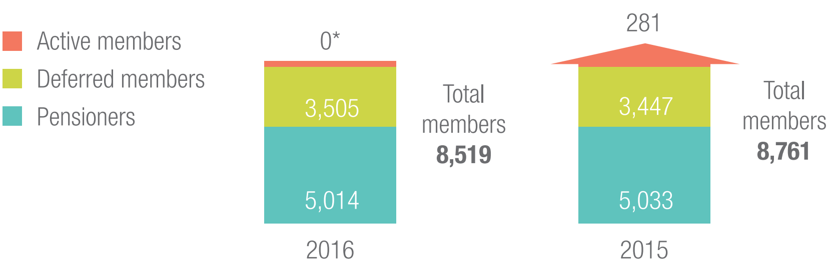


Asset type	Asset value (£)
Global equities	45,462,701
Fixed income	145,741,808
Fixed income – longer duration	62,940,356
European loan fund	33,668,558
GARS*	46,553,050

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

Asset type	Asset value (£)
UK equities passive	50,246,362
Global equities passive	49,999,731
Global equities	53,979,531
Emerging market equities	36,088,958
Cash	5,849,145
AVCs	877,118
Total	**531,407,318**

Scheme membership



* Please note, the Scheme closed to future accrual with effect from 6 April 2015 and as such from that date there are no longer any contributing members.

The funding of your pension Scheme

The latest health check, called an Actuarial Valuation was carried out as at 5 April 2013. The Trustees, Company and advisors are currently working on the Actuarial Valuation as at 5 April 2016 and you will be updated on these results towards the middle of next year.

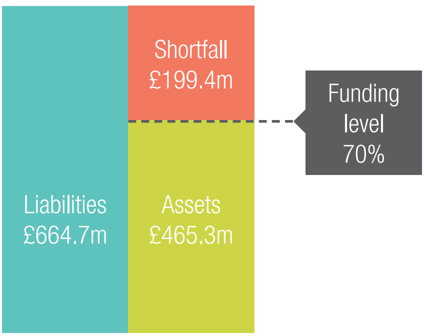
How is the Scheme's financial security measured?

The cost of providing the benefits you and other members have earned in the Scheme are known as the Scheme's liabilities.

The Scheme receives contributions from the Company, and these are invested to help provide your benefits. The money within the Scheme is known as its assets, and they are held for the benefit of all members.

To check the Scheme's financial security, the Trustees estimate the cost of the benefits members have earned, and compare this to the money held within the Scheme.

As at 5 April 2013, it was estimated that benefits worth £664.7 million had been earned in the Scheme, and that the money held by the Scheme at that point was £465.3 million, as is shown below:



What is happening about the shortfall at 5 April 2013?

After the 2013 valuation, the Company and Trustees agreed a payment plan, called a Recovery Plan to address the shortfall in the Scheme. The payments that were agreed are as follows:

- A one-off payment of £12 million 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.

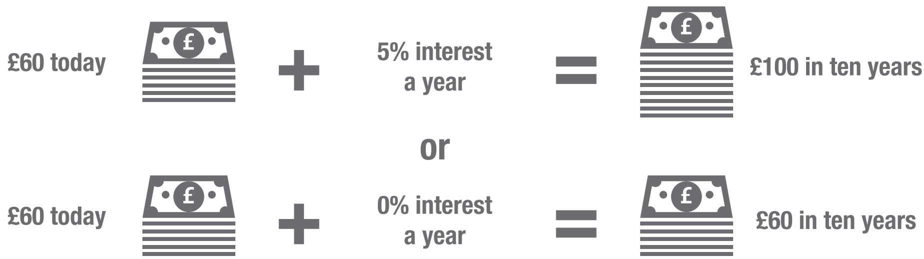
What has happened to the Scheme since 5 April 2013?

How much money the Scheme needs depends on several things, such as interest rates, investment returns, and how long members are expected to live for. We won't know for sure until the results of the 2016 valuation are finalised, but we are expecting that, mainly due to lower interest rates than were expected after the 2013 valuation, the amount of shortfall in the Scheme will have increased.

Why does low interest rates cause the Scheme to have a bigger shortfall?

Low interest rates mean that the Scheme needs to put aside more money now, in order to be able to pay out the benefits members have earned in the future.

For example, if you promised to pay £100 to a friend in 10 years' time, and you were confident that interest rates would be around 5% each year, you could put aside a smaller amount of money now, probably around £60. If interest rates did stay around 5% each year you would be able to pay your friend £100 in 10 years, without having to put any more money aside.



However, if you thought that you would get little or no interest rates for the next 10 years you would probably have to put aside very close to £100 now.

The Scheme values the cost of the pension benefits earned using something called 'gilt yields' which are very closely linked to interest rates.

What are the Company and Trustees doing now?

They are looking at the position of the Scheme at 5 April 2016 and are discussing an appropriate payment plan, taking into account the situation the Scheme was in at that date. As soon as the final figures are known, you will be updated in a special Newsletter next year.

What happens if the Scheme is wound up and there is not enough money for the benefits earned?

Whilst there is no intention to wind up the Scheme, if this were to happen, the Company would need to pay the right amount of money into the Scheme to ensure that your benefits can be paid in full by an insurance company. If the Company does not have enough money to do this, then the Government has set up something called the Pension Protection Fund (PPF). The PPF provides compensation to members where their pension scheme or employer cannot cover the cost of their benefits.

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 earned in the Scheme.

The Scheme's advisers

The Trustees

The Trustees are responsible for looking after your Scheme, and they are currently:

Trustees appointed by the Company:	
Mike Hampton	(Chairman) Independent Trustee
Carolan Dobson	Independent Trustee
Neil Partridge	Human Resources Director, Vaillant Group (UK) Ltd.
Steve Wakely	Finance Director, Vaillant Group (UK) Ltd.

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

The Trustees also use independent advisors, and these are shown in the full report and accounts.

More information

The following documents provide further information, and copies can be obtained by putting your request in writing to the Pensions Department (see back page for contact details):

- 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 within the Scheme.
- Recovery Plan. This shows how much money is being paid into the Scheme by the Company.
- Annual Report and Accounts. This shows the money coming into and out of the Scheme during the year ended 5 April 2016.
- 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 health check of the Scheme's situation as at those dates.

Nomination form reminder

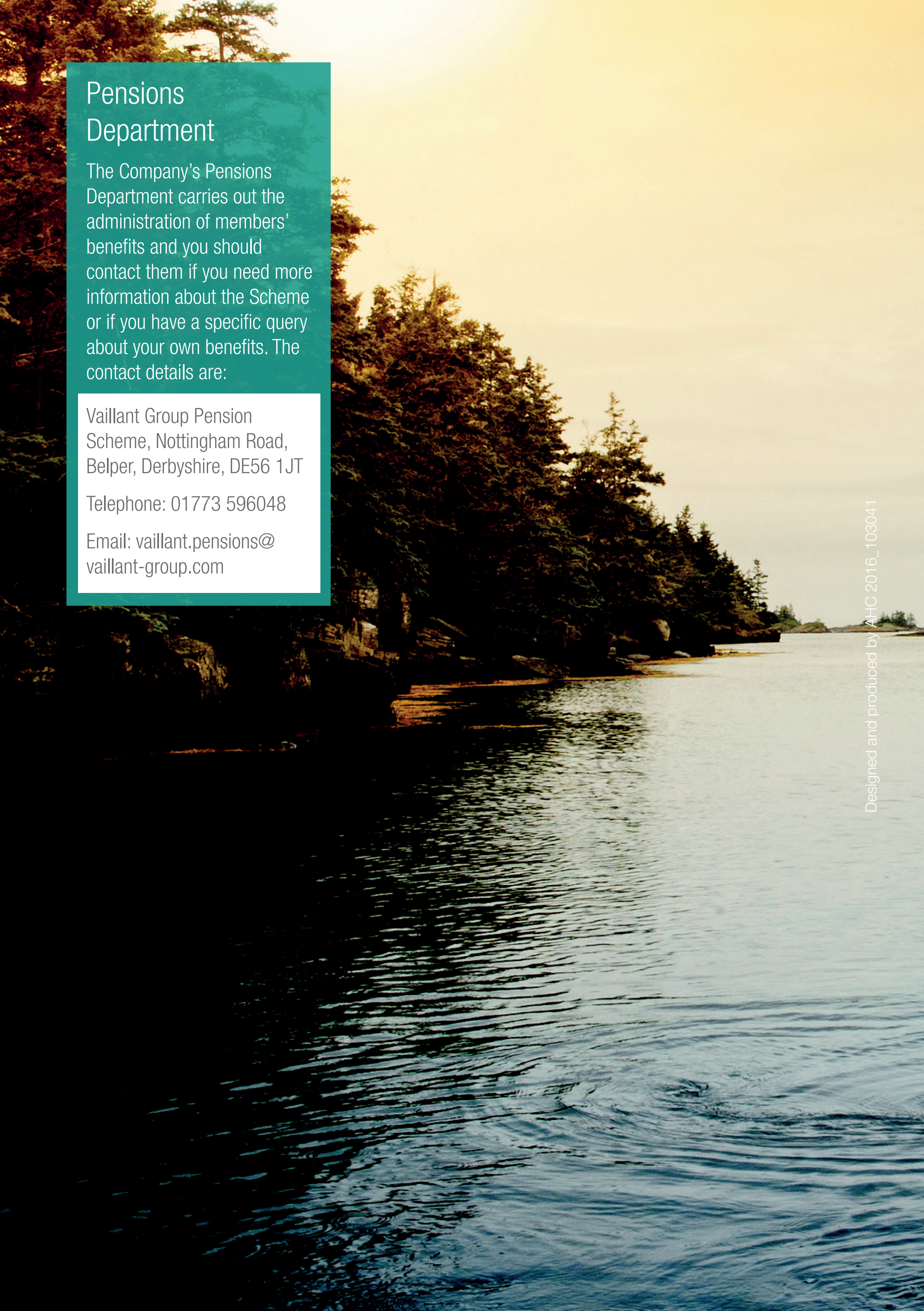
Is your nomination form up to date? It's very important that you complete a nomination form and keep it up to date, especially if your circumstances change. A nomination form lets the Trustees know who you would like to receive any benefits in the event of your death.

The Trustees are not legally bound by your nomination form, but they will take your wishes into account. If you have not yet completed a form or you need to update it, we have enclosed a copy with this Newsletter.

Please see below an example outlining just how important it is to keep your nomination form up to date.

Emma completed a nomination form when she joined the Scheme, naming her mother to receive any death benefits. Emma died suddenly in 2015, having recently got married. The Trustees were placed in a difficult position, as Emma's circumstances at the time of her death had changed substantially and she hadn't updated her nomination form.

The Trustees now had to decide whether to pay benefits to Emma's mother or to her husband, or split the benefits between them. If Emma had kept her nomination form up to date, benefits could have been paid much quicker and Emma's more recent wishes taken into account.



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

Email: vaillant.pensions@vaillant-group.com

Designed and produced by AHC 2016_103041