Summary Funding Statement 31 March 2014

Whether you've already retired, or are some years from retirement, we want to help you understand the financial performance of the Plan and what this means for you and your pension. This report has been prepared by the Trustee to give you key information to help you with this. If you are interested in obtaining more detail on any of the issues covered, further information can be requested using the details given below.

As you read on, please do remember that this division of the Affinity Water Pension Plan is a Defined Benefit arrangement. This means that your pension is linked directly to your final salary and years of service. As such, the peaks and troughs of the Plan's investment performance have no direct impact on your pension. However, such details are important when looking at the financial health of the Plan as a whole. As your Trustee, we are responsible for managing these aspects of the Plan.

What is funding

The funding level measures how much money is available to pay pensions. If it's more than 100%, there is expected to be enough money. If it's less than 100% the Trustee look at plans to make up the extra money either by seeking additional payments from the Company or by aiming to generate additional investment return. The funding position is expected to move up and down over time.

How we calculate how much money is needed

We carefully manage the money in our Plan so that there are sufficient assets to pay each member's benefit when it is due. To check we are making sufficient provisions, we regularly review how much money has built up and how much might be needed in the future. This is calculated based on certain assumptions made by the Actuary, an independent pensions expert, appointed by the Trustee. The Actuary undertakes this assessment of the funding position every three years, it is known as an actuarial valuation.

The results of the March 2013 funding valuation

The most recent valuation of the Plan showed that on 31 March 2013:

- There were £30.1 million assets in the Plan available for paying out benefits.
- The estimated cost of providing benefits for Plan members was £26.1 million (this figure is known as the Technical Provisions, it is derived using a set of prudent assumptions as determined by the Trustee with help from the Actuary).
- This means that there was a surplus of £4 million at 31 March 2013, equivalent to a funding position of 115%.

Further details on the assumptions used in the valuation can be found in the formal valuation documents, see below for details on where to obtain these.

What does this mean to me and my pension?

The assets in our Plan are invested to grow over the long term, and, as with most investments, we expect the funding level to go up and down over time. It's important to remember that while Affinity Water Limited ("the Company") supports the Plan, benefits will continue to be paid in full to all members – even if there is a funding shortfall. The Trustee will continue to monitor the position closely.

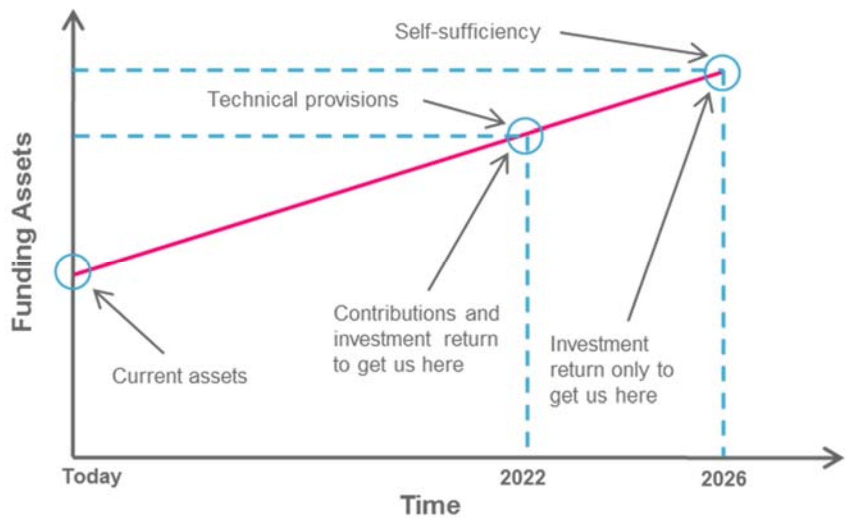
How has the position changed since the 31 March 2013 valuation?

Since the valuation, the estimated funding position of the Plan decreased to 112% in March 2014, with an estimated surplus of £3 million. The change in the funding position reflects the contributions which have been paid into the Plan by members and the Company, as well as changes in financial market conditions, since 31 March 2013.

Strategy for achieving the self-sufficient target

The Trustee's long term strategic objective is to deliver the pensions promised to its members on time and in full without causing a disproportionate financial strain on the Company. Although the funding update as at 31 March 2014 showed a shortfall, the Trustee is confident that the Plan's ongoing funding provisions remain strong, particularly given the ongoing support from the Company. Nonetheless, the Trustee and Company are committed to targeting an even stronger position, a target we are describing as being 'self-sufficient'. To be 'self-sufficient' we are targeting a level of assets for the Plan such that the need for any future reliance on the Company would be limited.

The chart below shows how the Trustee aims to improve the funding position across all four divisions by 2026.



In addition to this long term target, the Company is also considering the desegregation of the final salary divisions to reflect the unification that took place within the Company when Affinity Water was created. As you may be aware there are currently four divisions with different benefit designs, all of which are managed and funded separately. The proposed desegregation would not alter the benefit designs of each division but joining each of these divisions into one central Plan would create operational efficiencies and allow a single long term objective to be pursued consistently between divisions. While there are some clear advantages, the Trustee and Company are working together to ensure that security of member benefits is maintained under such a proposal.

What would happen if the Company could not continue to support the Plan?

We expect that the Plan will continue to have the support of the Company. However, as part of each valuation we must look at what would happen if the Plan were forced to wind up (e.g. if the Company became insolvent).

If this happens, it is possible that your pension or prospective pension might have to be reduced. This is very unlikely though, as while the Company remains solvent and while the Plan continues, benefits will continue to be paid in full even if there is a shortfall.

If the Plan had to wind up, the Company would have to pay extra funds into the Plan so that the Trustee could secure all members' benefits with an insurance company. If the Plan had wound up on 31 March 2013, we estimate we would have needed approximately a further £16.6 million to ensure that all members' benefits could be paid in full. This extra amount is needed because buying a policy from an insurance company is expensive.

If the Company became insolvent, the Pension Protection Fund might be able to take over the Plan and pay limited compensation to members.

For more information visit www.pensionprotectionfund.org.uk

Payment to Affinity Water Limited

We are required to confirm that there has not been a payment to the Company out of Plan funds over the twelve months preceding the date of this Statement and I can confirm this is the case.

Where can I get more information?

If you have any other questions, or would like any more information, please contact Alan Wiseman at:
Affinity Water Limited, Tamblin Way, HATFIELD AL10 9EZ
Email: alan.wiseman@affinitywater.co.uk

Or, why not visit the Plan's website at www.affinitywaterpensions.co.uk to access PensionsWeb, an online tool that's designed to help you review and make decisions about your pension savings.

Documents available on request *(or on PensionsWeb)*

Additional documents available on request	What they contain
Statement of Investment Principles	This explains how the Trustee invests the money paid into the Plan.
Schedule of Contributions	This shows how much money is being paid into the Plan
Annual Report and Accounts	This shows the Plan's income and expenditure over each Plan year
Actuarial Valuation Report as at 31 March 2013	The report shows the funding position at 31 March 2013 and the assumptions and data underlying the calculation
Summary Funding Statement	The report records the objectives and policies of the Trustee in relation to the funding of the four final salary divisions of the Plan.
Pension plan booklet	The booklet contains details on your benefits. You should have been given a copy when you joined the Plan, but you can request another copy
Annual Benefit Statement	All active members (whose addresses we know) receive annual statements of their pension entitlements. If you have not received a benefit statement in the previous 12 months please contact the Plan administrators using the details below:

Contact details for the Plan Administrators

Hymans Robertson LLP
One London Wall, London EC2Y 5EA
Email: Affinity@hymans.co.uk

Please note that all future pension communications will be posted on PensionsWeb, with security in place to ensure that personal details can be seen by your eyes only. Copies will be sent by email to active, pensioner and deferred members where our records include an email address - if you wish to continue receiving a hard copy letter, you must notify Alan Wiseman at the address above. Otherwise, correspondence will continue to be sent by post to pensioner and deferred members.

Budget 2014 – Freedom and choice in pensions

The Chancellor announced significant changes to the pension landscape as part of his 2014 Budget. These changes include giving members of Defined Contribution (DC) pension schemes more flexibility in how they use their pension savings at retirement. However, the Affinity Water Pension Plan – Central Division (the Scheme) that you belong to is a Defined Benefit (DB) pension scheme, so how might the Budget affect you?

Background to the reforms

The focus of the Government's reforms is on DC pension schemes and so the impact on the Scheme is low.

The Government is keen to help members of DC pension schemes who, unlike DB pension scheme members, do not receive a guaranteed pension based on their membership history. Instead they, and their employer, contribute to a personal account which is invested. At retirement the personal account is typically used to buy an annuity (a kind of insurance policy that pays an income for life).

The cost of buying an annuity has been rising steadily over recent years, reducing the buying power of members' personal accounts. Although members can shop around for the best deal, many do not do so and this has contributed to the Government's decision to announce these reforms.

You can find further general information online at www.moneyadviceservice.org.uk

How does this affect you?

Members with low pension benefits at retirement

Some members who have earned only a small annual pension during their membership may prefer to take a cash lump sum instead. The rules around this have been relaxed and we will tell you if you qualify for this option when we send you your retirement claim pack.

Transferring benefits to a DC pension scheme

In the past it has rarely been beneficial to transfer benefits from a DB pension scheme because of the significant guarantees given up. However, some members may now feel that they might benefit from the new flexibility that DC pension schemes could offer them.

Transferring pension benefits between schemes is highly complex and we have always recommended that members seek financial advice before taking any action. However, following a period of consultation, the Government has strengthened these recommendations to a requirement that anyone transferring from a DB pension scheme to a DC pension scheme must take impartial advice from a qualified financial adviser. You can find a financial adviser in your area at www.unbiased.co.uk – you will be responsible for paying for any resulting advice. Information can also be found online at www.moneyadviceservice.org.uk.

You should always check your own personal tax and financial situation before making any decisions.

This letter is based on our understanding of the 2014 Budget Statement and proposed legislation at the time of writing, which is subject to change. Once the final details of the budget changes have been agreed the Trustee Board will undertake a review of the Plan to consider what changes are necessary to the Plan's rules. We will write to members again in the coming months leading up to April 2015 when most of the budget changes come into force.

Yours sincerely,

Richard Brimble

Richard Brimble,
Trustee Chairman

December 2014