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PRIVATE AND CONFIDENTIAL

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Coats Pension Plan: Summary funding statement following the actuarial valuation as at 1 April 2009 and the actuarial report as at 1 April 2010

Purpose of this Statement

The aim of this statement is to provide members with information about the Plan's funding position. It is a legal obligation for the Trustee to provide this information to all members following completion of an actuarial report (often referred to as a funding update) or a full formal valuation. The last statement issued in April 2009 was based on the actuarial report as at 1 April 2008. This statement provides an update following the completion of the full formal actuarial valuation as at 1 April 2009 and the actuarial report (annual update) as at 1 April 2010. As explained in our recent Newsletter, the Actuary has only recently signed off on each of these valuations and so I am only now able to write to you with the results. The next full actuarial valuation will be as at 1 April 2012.

How is the Plan operated?

The Plan is a defined benefit scheme. Under this kind of arrangement, the money to pay for members' pensions is held in a common fund. It is not held in separate funds for each individual. The Trustee's objective is for the fund to be sufficient to pay pensions now and as they fall due in the future.

Results of the formal actuarial valuation as at 1 April 2009

The latest triennial actuarial valuation of the Plan showed that on 1 April 2009 the funding position was as follows:

	£m
Market value of assets:	1,166.0
Amount assessed as needed to provide benefits (liabilities):	1,267.3
Deficit:	101.3
Funding level:	92%

Results of the latest actuarial report as at 1 April 2010

The latest update on the valuation of the Plan showed that on 1 April 2010 the funding position was as follows:

	£m
Market value of assets:	1,385.4
Amount assessed as needed to provide benefits (liabilities):	1,564.1
Deficit:	178.7
Funding level:	89%

How is the Plan's financial security measured?

To check the Plan's financial security, we use an independent professional Actuary to assess the value of the Plan's **liabilities** and compare these to its **assets**, every 3 years. This is known as the triennial valuation, and is a comprehensive review. Annual updates are also carried out by the Actuary when a full valuation is not due, to allow the Trustee to check that there are no major changes that need responding to in the interim. As noted above, the formal triennial valuation was carried out with an effective date of 1 April 2009 and this was followed by the annual update with an effective date of 1 April 2010.

If the value of the assets is less than the value of the liabilities, the Plan is said to have a shortfall or "deficit". If the assets are more than the liabilities there is said to be a "surplus".

It should be noted that the triennial review is carried out on one specific date, as this is what is required by law. This does mean that the surplus or deficit will fluctuate, as the value of the assets changes daily and the value of the liabilities will also fluctuate because of the technical requirements of the way in which they have to be assessed, including the impact of changes to mortality expectations. If members live longer, their pensions have to be paid for longer and therefore the amount required to pay those pensions goes up. Our Plan valuation at 1 April 2009 made adjustments to the mortality assumptions to reflect improvements and this will be reviewed again at the next full valuation.

Changes in funding position since the last summary funding statement

When I last sent you a funding statement, I reported that the Plan had a deficit of £28.7 million based on the actuarial report carried out as at 1 April 2008. At that date the Plan showed a funding level of 98% which compares to the calculated funding level of 92% at 1 April 2009. The deterioration in the Plan's financial position between 1 April 2008 and 1 April 2009 resulted from a number of factors. The investment return on the Plan's assets was lower than expected, as this period included the major setback to markets caused by the credit crunch. In addition a change was made to the mortality assumption at the 1 April 2009 actuarial valuation to update for improving life expectancy, which increased the Plan's liabilities. These factors were partially offset by changes in financial conditions at 1 April 2009, in particular a higher expected future return on Plan assets and a reduction to future price inflation expectations, which acted to reduce the Plan's liabilities.

At 1 April 2010 the funding level in the Plan was 89% compared to 92% at 1 April 2009. The deterioration in the Plan's funding position over this period was due to the effect of a lower expected future return on Plan assets, in particular on bonds, and an increase in future price inflation expectations at 1 April 2010 placing a higher value on the Plan's liabilities. This was offset to a significant extent by the recovery in the asset value over this period.

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

The Trustee and Company agree Plan contributions every 3 years, based on the results of the formal triennial valuation, so these discussions were based on the funding position at 1 April 2009. The Company has agreed to make up the shortfall of £101.3 million as at 1 April 2009 by paying £7 million each year for the next 10 years, with the balance of the shortfall expected to be recovered from future investment returns earned on Plan assets. Our aim is for the shortfall to be paid off by December 2020. Although the deficit increased at 1 April 2010, the Trustee and Company do not consider that further additional contributions are required as the funding fluctuates on a daily basis. The contribution requirements will be reassessed no later than at the time of the next formal valuation as at 1 April 2012.

To calculate the amount of the shortfall, assumptions have to be made about what will happen in the future - for example, the rate at which the Plan's assets will grow. If the assumptions do not all turn out to be exactly right, it may be necessary to increase the level of contributions to the Plan for the shortfall to be paid off by December 2020 or alternatively the shortfall recovery period may have to be extended. If things go better than assumed, the shortfall could be paid off earlier or the level of contributions may be able to be reduced.

How much money is paid into the Plan each year?

Members still in employment within the Coats group pay a fixed percentage (5%) of contributory earnings to the Plan, and the Company's obligation is to pay the balance of the amount needed to meet the Trustee's objective. As explained above, at least every 3 years, the Trustee obtains regular valuations of the benefits promised to members and which have built up to the valuation date. Using this information, the Trustee comes to an agreement with the Company on the level of future contributions to be paid.

Following the completion of the actuarial valuation at 1 April 2009, and following the advice of the Actuary, the Company has agreed to pay contributions of £8.6 million each year to the Plan. The shortfall payments referred to above of £7 million payable each year by the Company are included in these contributions and the remaining annual payments of £1.6m represent the Company's share of the cost of future benefits accrual for current employees.

What would happen if the Plan were to be wound up?

Although we must by law inform you of the funding position if a wind-up had happened as at 1 April 2009, this figure is purely illustrative. The wind up position assumes that benefits will be secured by buying insurance policies. Insurers are required to assume a very low rate of investment return and also include a profit margin and an allowance for their expenses. By contrast, our funding plan assumes that the Company continues to support the Plan financially, while adopting more realistic assumptions about the future. This difference is acknowledged in the Pensions Regulator's approach, as companies are required to bring their schemes' funding levels up to a target of 100% funded on an ongoing basis (i.e. not to the winding up funding level) within an agreed timescale. In circumstances where the financial health of a company is regarded as being sound, companies are not expected to fund their schemes up to a full solvency basis.

The Actuary's calculations for the triennial actuarial valuation report as at 1 April 2009 show that the estimated amount required by an insurance company to secure in full the benefits of the Plan if it had been wound up at this date was £2,020 million. At 1 April 2009 the Plan showed a deficit of over £850 million relative to the estimated cost of securing member's benefits in the insurance market, equivalent to a funding level of 58%.

It may be helpful to note that, following changes in the legislation in 2005, the Government has set up a Pension Protection Fund (PPF) to help protect members' pensions where a company becomes insolvent and therefore unable to meet the promised benefits under a defined benefit scheme. Further information on the benefits payable under the PPF and guidance is available on the PPF's website at www.pensionprotectionfund.org.uk or you can write to the Pension Protection Fund at Knolly's House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

What investments does the Plan hold?

Because the Plan has a high proportion of its members already drawing their pensions, the investment strategy has been designed to reflect this maturity, with the Trustee adopting a cash flow matching policy. There is a broad range of investments. At 1 April 2010 around 60% of the assets were invested in bonds (cash flow matching portfolio) and the remaining 40% were invested in equities and other assets seeking higher returns than can be obtained on the bond portfolio. The expectation of higher returns brings with it higher risk and over some periods these investments will not deliver the returns anticipated. However, these investments are held with a view to obtaining long term returns and too much emphasis should not be placed on the results achieved over short terms. Fuller details of the investments at the last Plan year end can be found in Pensions News 25, circulated during December 2010.

What do I need to do to keep informed?

You need to keep the Trustee informed of any change in your address. You will then automatically continue to receive information about the Plan.

NOTE: If you are an active or deferred member and are thinking of leaving the Plan or transferring your pension benefits, the Trustee strongly recommends you consult an independent professional adviser before taking any action. The law prevents the Trustee, the Company or the Pensions Office from providing you with any financial advice.

Where can I get further information?

If you have any other questions, or would like more information about the Plan, you can look at the Plan website, at www.coatspensions.co.uk. Alternatively you can contact the Pensions Office at the address at the front of this statement (note that a charge may be incurred for copying costs). Available documents are listed below.



Laurie Todd
Chairman, Trustee Board
Coats Pensions Trustee Limited

Annual Report and Accounts for year to 31 March 2010 and previous year
Actuarial Valuation Report at 1 April 2009
Actuarial Report at 1 April 2010
Current Plan Booklet
Statement of Investment Principles
Schedule of Contributions