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PRIVATE AND CONFIDENTIAL

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Coats Pension Plan: Summary Funding Statement following Actuarial Report as at 1 April 2007

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 annually to all members. The Statement last year was based on the full actuarial review as at 1 April 2006. This Statement provides an update based on the actuarial report as at 1 April 2007. A full actuarial review takes place every three years and the next full review will be as at 1 April 2009.

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 last Actuarial Update

The latest update on the valuation of the Plan showed that on 1 April 2007 the funding position was as follows:

	£m
Market value of assets:	1,484.8
Amount assessed as needed to provide benefits (liabilities):	1,449.5
Surplus:	35.3
Funding level:	102%

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 to allow the Trustee to check that there are no major changes that need responding to in the interim.

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 can also fluctuate because

of the technical requirements of the way in which they have to be assessed, and because of changes in mortality experienced. If members live longer, the cost of their pensions goes up. Our Plan valuation made adjustments to the mortality assumptions to reflect improvements.

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. 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 valuation at 1 April 2006, the Actuary confirmed that the fund was sufficient to meet all the Plan's obligations as they are expected to arise in future (referred to as an ongoing basis), without the need for any contributions by the Company over the following three years.

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

Although we must inform you of the funding position if a wind-up had happened as at 1 April 2007, this figure is purely illustrative and does not imply that the Trustee or Company are considering winding up the Plan. Winding up a pension scheme is not something that can be done lightly. It would have major implications for both the Company and members.

The estimated amount required by an insurance company to secure in full the benefits of the Plan if it had been wound up as at 1 April 2006 was £2,330 million. The Actuary's updated calculations show that at 1 April 2007, this estimated amount had reduced to £2,159 million. The improvement in the wind-up position is largely due to increased competition within the insurance company buy-out market, although this has been offset to some extent by increasing price inflation expectations and increasing life expectancy.

This 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 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.

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 final salary 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.

Changes in funding position

The most recent actuarial valuation was carried out as at 1 April 2006. At that date the Plan showed a funding level of 103% compared to the 102% shown above. Although there had been favourable investment returns and changes in gilt yields over the year, these were offset by negative factors, including a higher than assumed pension increase award and increasing price inflation expectations.

A further actuarial update will be carried out as at 1 April 2008 and any changes to the funding level since the valuation as at 1 April 2006 and the 2007 update will be included in next year's summary funding statement.

What is the Plan invested in?

Because the Plan has a high proportion of its members already drawing their pensions, the investment strategy has been designed to reflect this maturity. There is a broad range of investments, with approximately 63% of the assets invested in Government and corporate bonds and the remaining 37% invested in equities and other assets seeking above inflation growth. Fuller details of the investments of the Plan at the year end can be found in Pensions News 19, issued in November 2007. This also gives some insight into the approach being taken following a review of the investment strategy, to ensure that our investments are more closely aligned with our cash flow requirements. The review of strategy is continuing in relation to those assets not directly matching our cash flows – the assets seeking above inflation growth – and more information on this will be provided once complete.


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
Actuarial Valuation Report at 1 April 2006
Actuarial Report at 1 April 2007
Current Plan Booklet
Statement of Investment Principles
Schedule of Contributions