



Coats plc (Pensions Office)
Pacific House
70 Wellington Street
Glasgow G2 6UB
Telephone 0141 207 6800
Facsimile 0141 207 6856

Private and Confidential

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Coats Pension Plan: Summary funding statement following the actuarial report as at 1 April 2008

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 November 2007 was based on the actuarial report as at 1 April 2007. This statement provides an update based on the actuarial report as at 1 April 2008. The next full actuarial valuation 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 report

The latest update on the valuation of the Plan indicates, as at 1 April 2008, a funding position as follows:

	£m
Market value of assets:	1,412.1
Amount assessed as needed to provide benefits (liabilities):	1,440.8
Deficit:	28.7
Funding level:	98%

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.

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 at 1 April 2006 made adjustments to the mortality assumptions to reflect improvements and further adjustments are expected when the assumptions are reviewed 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 surplus of £35.3 million based on the actuarial report carried out as at 1 April 2007. At that date the Plan showed a funding level of 102% compared to 98% shown above. The deterioration in the Plan's financial position reflects the falls in equity and bond markets over the year, a higher than assumed pension increase award and increasing price inflation expectations.

The actuary commented in his report that the results can be considered reasonably satisfactory. He went on to say that the amount of the deficit is small relative to the Plan's total liabilities and the funding has held up reasonably well due to the steps taken by the Trustee to invest a significant proportion of the Plan's assets in bonds well matched to the Plan's anticipated benefit outgo.

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 he expected the fund would be sufficient to meet all the Plan's obligations as they arise in future (referred to as an ongoing basis), without the need for any contributions by the Company over the following three years. The next formal valuation is being carried out this year taking into account the changes that have taken place during the last 3 years in financial markets, changes in the Plan's investment policy and an up to date investigation into how long Plan members are expected to live.

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 2008, 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 2007 was £2,158 million. The Actuary's updated calculations show that at 1 April 2008, this estimated amount had reduced to £1,856 million. The improvement in the wind-up position is largely due to increased competition within the insurance company buy-out market.

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.

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, with the Trustee adopting a cash flow matching policy. There is a broad range of investments, with 60% of the assets invested in bonds (cash flow matching portfolio) and the remaining 40%

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 recent years these investments have not delivered 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 of the Plan at the year end can be found in Pensions News 21, which was distributed in November 2008 and can be downloaded from the Plan website (www.coatspensions.co.uk). An update of the investments as at 31 March 2009 will be published in Pensions News 23, due out in the autumn.

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. Available documents are listed below (note that a charge may be incurred for copying costs).



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 2008
Current Plan Booklet
Statement of Investment Principles
Schedule of Contributions