

**PENSION PRESENTATION**  
**FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2011**

MARCH 2012

# DISCLAIMER

## ***Restricted distribution***

*This presentation is not for release, publication or distribution, in whole or in part, directly or indirectly, in, into or from any jurisdiction where to do so would constitute a violation of the relevant laws or regulations of such jurisdiction (the "Restricted Jurisdictions").*

## ***Not an Offer***

*This presentation is not intended to and does not constitute, or form part of, any offer to sell or subscribe for or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the matters contained herein or otherwise.*

## ***Website***

*A copy of this presentation will be available subject to certain restrictions relating to persons resident in the Restricted Jurisdictions on GPG's website ([www.gpgplc.com](http://www.gpgplc.com)). The contents of GPG's website are not incorporated into and do not form part of this presentation.*

## ***Forward-looking statements***

*This document contains certain forward-looking statements, including statements regarding Coats' and GPG's plans, objectives and expected performance. Such statements relate to events and depend on circumstances that will occur in the future and are subject to risks, uncertainties and assumptions. There are a number of factors which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements, including, among others the enactment of legislation or regulation that may impose costs or restrict activities; the re-negotiation of contracts of licences; fluctuations in demand and pricing in the industry; fluctuations in exchange controls; changes in government policy and taxations; industrial disputes; and war and terrorism. These forward-looking statements speak only as at the date of this document.*

## ***Not a profit forecast***

*The financial information contained in this presentation is based on publicly available historic financial information of the GPG group and is not intended to be a profit forecast or profit estimate under applicable rules.*



# CONTENTS

## CONTENTS

- ❑ Summary of GPG defined benefit schemes
- ❑ UK defined benefit schemes
  - UK Pension Scheme trustee powers
  - Pension scheme trustees of GPG schemes
  - Regulatory environment
  - UK pension scheme valuations
    - scheme assets and membership
    - IAS 19 position
    - key assumptions
    - Triennial valuation funding position
- ❑ Coats defined contribution and non-UK defined benefit schemes
- ❑ Appendices
  - Glossary
  - UK pension scheme valuations
    - Coats UK
    - Staveley
    - Brunel
  - Maturity profile of cash flows
  - Evolution of accounting liabilities
  - Presentation team



---

## **Summary of GPG defined benefit schemes**

---

# Summary of GPG defined benefit schemes under IAS 19

| Summary of GPG defined benefit pension schemes |           |          |             |             |                |              |             |
|--|-----------|----------|-------------|-------------|----------------|--------------|-------------|
|  | Coats     |          |             |             | GPG            |              |             |
|  | UK<br>£m  | US<br>£m | Other<br>£m | Total<br>£m | Staveley<br>£m | Brunel<br>£m | Group<br>£m |
| <b>Funded schemes</b>                          |           |          |             |             |                |              |             |
| Assets   |           |          |             |             |                |              |             |
| - Equities                                     | 507.5     | 39.9     | 7.5         | 554.9       | 79.6           | 62.1         | 696.6       |
| - Bonds  | 667.7     | 107.4    | 3.9         | 779.0       | 70.5           | 39.0         | 888.5       |
| - Other  | 160.3     | -        | 4.8         | 165.1       | 23.2           | 14.9         | 203.2       |
| - Total  | 1,335.5   | 147.3    | 16.2        | 1,499.0     | 173.3          | 116.0        | 1,788.3     |
| Liabilities                                    | (1,497.0) | (100.9)  | (15.5)      | (1,613.4)   | (206.8)        | (146.7)      | (1,966.9)   |
|  | (161.5)   | 46.4     | 0.7         | (114.4)     | (33.5)         | (30.7)       | (178.6)     |
| Impact of surplus cap                          | -         | (24.7)   | (1.8)       | (26.5)      | -              | -            | (26.5)      |
| Net funded surplus / (deficit)                 | (161.5)   | 21.7     | (1.1)       | (140.9)     | (33.5)         | (30.7)       | (205.1)     |
| <b>Unfunded liabilities</b>                    | -         | -        | (60.7)      | (60.7)      | -              | -            | (60.7)      |
| <b>Total net surplus / (deficit)</b>           | (161.5)   | 21.7     | (61.8)      | (201.6)     | (33.5)         | (30.7)       | (265.8)     |
| <b>Presentation in GPG Balance Sheet</b>       |           |          |             |             |                |              |             |
|  | Coats     |          |             |             | GPG            |              |             |
|  | UK<br>£m  | US<br>£m | Other<br>£m | Total<br>£m | Staveley<br>£m | Brunel<br>£m | Group<br>£m |
| <b>Current assets</b>                          | -         | 3.2      | -           | 3.2         | -              | -            | 3.2         |
| <b>Non- current assets</b>                     | -         | 18.5     | 1.1         | 19.6        | -              | -            | 19.6        |
| <b>Current liabilities</b>                     | (7.0)     | -        | (6.5)       | (13.5)      | -              | -            | (13.5)      |
| <b>Non-current liabilities</b>                 | -         | -        | -           | -           | -              | -            | -           |
| - funded                                       | (154.5)   | -        | (2.2)       | (156.7)     | (33.5)         | (30.7)       | (220.9)     |
| - unfunded                                     | -         | -        | (54.2)      | (54.2)      | -              | -            | (54.2)      |
|  | (161.5)   | 21.7     | (61.8)      | (201.6)     | (33.5)         | (30.7)       | (265.8)     |

# IAS 19 – Roll forward 2011

## IAS 19 roll forward - 2011

|   | Coats          |          |             |             | GPG            |              |             |
|---|----------------|----------|-------------|-------------|----------------|--------------|-------------|
|   | UK<br>£m       | US<br>£m | Other<br>£m | Total<br>£m | Staveley<br>£m | Brunel<br>£m | Group<br>£m |
| Opening position 1 January 2011                                     | 1.0            | 20.4     | (60.5)      | (39.1)      | (13.6)         | (23.1)       | (75.8)      |
| Income Statement (pre tax)  |                |          |             |             |                |              |             |
| Current service cost  | (1.8)          | (1.8)    | (4.5)       | (8.1)       | (0.1)          | -            | (8.2)       |
| Past service cost - credit  | 2.5            | -        | -           | 2.5         | -              | -            | 2.5         |
| Net finance income / (expense) on pension scheme net assets         | 9.6            | 3.0      | (2.1)       | 10.5        | 1.4            | 0.4          | 12.3        |
| Net income / (expense)  | 10.3           | 1.2      | (6.6)       | 4.9         | 1.3            | 0.4          | 6.6         |
| Reserves  |                |          |             |             |                |              |             |
| Net actuarial gain / (loss)   | (192.0)        | 1.7      | (6.2)       | (196.5)     | (21.2)         | (8.0)        | (225.7)     |
| Impact of surplus cap   | 10.9           | (0.7)    | -           | 10.2        | -              | -            | 10.2        |
| Use of surplus  | -              | (1.2)    | 1.2         | -           | -              | -            | -           |
| FX  | (0.3)          | 0.3      | 1.5         | 1.5         | -              | -            | 1.5         |
| Net reserve movement  | (181.4)        | 0.1      | (3.5)       | (184.8)     | (21.2)         | (8.0)        | (214.0)     |
| Cash flow   |                |          |             |             |                |              |             |
| Employer contributions – current service                            | 1.6            | -        | 4.3         | 5.9         | -              | -            | 5.9         |
| Employer contributions – past service (UK recovery plan)            | 7.0            | -        | -           | 7.0         | -              | -            | 7.0         |
| Unfunded benefits paid by employer                                  | -              | -        | 4.5         | 4.5         | -              | -            | 4.5         |
| Total cash outflow  | 8.6            | -        | 8.8         | 17.4        | -              | -            | 17.4        |
| Closing position 31 December 2011                                   | (161.5)        | 21.7     | (61.8)      | (201.6)     | (33.5)         | (30.7)       | (265.8)     |
| Actuarial loss:   |                |          |             |             |                |              |             |
|   | Coats UK<br>£m |          |             |             | Staveley<br>£m | Brunel<br>£m |             |
| Loss due to change in discount rate assumption (from 5.5% to 4.6%)  | (195.7)        |          |             |             | (21.1)         | (15.3)       |             |
| Gain due to change in inflation assumption (from RPI 3.3% to 2.75%) | 100.9          |          |             |             | 9.0            | 2.5          |             |
| Loss due to lower asset return than expected                        | (70.7)         |          |             |             | (9.1)          | (8.4)        |             |
| Other   | (26.5)         |          |             |             | -              | 13.2         |             |
| Total actuarial loss  | (192.0)        |          |             |             | (21.2)         | (8.0)        |             |

Surplus in Coats' US scheme utilised in funding medical costs for Coats' "Other" schemes

Included in Coats' EBITDA current service cost £8.1m (US\$13m) and a credit in respect of past service cost £2.5m in exceptional items

Current contributions paid to Coats' "Other" schemes £4.3m. Benefits paid directly by Coats in respect of unfunded liabilities £4.5m

Actual cash payments to the schemes £17.4m

The UK recovery plan is based on the 2009 triennial valuation. The payment profile will be revised on completion of the 2012 valuation

## **UK Defined benefit pension schemes**

## UK pension scheme trustee powers



# Power of Trustees

## Power of Trustees

Trustees are responsible for day-to-day running of the pension scheme

- ❑ Required to act in best interest of members
- ❑ Ensure scheme operated in accordance with trust deed and rules
- ❑ Roles include:
  - Investing the assets
  - Agreeing valuations and contributions with sponsor
  - Administering scheme in accordance with deed / rules
  - Appointing advisors (e.g. legal, actuarial, investment)
  - Exercising discretionary powers in relation to benefits

- ❑ Each set of rules varies in relation to the key powers and whether these are exercisable by the company or the trustees (or some combination)
- ❑ The four key powers are amending the trust deed, setting the employer contributions, winding-up the scheme and investing the assets – power can be either trustee controlled, employer controlled or jointly controlled requiring agreement

| Trustee Board Composition | Coats | Brunel | Staveley |
|---------------------------|-------|--------|----------|
| Company appointees        | 4     | 3      | 3        |
| Member representatives *  | 3     | 2      | 2        |
| Independent Trustee       | 1     | 1      | 1        |

*\*By law, member representatives must make-up at least one third of the trustee body*



---

## Regulatory environment

---

# Regulatory environment

## Regulatory environment

- ❑ Pensions Act 2004 introduced Pensions Regulator ("tPR") with effect from April 2005 to protect benefits of scheme members and reduce risk of schemes falling into PPF
- ❑ "Moral hazard" powers:
  - ❑ Allow Pensions Regulator to enforce obligations against parties connected to and associated with pension scheme sponsors if deemed reasonable
    - 1) Financial support direction: arrangements put in place with agreement of tPR to support pension scheme during its lifetime typically involves parent company guarantee potentially exposing group to full buy out liability
    - 2) Contribution notice: obligation to pay up to buy-out debt as a consequence of a materially detrimental act
  - ❑ Technical tests and "reasonableness"

## Technical tests

- ❑ Financial support direction:
  - ❑ is the sponsor company merely a service company
  - ❑ "Insufficiently resourced" – are the net assets > 50% of buy out deficit?
- ❑ Contribution notice:
  - ❑ Avoidance of Section 75 debt
  - ❑ Material detriment

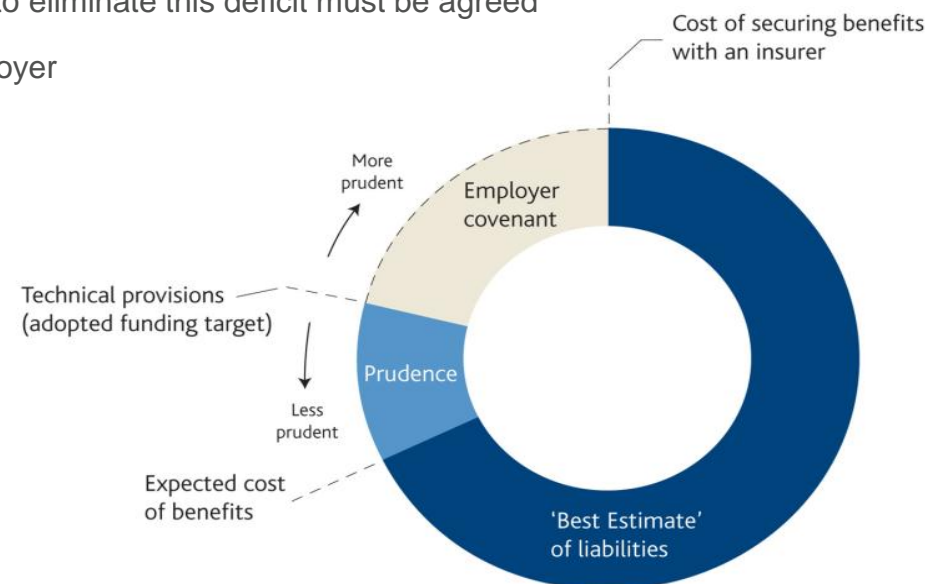
## "Reasonableness" test

- ❑ Not defined – key issue likely to be whether GPG has financially benefited to the detriment of the schemes

# Regulatory environment (continued)

## Scheme Specific Funding

- ❑ Formal actuarial valuations required at least every 3 years (15 month statutory deadline for completion)
- ❑ Method and assumptions adopted should be “*scheme specific*” and prudent (level of prudence not defined)
  - Based on expected return on assets less a prudence margin
  - Margin decreases with strong covenant:
    - Covenant for Coats UK scheme is represented by the Coats businesses (Crafts directly and Industrial indirectly)
    - Covenant for Staveley and Brunel schemes is primarily inter - company loans from sponsor companies to GPG Parent Group. Put in place in 2005 to avoid insufficient resourcing and thus risk of financial support direction. Total current value of assets in sponsor companies £130m, this is principally comprised of inter-company loans presently earning interest at 1.75% per annum above UK base rate
- ❑ If funding deficit results then employer contributions sufficient to eliminate this deficit must be agreed
- ❑ Process of negotiation between trustees and sponsoring employer
- ❑ Oversight of process by tPR





# Regulatory environment (continued)

## Regulatory environment

### Key takeaways

#### Coats

- ❑ Proposed divestment strategy makes no changes to Coats Group itself and support provided to Coats Plan
- ❑ Corporate structure of Coats Group has always been kept separate and thus there should be no recourse to GPG
- ❑ This would only change if there was intervention by the Pensions Regulator, subject to reasonableness test
- ❑ GPG / Coats have taken care not to give grounds for such intervention
- ❑ Coats Plan relies on support directly from the Crafts and indirectly from the Industrial businesses. Any split of Coats Crafts and Industrial would require an appropriate alternative security package to be put in place (e.g. a material cash injection or other security enhancements)

#### Staveley and Brunel

- ❑ GPG schemes and sponsoring employers to be retained by Coats/GPG Group
- ❑ Proportion of disposal proceeds to be retained to support pension schemes (“Retained Assets”)
  - Target level £130m + future rolled up interest / return on assets employed
  - Although held by GPG Group, likely to be restrictions on usage
  - Unlikely that this capital will be freely available to GPG Group for the foreseeable future

## UK pension scheme valuations

# UK Pension Scheme valuations

| GPG UK pension scheme analysis - 31 December 2011 |  | Coats UK<br>£m | GPG<br>Staveley £m    Brunel £m |       |
|---|--|----------------|---------------------------------|-------|
| Funded schemes                                    |  |                |                                 |       |
| Assets  |  |                |                                 |       |
| - Equities  |  | 507.5          | 79.6                            | 62.1  |
| - Bonds   |  | 667.7          | 70.5                            | 39.0  |
| - Other   |  | 160.3          | 23.2                            | 14.9  |
| - Total   |  | 1,335.5        | 173.3                           | 116.0 |
|   |  |                |                                 |       |
| - Equities  |  | 38%            | 46%                             | 53%   |
| - Bonds   |  | 50%            | 41%                             | 34%   |
| - Other   |  | 12%            | 13%                             | 13%   |
|   |  |                |                                 |       |
| Membership  |  |                |                                 |       |
| - Actives   |  | 176            | 1                               | -     |
| - Deferreds                                       |  | 10,609         | 1,820                           | 1,425 |
| - Pensioners                                      |  | 17,595         | 4,535                           | 2,119 |
| - Total   |  | 28,380         | 6,356                           | 3,544 |
|   |  |                |                                 |       |
| - Actives   |  | 1%             | 0%                              | 0%    |
| - Deferreds                                       |  | 37%            | 29%                             | 40%   |
| - Pensioners                                      |  | 62%            | 71%                             | 60%   |

Strategy is intended to capture the “equity risk premium” and exploit the volatility between equity and bonds to move to a fully matched position at lowest cash cost

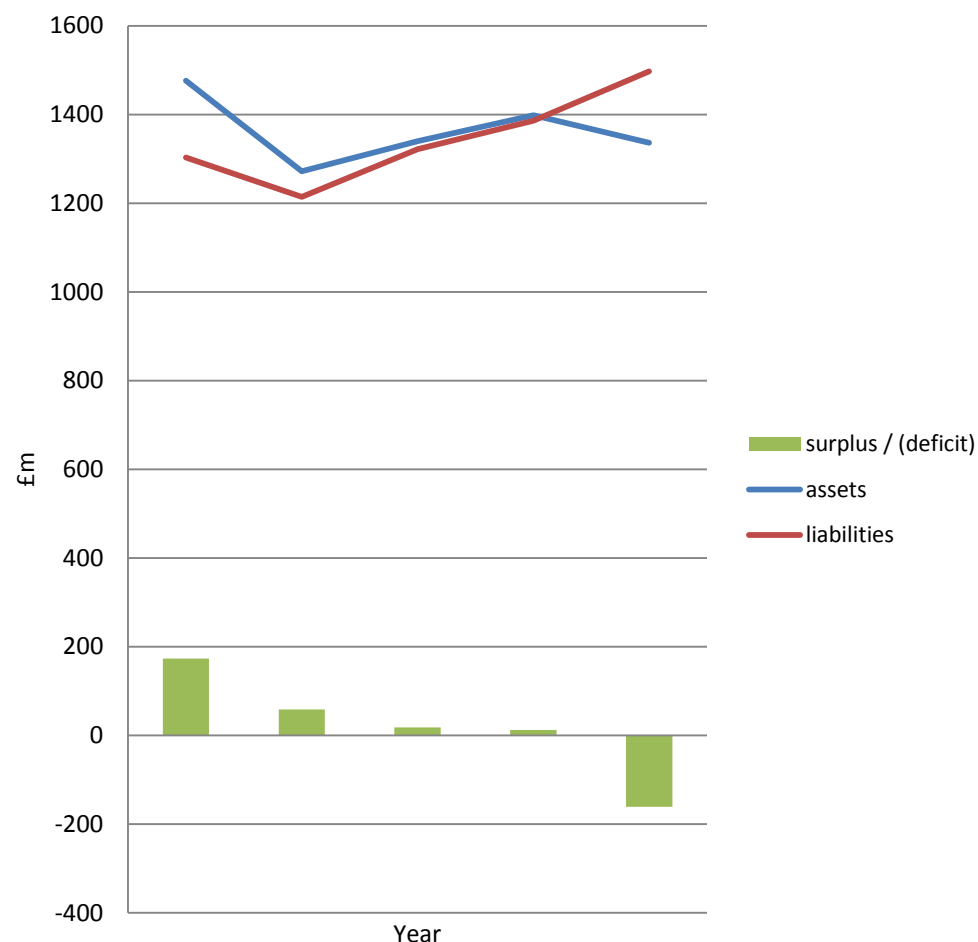
Extensive review of options in 2004 / 05

- Use cash flow matched corporate bond portfolio to ensure that benefits met in the short term (first twelve or more years)
- Remaining assets invested in equities with dividend income used to supplement bonds
- Move money from equities to bonds when equities out-perform
- Ultimate goal : schemes to be “self sufficient”
  - Liabilities fully matched on bond basis
- Outperformance of equities compared to bonds has not yet taken place
- Staveley and Brunel invest mainly in UK equities and UK corporate bonds. The other scheme assets are cash proceeds of equity linked structured products that will be reinvested shortly
- Coats invests its equities on a global mandate but the bonds are UK corporate bonds. Other assets include UK property, high yield bonds and cash
- Actives are employees currently earning benefits and due to retire typically at age 65 in around 15 – 20 years
- Deferreds are former employees who are due a pension in future (typically at age 65 in around 15 – 20 years)
- Pensioners are currently receiving a monthly pension and are typically 65 – 75 years old

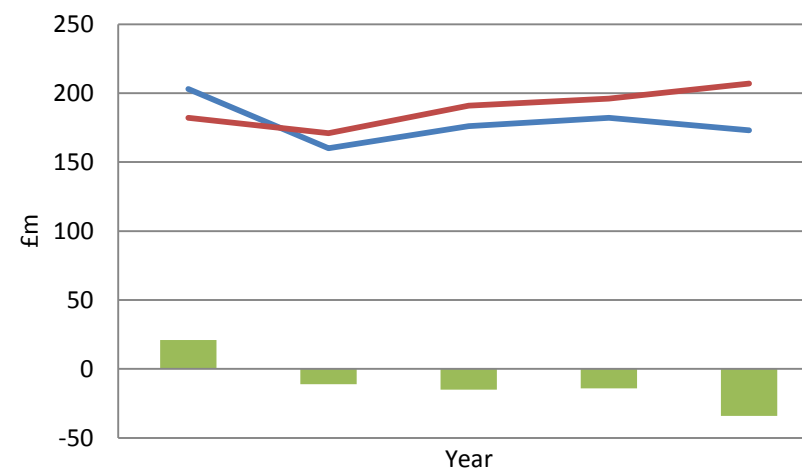
# UK Pension Scheme valuations

IAS 19: 2007-2011

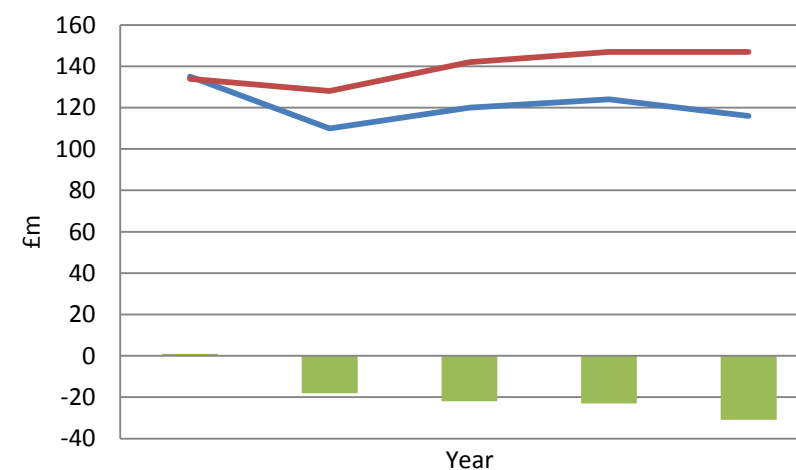
Coats IAS 19 Position



Staveley IAS 19 Position



Brunel IAS 19 Position



N.B Liability movements are principally related to the relative changes in AA rated corporate bond rates and market derived inflation



# UK Pension Scheme valuations

## Key IAS 19 Assumptions

Methodology for 4.6% discount rate

- ☐ IAS19 prescribes use of market yield on "high quality" corporate bonds - generally taken to mean AA bonds
- ☐ Currency (sterling) and term (duration 14 years) should be consistent with the obligations of the scheme
- ☐ GPG uses Merrill Lynch sterling non-gilts AA rated 15+ years bond index as adjusted to remove certain quasi-government bonds

Inflation

- ☐ GPG determines this using the Bank of England yield curve (based on the difference in yields between fixed income and index linked gilts)
- ☐ This is then adjusted to remove the "inflation risk premium" included in the price of fixed interest gilts - estimated by GPG to be 20bp
- ☐ CPI set at 75bp below RPI

Mortality assumption – all these are based on the most recent available mortality studies

- ☐ Coats
  - last valuation was based on the following life expectancies: for males aged 70, a life expectancy of 86.3, and for males aged 50 a life expectancy of 87.3.
  - IAS 19 assumption applies the following life expectancies for those retiring today, males 24.8 years and females 27.4 years. For those retiring in 20 years the following life expectancies are assumed, for males 26.8 years and females 29.4 years.
- ☐ Staveley
  - last valuation based on the following life expectancies: for those retiring today, males 85 and females 87.6. For those retiring in 20 years time, males 87.1 and females 89.6
  - IAS 19 assumption applies the following life expectancies for those retiring today, males 85.4 and females 87.3. For those retiring in 20 years the following life expectancies are assumed, for males 87.9 and females 89.9.
- ☐ Brunel
  - last valuation based on the following life expectancies: for those retiring today, males 86.1 and females 86.3. For those retiring in 20 years time, males 87.6 and females 87.9
  - IAS 19 assumption applies the following life expectancies for those retiring today, males 86.2 and females 86.4. For those retiring in 20 years the following life expectancies are assumed, for males 87.7 and females 88.

# UK Pension Scheme valuations

## Triennial Valuation Funding Position

### Coats

- ❑ Last triennial funding valuation as at 1 April 2009 – deficit arising £101.3m
- ❑ Reducing investment returns by 0.25% p.a. would result in a £38.4 million increase in liabilities; similarly if inflation were 0.25% p.a. higher than expected, the liabilities would increase by £30.4 million; increasing life expectancy by one year would increase the liabilities by £27.1 million
- ❑ Current recovery plan to fund deficit: Contributions of £7.0 million per annum for 10 years from January 2011
- ❑ Next valuation effective 1 April 2012 due to be completed by 30 June 2013

### Staveley

- ❑ Last triennial funding valuation as at 5 April 2008 – resulting in £11.6m surplus
- ❑ Next valuation effective 5 April 2011 in progress and due to be completed by 5 July 2012
- ❑ Anticipated that the 2011 valuation will result in a deficit and contributions will be required

### Brunel

- ❑ Last triennial funding valuation as at 31 March 2010 – scheme fully funded at that date
- ❑ Next valuation effective 31 March 2013 due to be completed by 30 June 2014
- ❑ Any future contributions required will depend on financial conditions as at 31 March 2013



---

## **Coats defined contribution and non-UK defined benefit schemes**

---

# Coats defined contribution and non-UK defined benefit schemes

|                               |                                |  | Coats   |        |         |
|-------------------------------|--------------------------------|--|---------|--------|---------|
|                               |                                |  | US      | Other  | Total   |
|                               |                                |  | £m      | £m     | £m      |
| Funded schemes                |                                |  |         |        |         |
|                               | Assets                         |  |         |        |         |
|                               | - Equities                     |  | 39.9    | 7.5    | 47.4    |
|                               | - Bonds                        |  | 107.4   | 3.9    | 111.3   |
|                               | - Other                        |  | -       | 4.8    | 4.8     |
|                               | - Total                        |  | 147.3   | 16.2   | 163.5   |
|                               | Liabilities                    |  | (100.9) | (15.5) | (116.4) |
|                               |                                |  | 46.4    | 0.7    | 47.1    |
|                               | Impact of surplus cap          |  | (24.7)  | (1.8)  | (26.5)  |
|                               | Net funded surplus / (deficit) |  | 21.7    | (1.1)  | 20.6    |
| Unfunded liabilities          |                                |  | -       | (60.7) | (60.7)  |
| Total net surplus / (deficit) |                                |  | 21.7    | (61.8) | (40.1)  |

|        |            |  |       |       |       |
|--------|------------|--|-------|-------|-------|
| Assets |            |  |       |       |       |
|        | - Equities |  | 27.1% | 46.3% | 29.0% |
|        | - Bonds    |  | 72.9% | 24.1% | 68.1% |
|        | - Other    |  | 0.0%  | 29.6% | 2.9%  |

|            |              |  |       |  |  |
|------------|--------------|--|-------|--|--|
| Membership |              |  |       |  |  |
|            | - Actives    |  | 1,000 |  |  |
|            | - Deferreds  |  | 1,000 |  |  |
|            | - Pensioners |  | 3,000 |  |  |
|            | - Total      |  | 5,000 |  |  |

## NON-UK DEFINED BENEFIT SCHEMES

### US

£147.3m (US\$229m) assets and £100.9m (US\$157m) liabilities

US plan has gross surplus of £46.4m, 2010: £44.4m (US\$72m (2010: US\$70m)), of which £21.7m, 2010: £20.4m (US\$34m (2010: US\$32m)) is recognised as a recoverable net asset (will mainly be recovered through continuation of the contribution holiday)

### Other

Includes a variety of small funded and unfunded liabilities across the globe with a total net liability of £61.8m (US\$96m)

Arrangements exist in a wide number of jurisdictions with the significant arrangements being in Austria, Germany, Hong Kong, South Africa, Turkey and the US

The most significant of the other arrangements are those in Germany which amount to around US\$55m of the total

Included in other is unfunded US pension arrangements and post-retirement medical benefits

Expected annual company contribution for 2012 for all “other” schemes is £5.5 million

## COATS DEFINED CONTRIBUTION SCHEMES

Current service charge for 2011 was US\$3m, made up largely of Europe and US schemes





---

## **IAS 19 Amendments**

---

# IAS 19 amendments

## Removal of concept of “expected return on plan assets”

- ❑ The first amendment introduces the new components of the change in the defined benefit deficit or surplus recognised:
  - Service costs: in profit and loss
  - Net finance cost: in profit and loss
  - Re-measurements including a) changes in fair value of plan assets that arise from factors other than time value and b) actuarial gains and losses on obligations: in other comprehensive income (OCI).
- ❑ As a result, the profit or loss will no longer include an expected return on plan assets; instead there will be a net finance cost in profit or loss based on the opening IAS19 deficit. Any actual return above or below the imputed finance income on plan assets will be recorded as part of re-measurements in OCI.
- ❑ Effective date: 1 January 2013. Early application is permitted

## Removal of option to apply corridor approach

- ❑ The second amendment eliminates the current option to spread recognition of actuarial gains and losses, and instead requires immediate recognition in OCI
- ❑ GPG does not utilise this approach and so this will not impact on reported results

|  | Current IAS19 Year Ended 31 December 2011- As reported £m | IAS 19 amendment Year Ended 31 December 2011- restated £m |
|--|---|---|
| Net Defined Benefit Liability – Opening position | (75.8)  | (75.8)  |
| Service Cost – Current and past                  | (5.7)   | (5.7)   |
| Net Interest income/(expense)                    | 12.3  | (4.2)   |
| Employer contributions                           | 17.4  | 17.4  |
| Other comprehensive income – FX gain             | 1.5   | 1.5   |
| Other comprehensive income – actuarial losses    | (215.5)   | (199.0)   |
| Net Defined Benefit Liability – Closing position | (265.8)   | (265.8)   |

- ❑ Based on the new standard the net interest cost in **2012** would be a charge of £12.2m\*.

*\* The calculation of the impact of the change in IAS 19 has been performed for illustrative purposes and is not intended to be a precise reflection of the impact of the amendment.*



---

# Appendices

---

# GLOSSARY

## KEY TERMS

- ❑ **Surplus cap** – limitations on the extent to which any surplus in a pension scheme can be recognised on the company's balance sheet. A surplus can only be recognised to the extent that the company expects to be able to access it either by way of a refund or a reduction in future contributions.
- ❑ **Unfunded liabilities** – pension liabilities for which no assets have been explicitly set aside to meet future benefit payments.
- ❑ **Funded schemes** – schemes in which assets have been set aside through employer and member contributions to meet future benefit payments.
- ❑ **Staveley pension scheme** – The Staveley Industries Retirement Benefits Scheme, a defined benefit pension scheme acquired in 2000 as part of the purchase of Staveley Industries plc.
- ❑ **Brunel pension scheme** – The Brunel Holdings Pension Scheme, a defined benefit pension scheme “acquired” as part of the reverse takeover of Brunel Holdings plc in 2002.
- ❑ **Past service cost** – the change in the obligation for employee service in prior periods, arising as a result of changes to plan arrangements in the current period. Past service cost may be either positive or negative.
- ❑ **Current service cost** – the increase in the value of a pension scheme's liabilities arising from the employees' service in the period.
- ❑ **Expected return on plan assets** – weighted average expected return on the assets over the period, using the assumptions adopted at the start of the period and the starting asset value, including allowance for expected contributions to be paid into and expected benefits to be paid out of the fund.
- ❑ **Net finance income/expense on pension scheme net assets** – the net of the interest cost (the increase in the present value of the obligation as a result of moving one period closer to settlement) and the expected return on plan assets.
- ❑ **PPF** – The Pensions Protection Fund was established by the UK Government to ensure that in the event of the insolvency of a sponsoring employer pension scheme members will always receive a certain basic level of their benefits whatever assets exist in the scheme at that time. The PPF is funded by levies payable by pension schemes.
- ❑ **Service company** – a service company is defined in the Pensions Act 2004 and refers to a company whose revenue is solely or principally derived from amounts charged for the provision of the services of employees to other members of the group.
- ❑ **Section 75 debt** – the amount required to be paid into a pension scheme on the withdrawal of a participating employer or on the wind-up of a pension scheme. The amount is calculated as the employer's share of the deficit calculated on the basis of the cost of securing the liabilities with an insurance company through annuity contracts and the expenses of winding-up.

# GLOSSARY (CONTINUED)

## KEY TERMS

- ❑ **Material detriment** – The Pensions Regulator states that an event is materially detrimental if the act, or failure to act, has been materially detrimental to the likelihood of the accrued scheme benefits being received. As the concept of materiality is not defined this involves a degree of subjectivity
- ❑ **Scheme specific funding** – the requirement for actuarial valuations completed with an effective date on or after 22<sup>nd</sup> September 2005 to be carried out using a method and assumptions which take account of the circumstances of the pension scheme and its sponsoring employer. The funding process of this regime is normally one of negotiation between the trustees and the sponsoring employer. The trustees are required to set the method and assumptions prudently. However, prudence is not defined in the regulations.
- ❑ **Buy-out position** – the buy-out valuation gives an indication of the cost of ‘buying out’ the scheme with an insurance company. Buy-out is where an insurer takes responsibility for paying out the promised benefits to members until the last member dies.
- ❑ **Self-sufficient pension fund** – a self sufficient pension fund will have sufficient assets to ensure that it can continue to run without being wound up with the expectation of meeting all future obligations on a very low risk basis (fully invested in matching bonds with significant contingency reserves) with a very high probability. In essence such a scheme is expected not to require any further funding from its sponsoring employer in nearly all future circumstances.
- ❑ **Triennial valuation** – an assessment of the assets and liabilities of a pension scheme conducted under the scheme specific funding regime required every three years. The assets must be taken as market value and the liabilities are determined based on assumptions which are typically agreed between the trustees and the sponsoring employer. If a deficit exists, a recovery plan must be put in place, specifying the contributions which will be paid to remove the deficit.
- ❑ **IAS 19 valuation** – the International Accounting Standard applicable for defined benefit pension schemes. It requires assets and liabilities to be valued on a ‘fair value’ basis and for any surplus or deficit to be recognised on the balance sheet of the reporting company. The ‘fair value’ of assets is the realisable value (bid) and the liabilities are calculated by projecting the cash flows payable on best estimate assumptions and discounting at the yield available on long dated sterling AA rated corporate bonds.
- ❑ **RPI** – Retail Prices Index. An official measure of the general level of inflation in the UK as reflected in the retail price of a basket of goods and services. RPI is the former official core method of calculating inflation applied by the UK government.
- ❑ **CPI** – Consumer Prices Index. An official measure of the general level of inflation in the UK, it measures the change in the general level of prices charged for goods and services bought for the purpose of household consumption in the UK. It is comprised of a different basket of goods and services to the RPI and usually runs at a lower rate.

# UK Pension Scheme valuations

## Coats IAS 19 position

|                   | 31 December 2011<br>IAS 19 Basis<br>£m | 31 December 2010<br>IAS 19 Basis<br>£m | 31 December 2009<br>IAS 19 Basis<br>£m | 31 December 2008<br>IAS 19 Basis<br>£m | 31 December 2007<br>IAS 19 Basis<br>£m |
|-------------------|--|--|--|--|--|
| Assets            | 1,336                                  | 1,398                                  | 1,340                                  | 1,272                                  | 1,476                                  |
| Liabilities       | (1,497)                                | (1,386)                                | (1,322)                                | (1,214)                                | (1,303)                                |
| Surplus/(Deficit) | (161)                                  | 12                                     | 18                                     | 58                                     | 173                                    |
| Funding %         | 89%                                    | 101%                                   | 101%                                   | 105%                                   | 113%                                   |

As at 31 December 2011 a change of discount rate from 4.6% to 5.35% would eliminate the accounting deficit – assuming no other changes, including to the market value of the bond portfolio

| Key assumptions                                  | 31 December 2011<br>IAS 19 Basis<br>% | 31 December 2010<br>IAS 19 Basis<br>% | 31 December 2009<br>IAS 19 Basis<br>% | 31 December 2008<br>IAS 19 Basis<br>% | 31 December 2007<br>IAS 19 Basis<br>% |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Discount rate                                    | 4.60                                  | 5.50                                  | 6.00                                  | 6.50                                  | 6.10                                  |
| Equity return                                    | 8.35                                  | 8.27                                  | 8.91                                  | 9.15                                  | 8.13                                  |
| Bond return                                      | 4.18                                  | 4.99                                  | 5.36                                  | 6.00                                  | 4.73                                  |
| Other asset return                               | 4.20                                  | 6.66                                  | 7.02                                  | 6.33                                  | 4.50                                  |
| Rate of salary increase                          | 3.75                                  | 4.30                                  | 4.60                                  | 3.80                                  | 4.20                                  |
| Rate of inflation (RPI)                          | 2.75                                  | 3.30                                  | 3.60                                  | 2.80                                  | 3.25                                  |
| Rate of inflation (CPI)                          | 2.00                                  | 2.55                                  | Not applicable                        | Not applicable                        | Not applicable                        |
| Mortality assumption – life expectancies (years) | Retiring today                        | Retiring in 20 years                  |                                       |                                       |                                       |
| - Males  | 24.8                                  | 26.8                                  |                                       |                                       |                                       |
| - Females  | 27.4                                  | 29.4                                  |                                       |                                       |                                       |



# UK Pension Scheme valuations

## Coats Triennial Valuation Funding Position

|                   | 2009 triennial funding valuation<br>£m | 2006 triennial funding valuation<br>£m |
|-------------------|--|--|
| Assets            | 1,166.0                                | 1,506.3                                |
| Liabilities       | (1,267.3)                              | (1,466.9)                              |
| Surplus/(Deficit) | (101.3)                                | 39.4                                   |
| Funding %         | 92%                                    | 103%                                   |

| Key assumptions                                  | 2009 triennial funding valuation |                | 2006 triennial funding valuation |                |
|--|----------------------------------|----------------|----------------------------------|----------------|
| Equity return                                    | 7.0%                             |                |                                  |                |
| Bond return                                      | 6.28%                            |                |                                  |                |
| Other asset return                               | 6.2%                             |                |                                  |                |
| Blended rate of return                           |                                  |                | 5.1%                             |                |
| Rate of salary increase                          | 3.92%                            |                | 3.7%                             |                |
| Rate of inflation (RPI)                          | 2.92%                            |                | 2.7%                             |                |
| Rate of inflation (CPI)                          | Not applicable                   |                | Not applicable                   |                |
| Mortality assumption - life expectancies (years) | Age 70 in 2009                   | Age 50 in 2009 | Age 70 in 2006                   | Age 50 in 2006 |
| - Males  | 86.3                             | 87.3           | 84.1                             | 85.2           |

The assumptions were agreed between Coats Group and the Trustees of the Coats Plan having regard to actuarial advice

# UK Pension Scheme valuations

## Staveley- IAS 19 position

|                   | 31 December 2011<br>IAS 19 Basis<br>£m | 31 December 2010<br>IAS 19 Basis<br>£m | 31 December 2009<br>IAS 19 Basis<br>£m | 31 December 2008<br>IAS 19 Basis<br>£m | 31 December 2007<br>IAS 19 Basis<br>£m |
|-------------------|--|--|--|--|--|
| Assets            | 173                                    | 182                                    | 176                                    | 160                                    | 203                                    |
| Liabilities       | (207)                                  | (196)                                  | (191)                                  | (171)                                  | (182)                                  |
| Surplus/(Deficit) | (34)                                   | (14)                                   | (15)                                   | (11)                                   | 21                                     |
| Funding %         | 84%                                    | 93%                                    | 92%                                    | 94%                                    | 112%                                   |

|  | 31 December 2011<br>IAS 19 Basis<br>% | 31 December 2010<br>IAS 19 Basis<br>% | 31 December 2009<br>IAS 19 Basis<br>% | 31 December 2008<br>IAS 19 Basis<br>% | 31 December 2007<br>IAS 19 Basis<br>% |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Key assumptions                                  |                                       |                                       |                                       |                                       |                                       |
| Discount rate                                    | 4.60                                  | 5.50                                  | 6.00                                  | 6.50                                  | 6.10                                  |
| Equity return                                    | 8.30                                  | 8.20                                  | 8.90                                  | 9.40                                  | 8.30                                  |
| Bond return                                      | 4.10                                  | 4.90                                  | 5.30                                  | 6.00                                  | 4.90                                  |
| Other asset return                               | 1.70                                  | 2.90                                  | 3.20                                  | 5.00                                  | 4.70                                  |
| Rate of salary increase                          | 3.75                                  | 4.30                                  | 4.60                                  | 3.80                                  | 4.25                                  |
| Rate of inflation (RPI)                          | 2.75                                  | 3.30                                  | 3.60                                  | 2.80                                  | 3.25                                  |
| Rate of inflation (CPI)                          | 2.00                                  | 2.55                                  | Not applicable                        | Not applicable                        | Not applicable                        |
| Mortality assumption - life expectancies (years) | Retiring today                        | Retiring in 20 years                  |                                       |                                       |                                       |
| - Males  | 20.4                                  | 22.9                                  |                                       |                                       |                                       |
| - Females  | 22.3                                  | 24.9                                  |                                       |                                       |                                       |

# UK Pension Scheme valuations

## Staveley Triennial Valuation Funding Position

|                   | 2008 triennial funding valuation<br>£m | 2005 triennial funding valuation<br>£m |
|-------------------|--|--|
| Assets            | 189.2                                  | 183.6                                  |
| Liabilities       | (177.6)                                | (183.9)                                |
| Surplus/(Deficit) | 11.6                                   | (0.3)                                  |
| Funding %         | 107%                                   | 100%                                   |

| Key assumptions                                  | 2008 triennial funding valuation |                 | 2005 triennial funding valuation |
|--|----------------------------------|-----------------|----------------------------------|
| Equity return                                    | 8.8%                             |                 | 7.74%                            |
| Bond return                                      | 6.25%                            |                 | 5.25%                            |
| Other asset return                               | N/A                              |                 | N/A                              |
| Rate of salary increase                          | 3.60%                            |                 | 4.0% / 4.5%                      |
| Rate of inflation (RPI)                          | 3.60%                            |                 | 3.0%                             |
| Rate of inflation (CPI)                          | Not applicable                   |                 | Not applicable                   |
| Mortality assumption – life expectancies (years) | Aged 65 in 2008                  | Aged 45 in 2008 |                                  |
| - Males  | 85.0                             | 87.1            |                                  |
| - Females  | 87.6                             | 89.6            |                                  |

The assumptions were agreed between GPG and the Trustees of Staveley having regard to actuarial advice

# UK Pension Scheme valuations

## Brunel - IAS 19 position

|                   | 31 December 2011<br>IAS 19 Basis<br>£m | 31 December 2010<br>IAS 19 Basis<br>£m | 31 December 2009<br>IAS 19 Basis<br>£m | 31 December 2008<br>IAS 19 Basis<br>£m | 31 December 2007<br>IAS 19 Basis<br>£m |
|-------------------|--|--|--|--|--|
| Assets            | 116                                    | 124                                    | 120                                    | 110                                    | 135                                    |
| Liabilities       | (147)                                  | (147)                                  | (142)                                  | (128)                                  | (134)                                  |
| Surplus/(Deficit) | (31)                                   | (23)                                   | (22)                                   | (18)                                   | 1                                      |
| Funding %         | 79%                                    | 84%                                    | 85%                                    | 86%                                    | 101%                                   |

|  | 31 December 2011<br>IAS 19 Basis<br>% | 31 December 2010<br>IAS 19 Basis<br>% | 31 December 2009<br>IAS 19 Basis<br>% | 31 December 2008<br>IAS 19 Basis<br>% | 31 December 2007<br>IAS 19 Basis<br>% |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Key assumptions                                  |                                       |                                       |                                       |                                       |                                       |
| Discount rate                                    | 4.60                                  | 5.50                                  | 6.00                                  | 6.50                                  | 6.10                                  |
| Equity return                                    | 8.30                                  | 8.20                                  | 8.90                                  | 9.40                                  | 8.30                                  |
| Bond return                                      | 4.10                                  | 4.90                                  | 5.30                                  | 6.00                                  | 4.90                                  |
| Other asset return                               | 1.70                                  | 2.90                                  | 3.20                                  | 5.00                                  | 4.70                                  |
| Rate of salary increase                          | 3.75                                  | 4.30                                  | 4.60                                  | 3.80                                  | 4.25                                  |
| Rate of inflation (RPI)                          | 2.75                                  | 3.30                                  | 3.60                                  | 2.8                                   | 3.25                                  |
| Rate of inflation (CPI)                          | 2.00                                  | 2.55                                  | Not applicable                        | Not applicable                        | Not applicable                        |
| Mortality assumption – life expectancies (years) | Retiring today                        | Retiring in 20 years                  |                                       |                                       |                                       |
| - Males  | 21.2                                  | 22.7                                  |                                       |                                       |                                       |
| - Females  | 21.4                                  | 23                                    |                                       |                                       |                                       |

# UK Pension Scheme valuations

## Brunel Funding Position

|             | 2010 triennial funding valuation<br>£m | 2007 triennial funding valuation<br>£m |
|-------------|--|--|
| Assets      | 124.4                                  | 136.3                                  |
| Liabilities | (124.3)                                | (135.4)                                |
| Surplus     | 0.1                                    | 0.9                                    |
| Funding %   | 100%                                   | 101%                                   |

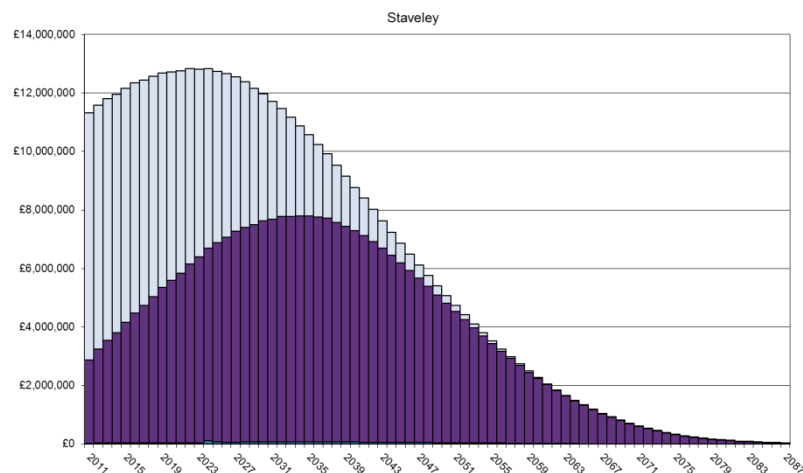
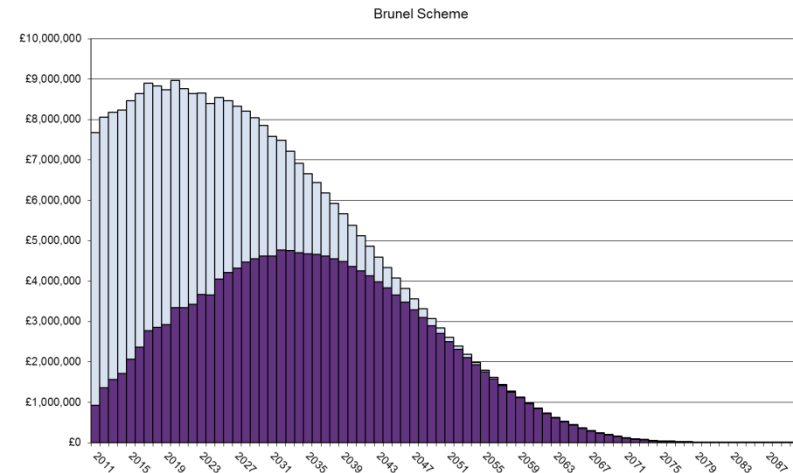
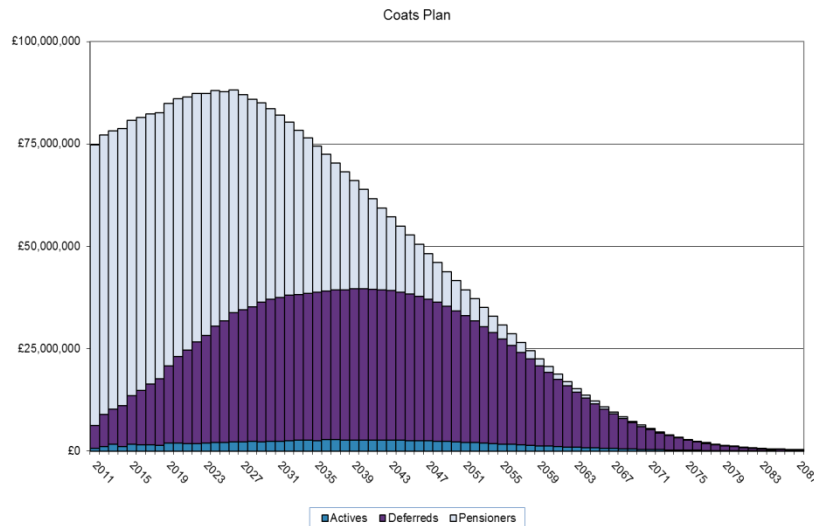
| Key assumptions                                  | 2010 triennial funding valuation |                 | 2007 triennial funding valuation |
|--|----------------------------------|-----------------|----------------------------------|
| Equity return                                    | 8.4%                             |                 | 7.6%                             |
| Bond return                                      | 5.0%                             |                 | 5.3%                             |
| Rate of salary increase                          | Not applicable                   |                 | Not applicable                   |
| Rate of inflation (RPI)                          | 3.7%                             |                 | 3.1%                             |
| Rate of inflation (CPI)                          | 3.2%                             |                 | Not applicable                   |
| Mortality assumption – life expectancies (years) | Aged 65 in 2010                  | Aged 45 in 2010 | Aged 65 in 2007                  |
| - Males  | 86.1                             | 87.6            | 85.0                             |
| - Females  | 86.3                             | 87.9            | 88.0                             |

The assumptions were agreed between GPG and the Trustees of the Brunel Scheme having regard to actuarial advice

# Maturity profile of cash flows

The UK schemes are mature in that they are paying out significant benefits in the near term

However the benefit payments will continue for a very long time into the future



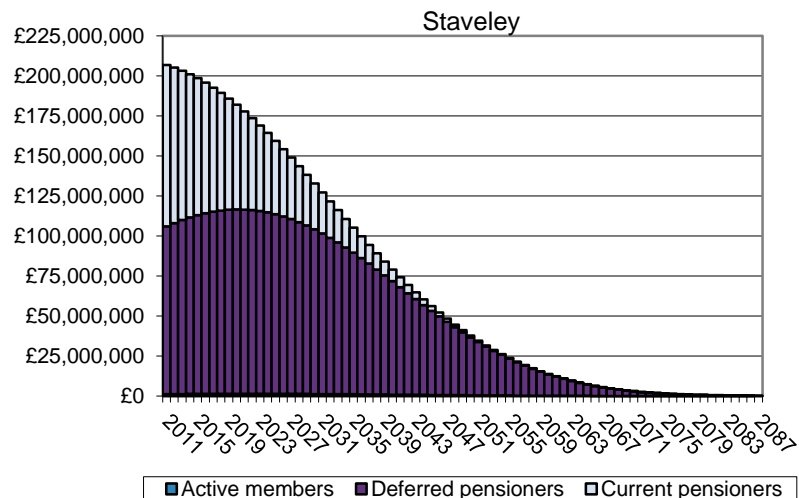
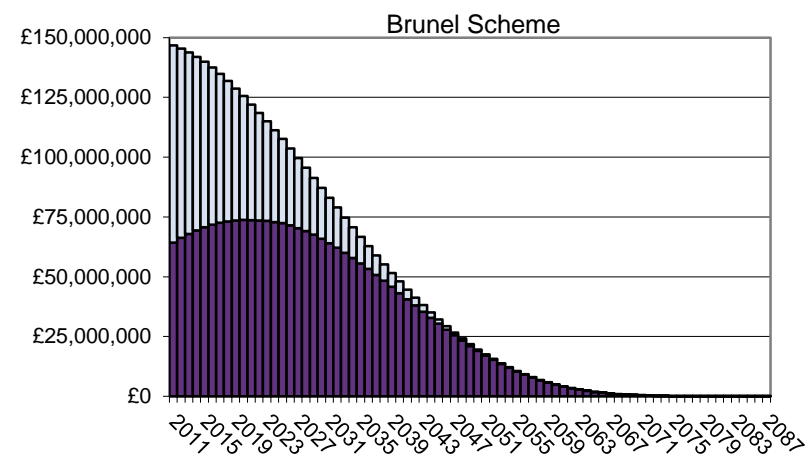
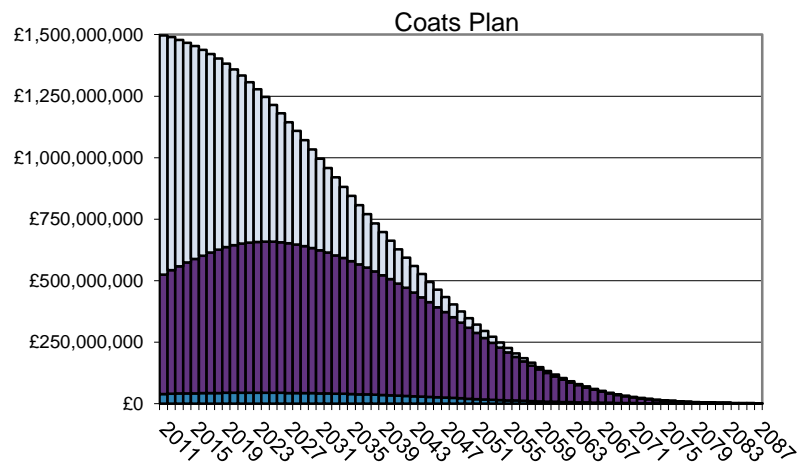
The charts show the cash payments expected under the accounting assumptions for the UK schemes. These have a duration of circa 14 years (weighted average term to payment such that half of present value of benefits will be paid out in the next 14 years with the other half paid out after 14 years)



# Evolution of accounting liabilities

As there is a significant benefit outgo it is expected that the liabilities on an accounting basis will fall over time as the benefits are paid out to members

The following charts show the projected course of accounting liabilities in future (no changes in assumptions)



All the schemes are shrinking and will be half their current size in 25 years in nominal terms and around 20% of current size in real terms (today's money)



---

## **Presentation Team**

---

# Presentation Team

❑ Anthony Eisen - Chief Investment Officer - email address: [anthony\\_eisen@gpgaustralia.com.au](mailto:anthony_eisen@gpgaustralia.com.au)

❑ Laurie Todd - Chief Financial Officer - email address: [ltodd@gpgplc.co.uk](mailto:ltodd@gpgplc.co.uk)

❑ Nick Tarn - Director of Finance - email address: [ntarn@gpgplc.co.uk](mailto:ntarn@gpgplc.co.uk)

❑ Chris Healy - Legal Director and Company Secretary - email address: [chealy@gpgplc.co.uk](mailto:chealy@gpgplc.co.uk)

❑ Richard Howes - Coats plc Chief Financial Officer

❑ Richard Jones - Punter Southall Transaction Services