Coats Group plc

Coats Group plc

2017 Full Year results presentation

27 February 2018

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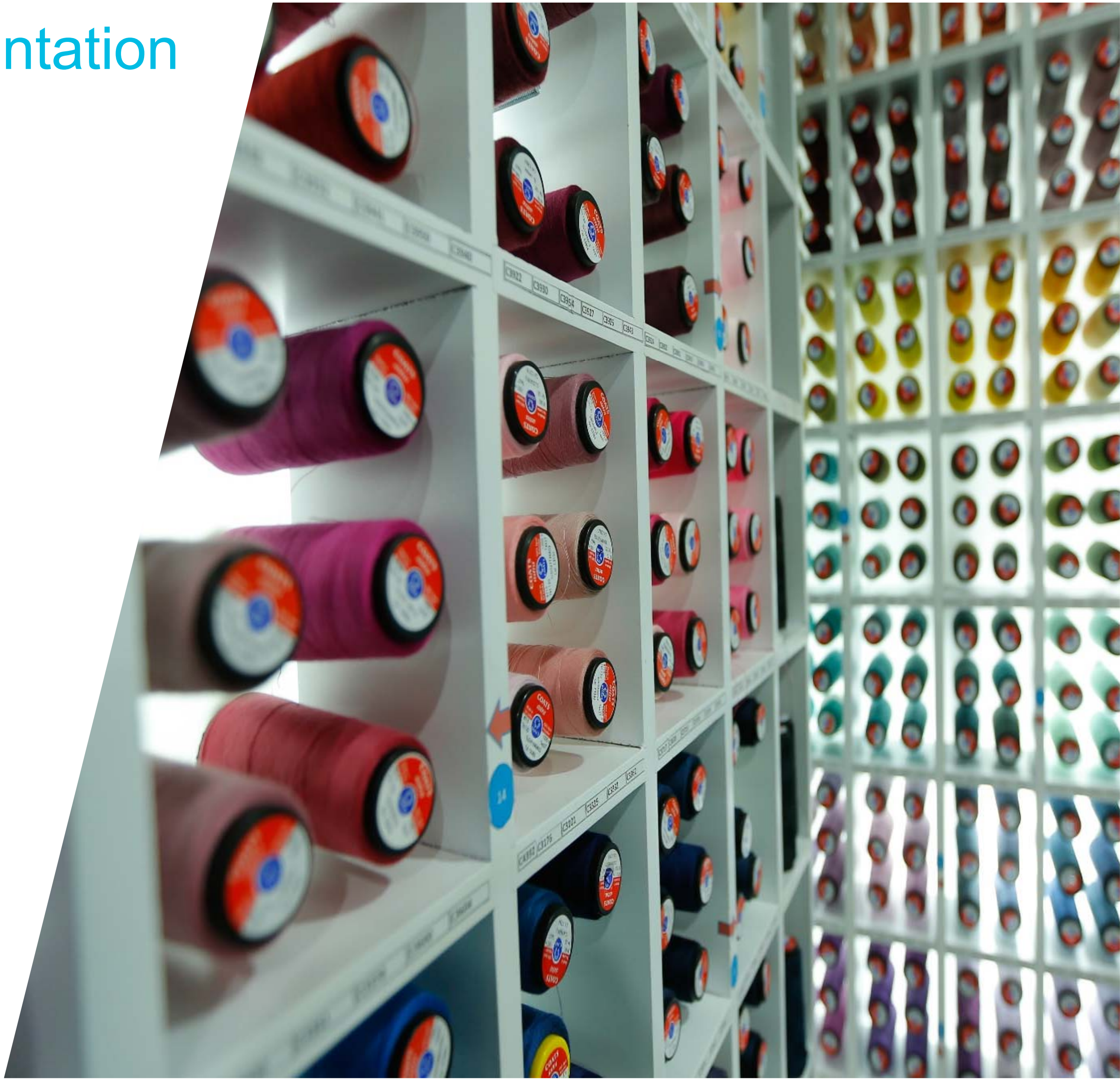
Rounding

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Agenda

2017 Full Year results presentation

- 2017 highlights
- Business review
- Connecting for Growth
- Financial performance
- Outlook and summary



2017 highlights: strong foundations set for our next phase of growth

Financial highlights

- **Revenues up 4%** - momentum and share gains in A&F and double digit growth in hi-tech Performance Materials
- **Operating profits up 11%** alongside **margin expansion of 70bps**
- Strong underlying **EPS and free cash flow growth**
- **15% dividend growth** reflecting strong financial performance

Operational highlights

- **Successful debut $225m US Private Placement issue and refinancing**
- **Acquisition of Patrick Yarn Mill** – unique technologies, innovation capabilities and sustainability focus
- **FTSE 250 entry** in June 2017

Business review

Rajiv Sharma

Apparel and Footwear: customer value proposition driving momentum

- 5% organic revenue growth
- Gaining momentum (H2: 6% growth) despite mixed market conditions
- Share and mix gains; premium brand thread growth of 8% (e.g. Epic / Nylbond)
- Strong footwear thread growth (9%); well positioned with global sporting brands
- Strong growth in China domestic market (9%); aligned to macro trend of growth in Asian middle class
- Services revenues of $13m (2016: $7m); acquisitions of GSD and Fast React continue to perform strongly

Digital solutions

eCommerce – over 81% of orders (c.19,000 customers).

New online payment module launched – live in 11 key markets, improving DSO.

Order to pay – no human touch points.

Product innovation

Collaborating with global brands on projects

Launch of industry first post-consumer premium recycled thread – Epic Ecoverde

Corporate Responsibility (CR)

Green power project in India plant (solar and biomass)

Zero liquid effluent discharge plant investments

Performance Materials: double digit hi-tech growth

- Performance Materials sales grew 12% to $276m, including acquisitions
- Underpinned by 18% organic growth in hi-tech end uses (e.g. wire and cable / engineered performance yarns); hi-tech now 50% of PM sales
- Organic growth of 7%; improvement in Q4 following temporary slowdown in Q3
- Strategy is to build scale and accelerate growth in three key areas

1 Geographic expansion

- Strong growth in EMEA and Asia emerging markets
- Gotex manufacturing now expanded to India

2 Innovative products

- >20% of 2017 sales from new products
- Total composite sales of $10m (e.g. pipes)
- Innovation hubs under construction in US / Turkey / China

3 Bolt-on acquisitions

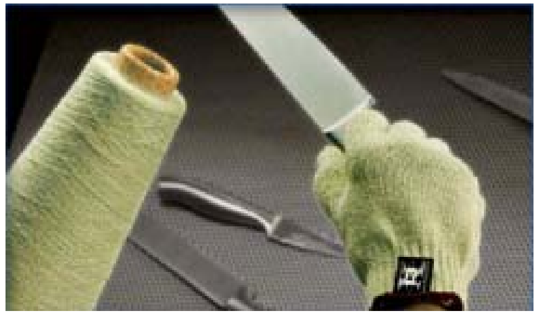
- Acquiring new technologies in adjacent segments
- Gotex post acquisition revenue growth of c.30%
- Patrick Yarn Mill acquisition in Dec 2017

Patrick Yarn Mill acquisition: innovative technologies and a sustainability focus

- High performance engineered yarns; e.g. cut-resistant and flame retardant yarns
- Innovative new spinning technologies (10 patents acquired) – Patrick Yarn Mill to become Coats' global centre for high performance spinning
- Ethical and sustainable manufacturing solutions; "Spun by the sun," spinning quality yarns from recycled plastic and creating environmentally-friendly fibers ("Earthspun® ")
- 2017 sales of $42m and operating profits of $2m
- Intention to grow revenues and margins through leveraging Coats' global footprint, customer relationships and brand

earthspun® CERTIFIED RECYCLED

SPUN by the SUN®



Crafts: a streamlined and refocused NA business

- Sales decline of 11%;
  - Albany tornado (largest warehouse destroyed),
  - continued weak NA trading conditions,
  - and introduction of own-label products at major customer
- New leadership team, progress on key strategic focus areas; consumer marketing, product innovation and digital offerings
- Actions taken to underpin refocused strategy
- Sale of non-core lifestyle fabrics business (c.$20m sales in 2017); due to complete in H1 2018

Connecting for Growth

Rajiv Sharma

Consumers are driving the change in the industry

Adidas

"Speed Factory"

A game-changing concept for the industry. Aims to:

- **Shorten lead times**
- Greater **flexibility**
- Improve manufacturing **quality** & **efficiency**

Under Armour

"Digitalisation"

Aims to revolutionise the industry: to disrupt, to do things differently via:

- **Data** analytics
- Automation
- **Innovation**

VF Corp

2021 growth plan

In response to fast changing markets it requires:

- More **agility**
- More **customer** centric
- Improved **quality**
- Improved **speed**

Amazon

Penetrating the US apparel market:

- 8% projected share of the US apparel market in 2017
- Forecasted to double by 2021 in the US
- Making it larger than TJ Maxx and Macy's

A focus on speed, quality, innovation, agility and efficiency are the new future reality

Driving change from a position of strength

Consumers are changing the industry

We must respond with or before our customers

To do this we must reposition the organisation to …

- Build speed / agility
- Innovation
- Sustainability
- Productivity
- Compliance

To continue to grow ahead of the market

… And now is the right time for us to change

- Strong financial platform - earnings, margin and cash growth
- Already leading the change in our markets
- Corporate normalisation complete
- Proven ability to drive change

CONNECTING FOR GROWTH

2 year programme and a key enabler to deliver the required change

Connecting for Growth: transformation into an organisation that is lean, fit and fast

	2018		2020	
Simplification	• 45+ country units • Generalists > Specialists • Long tail of operations • 1.5m SKUs • 90% reduction in tech. apps.	→	• 10 clusters • Global integrated support functions • Specialists > Generalists • 1/3 reduction in SKUs • Right-sized G&A	**SPEED / AGILITY** **INNOVATION** **SUSTAINABILITY** **PRODUCTIVITY** **COMPLIANCE**
Digitisation	• High eCommerce adoption • New data science team	→	• End to end connectivity driving scale • Factory of the future – process data mining • AI / data analytics	

Delivering significant savings AND driving growth

Connecting for Growth: expected savings and cost to achieve

Total operating cost savings

Delivering $25m by 2020

Reinvestments in growth

$10m p.a., in the areas of innovation, digital and talent

COATS

Net operating cost savings

$15m, after reinvestments, by 2020

Total costs to achieve

$30m over 2 years (exceptional reorg.)

2018 impact: $5m net operating cost savings, majority of reorg. cost

Estimated costs and benefits at current exchange rates

Financial performance

Simon Boddie

Overview

$m unless otherwise stated	FY 2017	Change	CER change [1]	Organic [2]
Revenue	1,510	4%	4%	**3%**
Operating profit [3]	174	10%	11%	**9%**
EPS (cents) [3]	6.4	**30%**		
Free cash flow [4]	**87**	12%		
ROCE [5]	**35%**	-		
Dividend per share	1.44c	15%		

KPI

1 On a constant exchange rate (CER) restates 2016 figures at 2017 exchange rates
2 On a CER basis, and excludes contribution from acquisitions made during the period
3 Excludes exceptional and acquisition related items, and includes contribution from bolt-on acquisitions
4 Adjusted for UK pension recovery payments, acquisitions and exceptional items
5 Adjusted operating profit divided by capital employed at 31 December 2017 (2016: 35%). With effect from 1 January 2017 capital employed includes intangible assets in relation to recent acquisitions. Prior periods have been restated accordingly.

Segmental performance

	2017	2016 [1]	CER [1] change %	Organic [4] change %
Revenue [2] ($m)				
Industrial	1,297	1,218	**6%**	**5%**
Crafts Americas	213	239	**(11)%**	**(11)%**
Total	**1,510**	**1,457**	**4%**	**3%**
Operating profit ($m)[2,3]				
Industrial	173	153	**13%**	**11%**
Crafts Americas	7	11	**(34)%**	**(34)%**
	180	164		
UK pension admin	(6)	(7)		
Group	**174**	**157**	**11%**	**9%**
Operating margin (%)				
Industrial	13.3%	12.6%	70bps	70bps
Crafts Americas	3.3%	4.5%	(120)bps	(120)bps
Group	**11.5%**	**10.8%**	**70bps**	**70bps**

1 2016 figures restated at 2017 exchange rates
2 Includes contributions from bolt-on acquisitions made in the year
3 On an adjusted basis which excludes exceptional and acquisition related items
4 On a CER basis excluding contributions from bolt-on acquisitions

Industrial

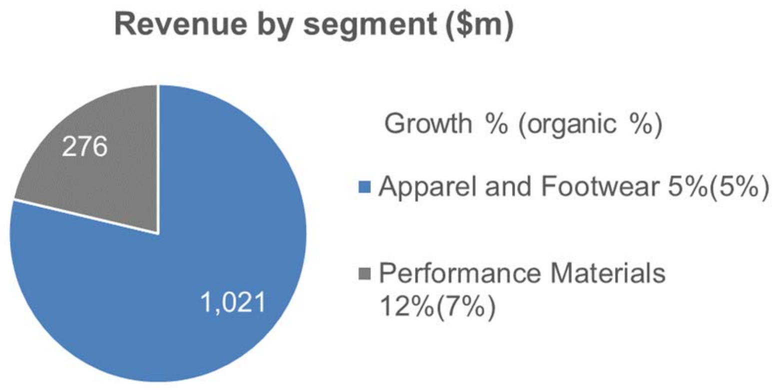
Revenue

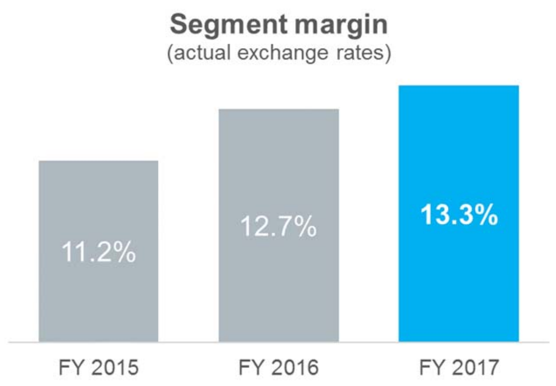
- **Asia:** strong momentum with growth of 6%; driven by majority of key A&F markets (e.g. Vietnam, China and Indonesia). Strong growth in China domestic market (9%)
- **Americas:** return to marginal growth in the year of 2% (2016 2% decline); driven by strong performance in key LatAm markets, although US consumer durables remained soft
- **EMEA:** strong and improving growth of 14%; organic growth of 9% (e.g. Turkey A&F, and hi-tech PM), and continued strong performance of Gotex acquisition

Segmental profit

- Margin up 70bps as price, procurement savings, productivity and tight cost control more than offset input cost increases

$m	2017	2016 [1]	CER [1] change %	Organic [4] change %
Asia	764	724	6%	6%
Americas	257	253	2%	1%
EMEA	276	242	14%	9%
Total [2]	**1,297**	**1,218**	**6%**	**5%**
Operating profit [2,3]	**173**	**153**	**13%**	**11%**
Operating margin	**13.3%**	**12.6%**	**70bps**	**70bps**





1 2016 figures restated at 2017 exchange rates
2 Includes contributions from bolt-on acquisitions made in the year
3 On an adjusted basis which excludes exceptional and acquisition related items
4 On a CER basis excluding contributions from bolt-on acquisitions

A&F and Performance Materials trading update covered in earlier section

Crafts Americas

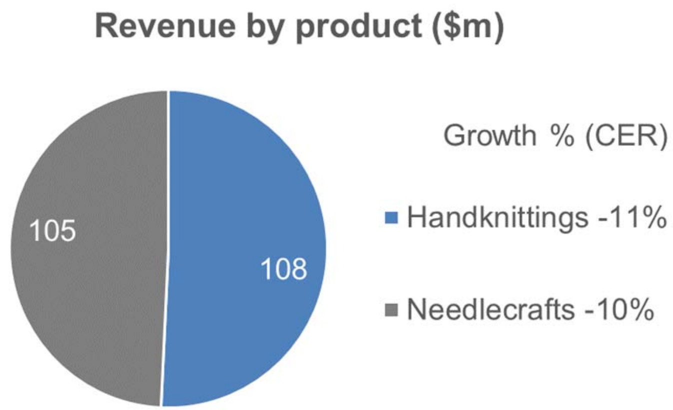
Revenue

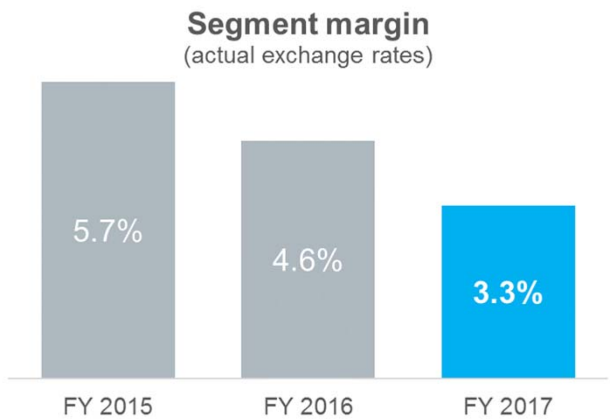
- **North America:** down 15% due to the impact of the Albany tornado (January 2017), continued tough market conditions, and the introduction of own-label handknitting products at a major customer
- **LatAm:** 1% growth with increase in key markets of Brazil and Argentina

Segmental profit

- Margin reduction of 120bps to 3.3%; mainly due to non-trading items in H2; NA management team reorganisation, tornado business disruption costs, and asset write downs from sale of non-core lifestyle fabrics business (to complete in H1 2018)

$m	2017	2016 [1]	CER [1] change FY
Revenue			
North America	149	176	**(15)%**
Latin America	64	63	**1%**
Total	**213**	**239**	**(11)%**
Operating profit [2]	**7**	**11**	**(34)%**
Operating margin	**3.3%**	**4.5%**	**(120)bps**





1 2016 figures restated at 2017 exchange rates, and excluding UK Crafts
2 On an adjusted basis which excludes exceptional and acquisition related items

Income statement

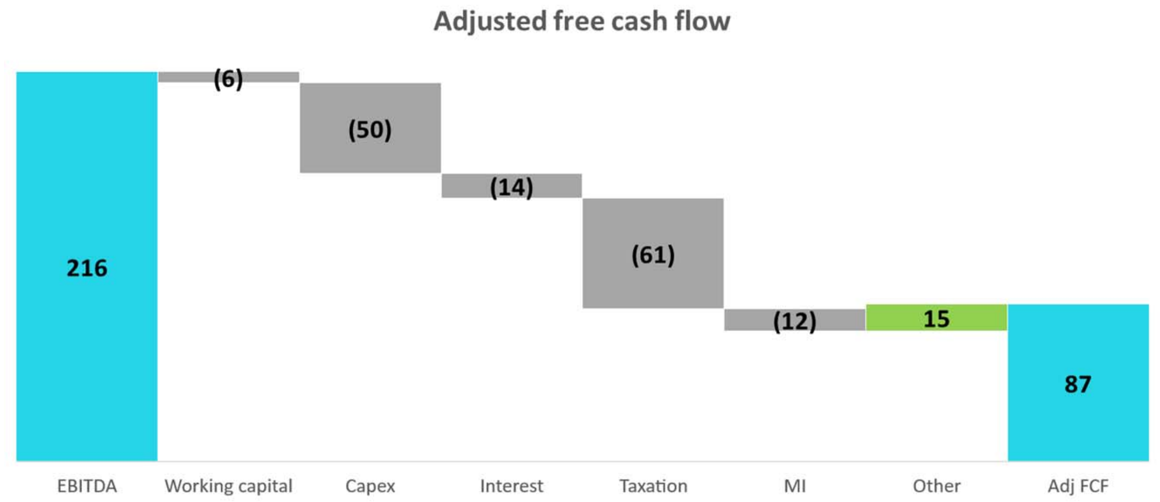
- **Acquisition-related items:** contingent consideration ($4m), intangible amortisation ($2m)
- **Exceptional item:** JV closure costs ($3m)
- **Finance costs:** significantly down on prior year due to:
  - $2m MTM forex gains (2016 $4m losses)
  - $4m lower pension finance charges, partly offset by reduced interest income
- **Underlying tax rate:** reduced to 30% (32% excluding US tax reform impact) from 34% in prior year
- **Discontinued:** represents UK Crafts 2016 closure
- **Minority interests:** relates predominantly to operations in Vietnam and Bangladesh
- **Adjusted EPS:** 6.4c per share, 30% growth on 2016 (17% excluding MTM and US tax impact)

$m	2017 reported	2016 reported
Adjusted operating profit	**174**	**158**
Acquisition related items	(7)	(5)
Operating profit	**167**	**153**
Exceptional item - JVs	(3)	-
Share of profit from JVs	1	1
Finance costs	(23)	(32)
Profit before tax	**143**	**123**
Tax	(48)	(47)
Profit after tax	**95**	**76**
Discontinued operations	-	(5)
Profit for period	**95**	**71**
Minority interest	(14)	(12)
Attributable profit	**81**	**59**
Adjusted EPS (cents)	**6.4**	**4.9**

All data shown on a reported basis, i.e. 2016 not CER basis

Cash flow and leverage

- $87m adjusted free cash flow in the year; 12% growth on 2016 ($78m)
- Improvement in cash generation driven by increased profitability, effectively controlled net working capital, and lower effective tax rate; more than offset previously flagged $10m increase in Capex spend
- Capex expected to be in $50-60m range in 2018
- Overall reduction in net cash of $320m in the year principally due to UK pension payments ($373m) following completed settlement in H1 with 3 UK pension schemes. Parent group cash now only $1m
- Leverage reduced to 1.1x, at lower end of 1-2x target range



2016	**199**	(4)	(40)	(14)	(59)	(13)	9	**78**

$m	2017	2016
Adjusted free cash flow	**87**	**78**
Pensions	(373)	(99)
Discontinued	(1)	(9)
Acquisitions	(20)	(36)
Dividends paid to equity shareholders	(18)	-
Exceptionals and other	(6)	(18)
FCF	**(330)**	**(84)**
FX and other movements	10	(79)
Change in net cash	**(320)**	**(162)**

$m	2017	2016
Parent group cash	1	343
Ops business net debt	(242)	(265)
Total net cash	**(241)**	**78**
Leverage [1]	**1.1x**	**1.3x**
NWC % sales [2]	**10%**	**10%**

1 Leverage calculated on operating business net debt (i.e. excludes parent group cash)
2 Excludes Patrick Yarn Mills NWC (acquired in December 2017)

Refinancing, US tax reforms and pensions

Refinancing

- Successful completion, in December 2017, of $225m debut issue in US private placement market
- Simultaneously agreed a new $350m 5 year syndicated bank facility (mainly comprising existing lenders); giving total debt facilities of $575m (previous bank facility $680m)
- This achieves our aims of diversifying our sources and maturity (5 to 10 years) of debt facilities

US tax reforms

- $3m non-cash P/L credit in 2017 due to the revaluation of US deferred tax liabilities
- There is not expected to be a material impact going forward on the Group's effective tax rate

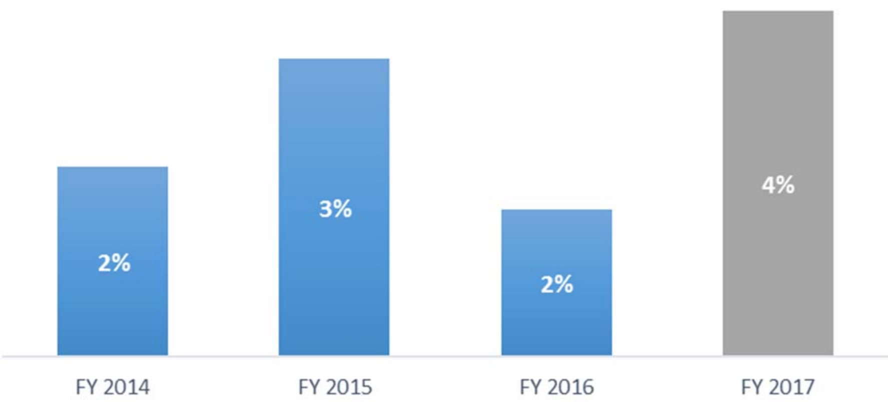
Pensions

- Completed settlements with 3 UK schemes in H1 2017 ($373m payments into schemes during year)
- Next triennial valuation date 31 March 2018 – process expected to complete during H1 2019
- Triennial valuation on more prudent TP basis vs IAS19

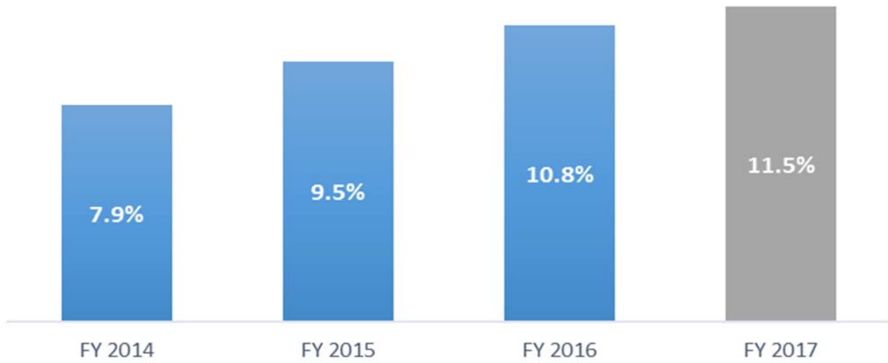
UK IAS19 deficits $m	
31-Dec-16	**576**
Up-front and ongoing settlement payments	(373)
Actuarial gain (mainly asset outperformance)	(141)
Foreign exchange losses	31
Other	13
31-Dec-17	**106**

Record of delivering improving earnings and consistent cash flows

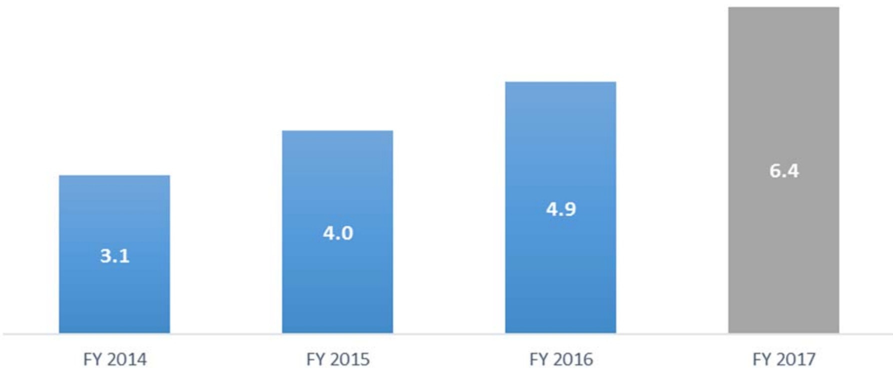
CER [1] sales growth



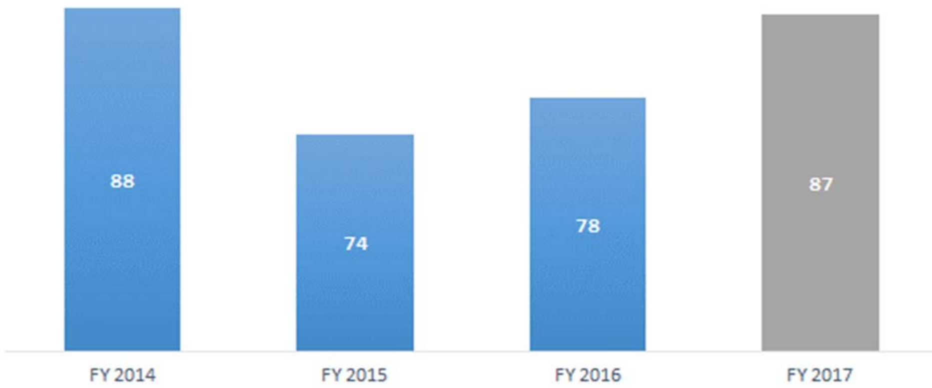
Adj. Operating margins [2]



Adjusted EPS [2] (c)



LTM Adjusted FCF [2] ($m)



1 Revenue growth in 2014 excludes EMEA crafts (disposed of in 2015). 2015-2016 excludes both EMEA Crafts and UK Crafts (discontinued in 2016). CER at 2017 rates, and including contribution from acquisitions.

2 2014 and 2015 excludes EMEA Crafts (disposed of in 2015), 2016 excludes UK Crafts (discontinued in 2016). All shown at reported rates.

Outlook and summary

Rajiv Sharma

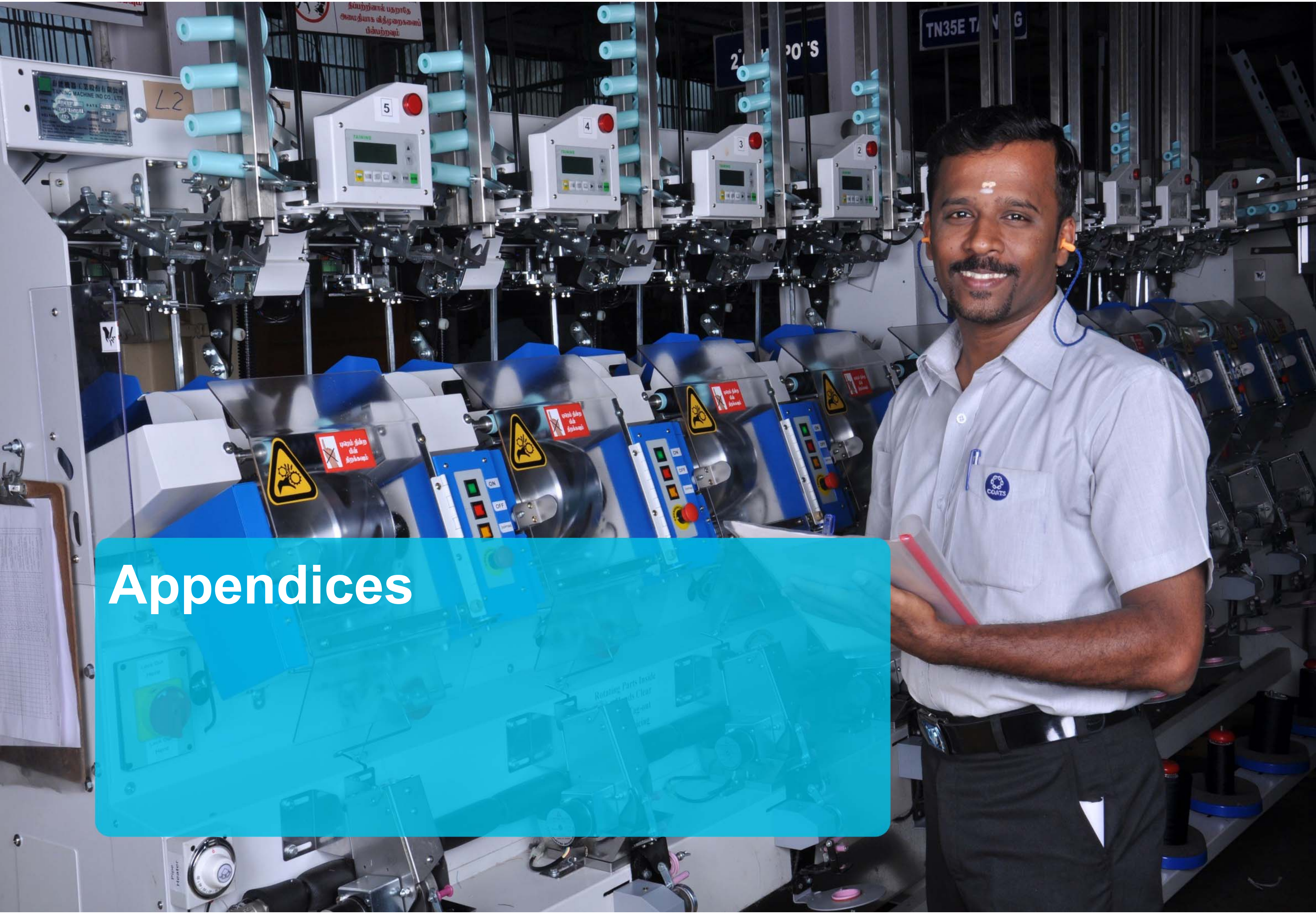
Outlook

- We enter 2018 in a strong position, with continued momentum in our Apparel and Footwear and hi-tech Performance Materials businesses
- Whilst market conditions in our North American Crafts business are expected to remain challenging, our new management team has commenced implementation of a refocused strategy
- We expect 2018 adjusted operating profits to benefit from the incremental full year contribution from the Patrick Yarn Mill acquisition, and the anticipated first year benefits from the Connecting for Growth programme
- As such, 2018 adjusted operating profits are expected to be slightly ahead of previous management expectations
- We will also continue to focus on cash flow generation in order to allow us to continue to reinvest in both organic and inorganic growth opportunities

Summary

- **Strong momentum** in Apparel and Footwear driven by **share gains**
- **Innovation** driving **hi-tech Performance Materials** growth
- **Double-digit profit and cash growth**
- **Continued margin progression** as our overall value proposition continues to resonate with our customers
- **Strong foundations set** to allow investment in the next phase of Coats growth
- **Connecting for Growth will be a key enabler** to delivering **enhanced returns** and **driving growth**

Appendices



World's leading industrial thread manufacturer and major player in Americas textile crafts

Industrial | **Crafts**

Apparel and Footwear (A&F)

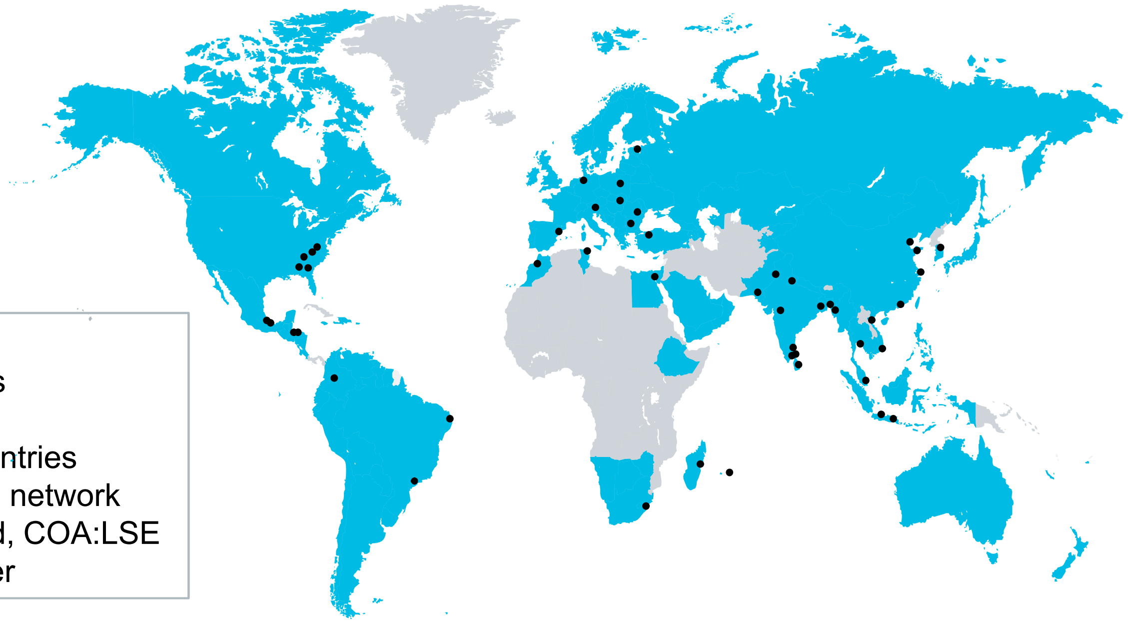
- Apparel, footwear and accessories thread
- Zips and trims products
- Consulting services

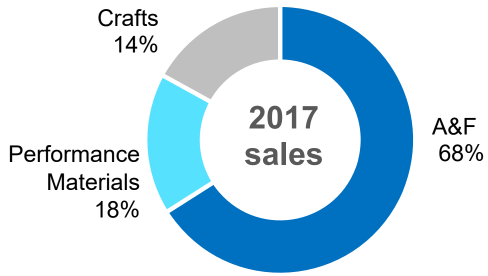
Performance Materials

- High technology threads and yarns from performance materials

Crafts Americas

- Foundation and fashion handknitting
- Needlecrafting





Global footprint
- 19,000 employees
- Some 50 sites
- Sales in 100+ countries
- Global distribution network
- UK headquartered, COA:LSE
- FTSE 250 member

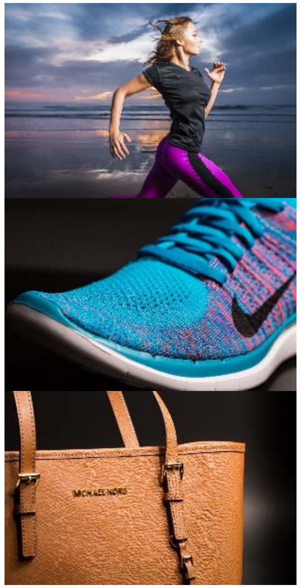
Group	2017
Sales	$1.5bn
Operating profit	$174m
Adj EPS growth	30%
Adj free cash flow	$87m
ROCE *(restated)*	35%

Markets and global customers

INDUSTRIAL

Apparel and Footwear

End uses include



Customers include

vf
GAP
next
BURBERRY
lululemon athletica
adidas
UNIQLO
UNDER ARMOUR
PRADA

Performance Materials

End uses include

Customers include

DECATHLON
P&G
MICHELIN
IKEA

CRAFTS

End uses include

Brands include

RED HEART
COATS
cisne

Corporate timeline: a rich heritage

Coats is a company with more than 250 years of history

1750s
James and Patrick Clark began work in Paisley, Scotland

1812
Clark's sewing thread placed on the market

1826
James Coats establishes first Ferguslie mill in Paisley

London Stock Exchange 1891

1890
Coats' initial share offering takes place on London Stock Exchange

J&P Coats Sewing Cotton

1896
Coats and Clark family business merger forms: J. & P. Coats, Ltd

1900s machinery

1912
One of the world's largest companies by market capitalisation

1960s manufacturing

COATS VIYELLA

1980s-1990s
Period of manufacturing decline:
Acquired by Vantona Viyella.
M&A with Tootal, Barbour, and DMC

GPG
GUINNESS PEAT GROUP PLC

2004
GPG acquisition completed and company de-listed

2011-13
GPG asset realisation programme – leaving Coats as sole remaining operating business

2013-14
Pensions regulator Warning Notices received on UK Pension schemes

2015
COATS
Coats Group plc returns to London stock market 125 years after initial listing

London Stock Exchange

2016
De-listing from AZX and NZX solely LSE listed

2016-17
Settlements with 3 UK pensions schemes achieved and regulatory action ceased

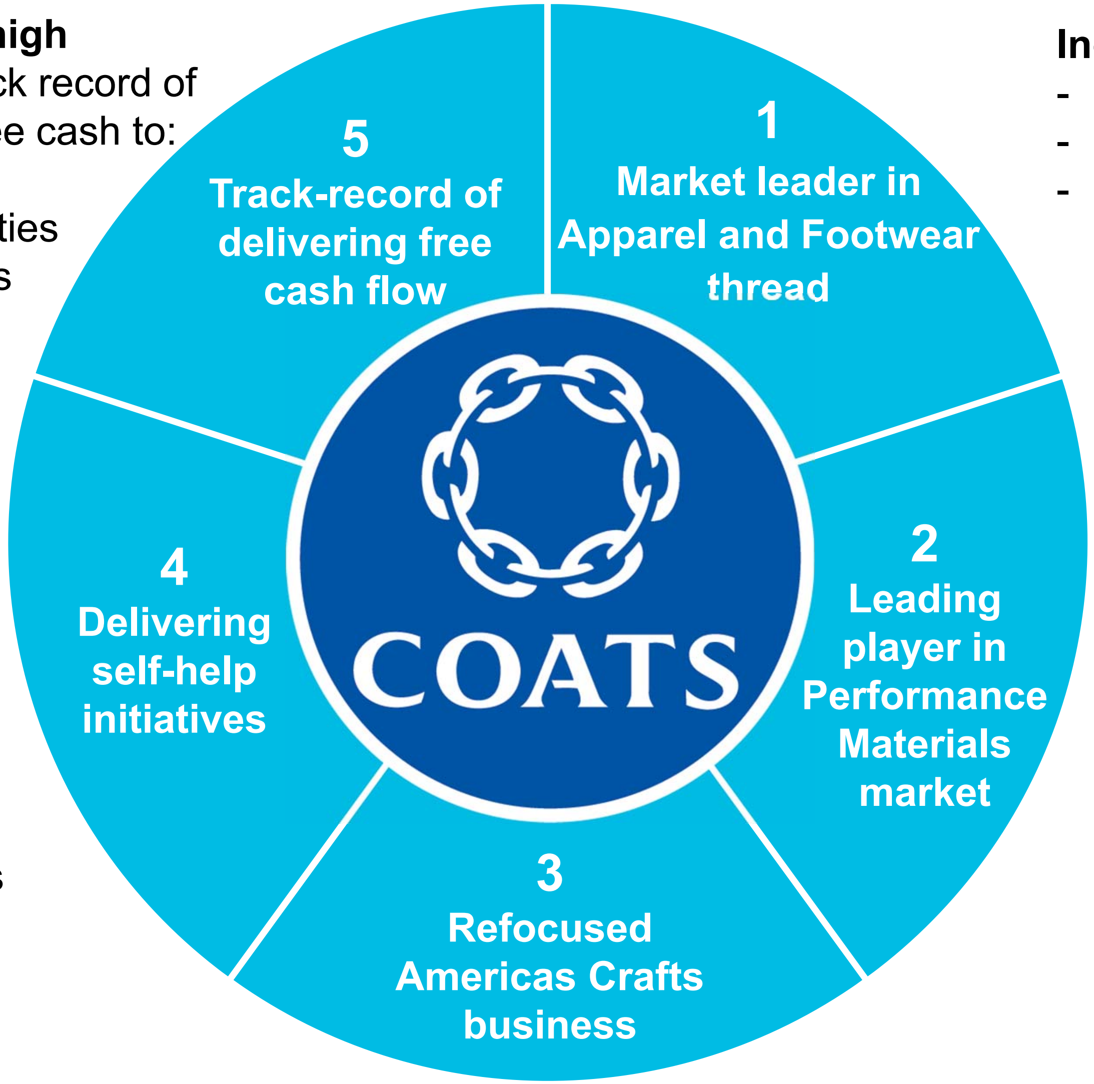
First dividend as Coats Group plc paid

2017
Coats enters the FTSE 250 on 19 June

Our investment case

Defendable business with **high returns on capital** and track record of delivering good levels of free cash to:
- invest in organic growth
- manage pensions liabilities
- fund bolt-on acquisitions
- pay dividends

Increasing share through:
- deep customer insight
- corporate responsibility
- value adding services such as digital platforms, cross-selling and consultancy



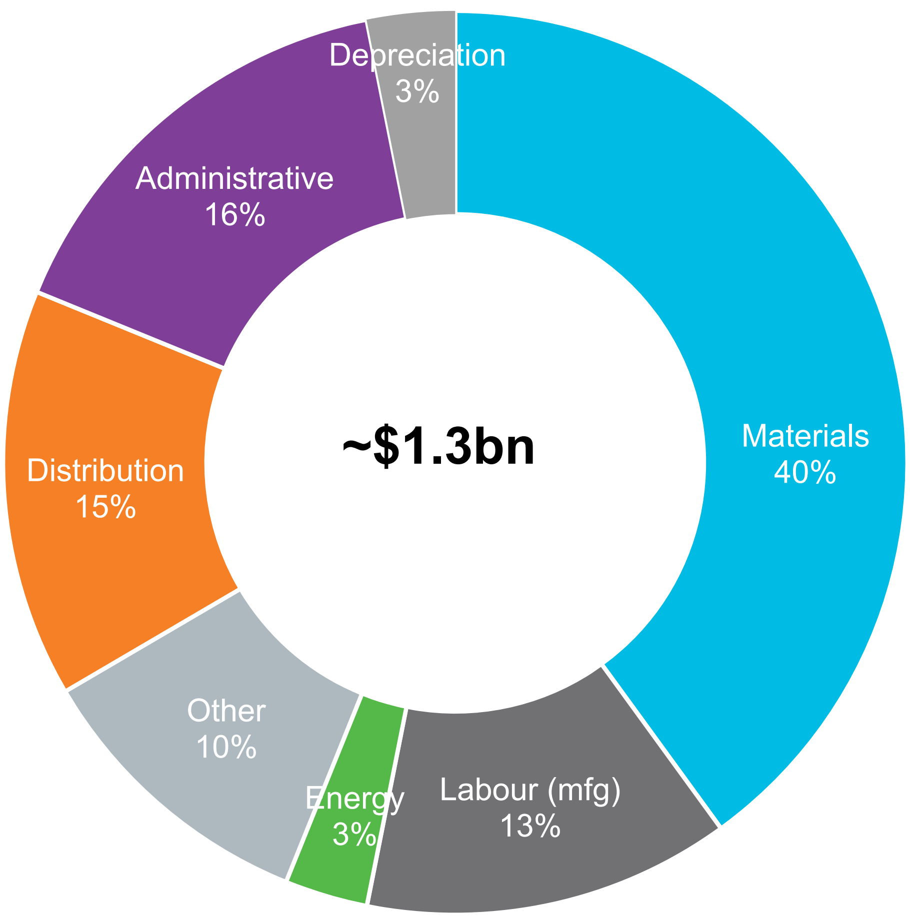
Experienced management team and **highly engaged workforce** delivering self-help initiatives (eg **productivity, procurement and SD&A savings**) to support margins

Opportunity to grow in **fragmented, high growth market** through
- geographic expansion
- product innovation
- bolt-on acquisitions

Leading consumer brands, strong market positions and customer relationships; ability to **improve margins and deliver consistent cash flow**

2017 Cost base

Pre-exceptional costs



- Materials: raw materials (polyester, nylon, cotton) and intermediates (grey thread); direct materials (dyes, cones) and bought-in finished goods (craft products)
- Labour (mfg): ongoing inflationary pressures in the locations in which we operate
- Energy: sourced from local and national grids, price linked to regional supply / demand dynamics
- Other includes maintenance, insurance and water
- Distribution includes freight and warehousing
- Administrative includes corporate costs

Corporate Responsibility is at the heart of our business

- A focussed corporate responsibility strategy to identify the highest materiality issues to our Group, factoring in all stakeholders. For example:

Environmental footprint

- Renewable energy sources (e.g. solar) – 29% in 2017
- 23% reduction in GHG emissions in 5 years
- Member of Zero Discharge Hazardous Chemicals Group
- Investment in Effluent Treatment Plants

H&S and employment conditions

- Global H&S management system
- Global accident rates 83% below US textile industry rates
- Global top decile for Employee Engagement (83%) with 99% survey participation
- 20% increase in women in senior management in last 5 years

Use of natural resources

- Investment in more efficient equipment and development of processes
- 26% decline in water usage in 5 years
- 20% decline in energy usage in 5 years
- Launch of 100% post consumer recycled premium thread (EcoVerde)
- 75% waste reused or recycled

Human rights

- Human Rights policy updated and extended
- Supplier code implemented
- Training in 2018 for key staff to identify signs of modern slavery within employees

Ethics

- Bi-annual training in key areas (>4500 people)
- "Doing the right thing" global campaign
- "Ethical champions" in units
- Updated Whistleblowing policy and reporting system

Reporting and transparency

- Balance between financial / non-financial KPIs
- 5 year published reporting history
- Meet reporting obligations of listed company
- "Best online report: AIM / small cap"

For more details see the Corporate Responsibility section of Coats.com

Dividend and capital allocation

- The Group aims to use the free cash flow it generates to balance its various capital demands
- Whilst maintaining its strong Balance Sheet position (target leverage 1-2x)
- We have adopted a progressive dividend policy where we aim to grow dividends along with underlying earnings and cash
- The Board has proposed a final dividend of 1.00 c per share making the total dividend for 2017 1.44c per share – a 15% growth on 2016 (pro-forma full year)
- The full year 2017 dividend reflects earnings cover of 4.5x and cash cover (post recurring pension recovery payments) of 3.4x

Coats Group plc

The Board has set out clear capital allocation policies:

Grow earnings and free cash flow by delivering on our 3 strategic goals – which will be used for:

Reinvesting in organic growth	Supporting pensions	Paying a progressive dividend	Acquisitions in line with strategy

Whilst maintaining a strong balance sheet with a target leverage ratio of 1-2 times net debt to EBITDA

Pension schemes: income statement and cashflow impact

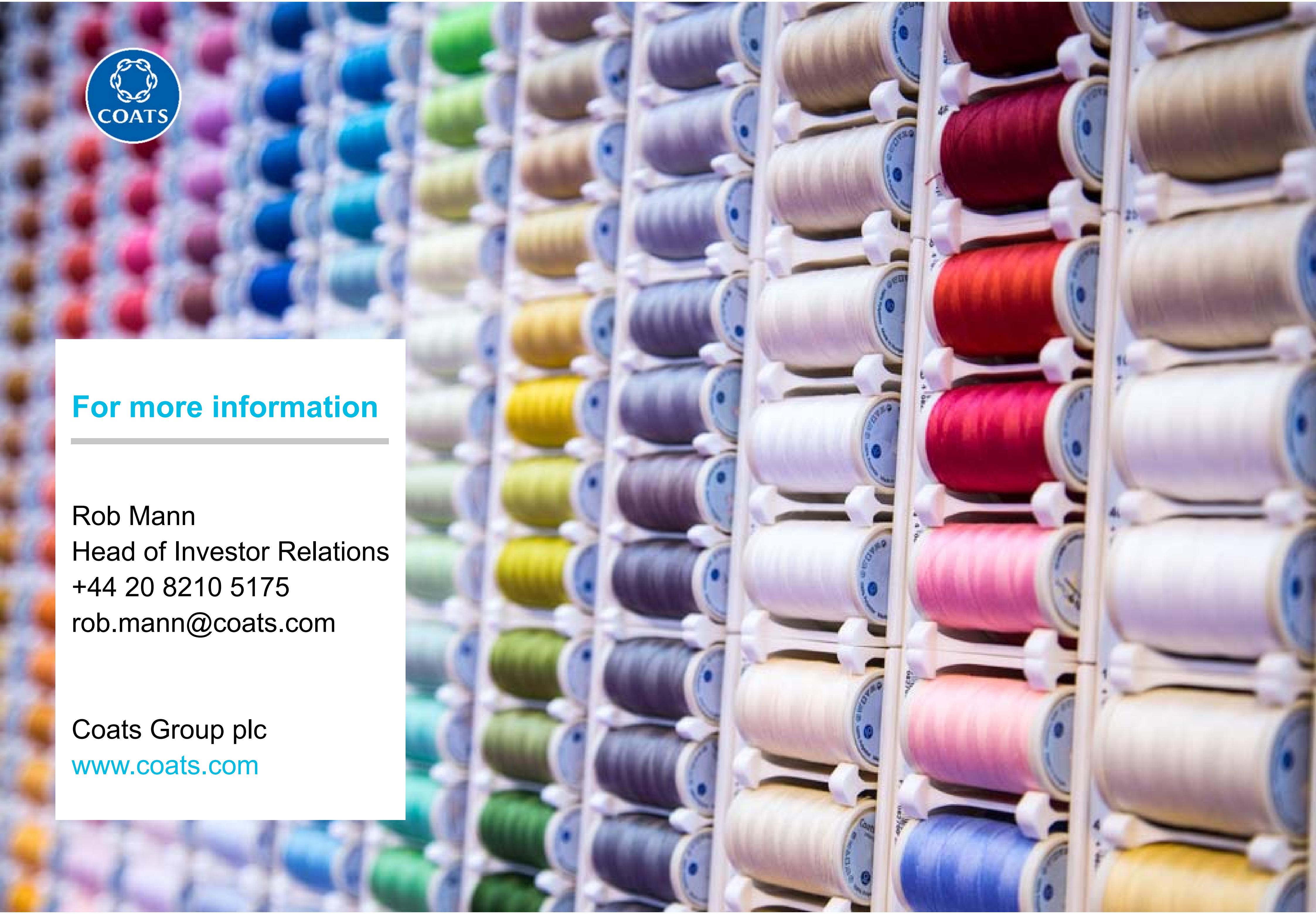
$m	Brunel		Staveley		Coats UK		UK Total		Coats other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Service charge	-	-	-	-	-	2	-	2	8	7	8	9
Administrative expenses [1]	1	1	1	2	4	5	6	8	1	1	8	9
Operating profit impact	**1**	**1**	**1**	**2**	**2**	**5**	**6**	**9**	**9**	**8**	**15**	**17**
Finance charge	1	2	1	2	7	9	8	13	1	1	9	14
Total income statement impact	**1**	**3**	**2**	**4**	**11**	**15**	**14**	**22**	**10**	**9**	**25**	**31**
UK contributions for active members	-	-	-	-	-	1	-	1	-	-	-	1
Cash payments to pensioners and other	-	-	-	-	-	-	-	-	7	7	7	7
Cash outflow within adjusted FCF	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**	**7**	**7**	**7**	**8**
UK settlement lump sum payments[2]	45	-	45	-	258	-	348	-	-	-	348	-
UK recovery contributions and admin expenses paid [2]	3	28	6	53	16	19	25	99	-	-	25	99
Total cash outflow	**48**	**28**	**51**	**53**	**274**	**20**	**373**	**100**	**7**	**7**	**380**	**107**

1. Administrative expenses of Brunel, Staveley and Coats UK plan equate to UK Pension admin charge in segmental operating profit split on slide 17
2. As per pensions recovery payments line in adjusted FCF to change in net cash reconciliation table on slide 21

Pension schemes: balance sheet positions

	Brunel		Staveley		Coats UK		Other		Total	
	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016	Dec 2017	Dec 2016
$m										
Assets	221	157	359	274	2,417	1,886	255	241	3,253	2,559
Liabilities	(251)	(222)	(357)	(319)	(2,495)	(2,353)	(285)	(275)	(3,389)	(3,169)
Net surplus/(deficit)	**(30)**	**(64)**	**2**	**(45)**	**(78)**	**(467)**	**(30)**	**(34)**	**(137)**	**(610)**
Unrecognised asset	-	-	-	-	-	-	(27)	(16)	(27)	(16)
Net deficit recognised	**(30)**	**(64)**	**2**	**(45)**	**(78)**	**(467)**	**(57)**	**(51)**	**(163)**	**(627)**
£m										
Equities	38	35	36	43	450	503			524	581
Bonds	63	62	134	169	1,004	870			1,201	1,101
Other	63	31	96	10	334	156			493	197
Total assets	164	128	266	222	1,788	1,529			2,218	1,879
Liabilities	(186)	(180)	(265)	(258)	(1,846)	(1,907)			(2,297)	(2,345)
Net asset/(obligation)	**(22)**	**(52)**	**1**	**(37)**	**(58)**	**(378)**			**(79)**	**(467)**
Discount rate (%) [1]	2.35	2.50	2.35	2.50	2.35	2.50				
Inflation (%) [2]	3.20	3.30	3.20	3.30	3.20	3.30				
Rate of increase in pensions in payment (%)	3.05	3.15	3.05	3.15	3.05	3.15				
Life expectancy	26.0	26.2	25.4	25.5	25.7	25.8	For male retiring today at 60			
Increase in real discount rate to eliminate deficit (bps) [3]	200	90	-	130	55	95				

1. Assumption derived using a yield curve approach, based on Sterling AA corporate bonds
2. Assumption based on a market implied long-term rate of inflation
3. As at 31 December 2017: assumes an immediate increase across all points on the yield curve and includes an estimate for the impact on the value of corporate bonds in the scheme assets. In aggregate, the UK schemes now hedge c.70% of interest and inflation linked liabilities.



For more information

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