



Coats Group plc

2016 Full Year results presentation

24 February 2017

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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

2016 Full Year results presentation

- Introduction
- Financial performance
- Business review
- Summary and outlook
- Appendices





Introduction

Rajiv Sharma

New Group Chief Executive Officer – Rajiv Sharma

Background

- Coats Group plc Group Chief Executive Officer as of 1 January 2017
- CEO Industrial Division since 2010:
 - Strong track record of sales, profit and cash growth
 - Product and service innovation in Apparel and Footwear – e.g. eCommerce, software solutions
 - Expansion of Performance Materials into a global business (previously named Speciality)
 - Successful bolt-on acquisition programme commenced
 - Embedded Global-Local business model that resulted in increased customer focus & efficiency
- Previously worked at Shell, GE, Honeywell and SAAB; experience comprises multi-discipline, multi-industry, international, technology, proven track record of delivery



Financial highlights for 2016

Strong operating performance and improved quality of earnings

- Organic revenue up 1% on a CER basis, with stronger H2 performance
 - *Up 2% CER including acquisitions*
- Operating profit of \$158m, up 14% on an organic basis (16% CER, including acquisitions)
 - *Operating margin up 130bps on prior year*
 - *Continued delivery of self-help initiatives*
- Adjusted EPS up 23% to 4.91c
 - *Increased profitability and improvement in non-operating items*
- Adjusted free cash flow of \$78m, up 10%
 - *Increased profitability and controlled working capital*
- ROCE increased 600bps to 39%

Reinstatement of dividend

- Final dividend of 0.84c per share
- Represents a pro-forma full year dividend of 1.25c per share

Strategic highlights for 2016

Strategic acquisitions and portfolio refinement

- Acquired Gotex and Fast React
 - *Both performing well and ahead of management expectations*
- Closure of UK Crafts business

Productivity improvements on track

- Overhead reduction programme delivering as per expectations
- Re-investing some savings to grow business

Pensions investigations concluded

- Settlement agreed with the Trustees of the UK Coats and Brunel pension schemes (90% of liabilities and pensioners)
- Cessation of regulatory action by UK Pensions Regulator on Coats and Brunel pension schemes

Corporate changes

- Delisted from NZX and ASX in June 2016

Strategy evolution - driving the next phase of growth at Coats

Defending the core whilst building beyond the “stitch line”

- Leverage **digital-focused approach** to win customers, increase agility and reduce costs
- Drive **simplification** in the business
- Continuous product and service **innovation**
- Drive operational excellence and **efficiency**
- Financial discipline to deliver **EPS growth** and cash to reinvest in the business
- **Bolt-on acquisitions** to complement organic growth
- Retain focus on **health and safety, corporate responsibility** and **employee engagement**

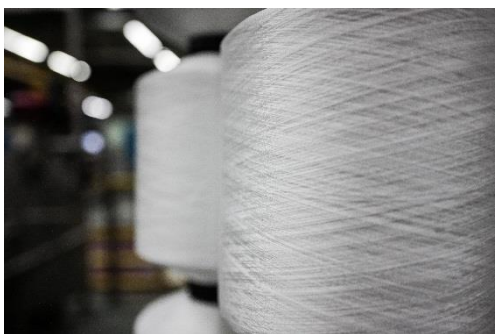
“Industrial Age to the Digital Age”



Financial performance

Simon Boddie

Overview



\$m unless otherwise stated		FY 2016	Reported change	CER change ¹	Organic ²
Revenue	- reported	1,457	(1)%	2%	1%
Operating profit	- reported	153	38%		
	- adjusted ³	158	13%	16%	14%
EPS (cents)	- reported	4.28	NA		
	- adjusted ⁴	4.91	23%		
Free cashflow	- adjusted ⁵	78	10%		
ROCE ⁶		39%	600bps		
Dividend per share (pro-forma full year)		1.25c	-		

KPI

¹ On a constant exchange rate (CER) restates 2015 figures at 2016 exchange rates

² Excludes contribution from acquisitions made during the period

³ Excludes exceptional and acquisition related items, and includes contribution from bolt-on acquisitions

⁴ Excludes exceptional costs, acquisition related items and foreign exchange gains/losses on parent group cash balance

⁵ Adjusted for UK pension recovery payments, acquisitions and exceptional items

⁶ Adjusted operating profit divided by capital employed at 31 Dec 2016 (2015: 33%)

Segmental performance

	2016	2015 ¹	CER ¹ change %	Organic ⁴ change %
Revenue ² (\$m)				
Industrial	1,221	1,176	4%	2%
Crafts Americas	236	256	(8)%	(8)%
Total	1,457	1,432	2%	1%

Operating profit (\$m)^{2,3}				
Industrial	155	131	18%	16%
Crafts Americas	11	15	(26)%	(26)%
	166	145		
UK pension admin	(8)	(9)		
Group	158	136	16%	14%

Operating margin (%)				
Industrial	12.7%	11.1%	160bps	150bps
Crafts Americas	4.6%	5.7%	(110bps)	(110bps)
Group	10.8%	9.5%	130bps	130bps

¹ 2015 figures restated at 2016 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

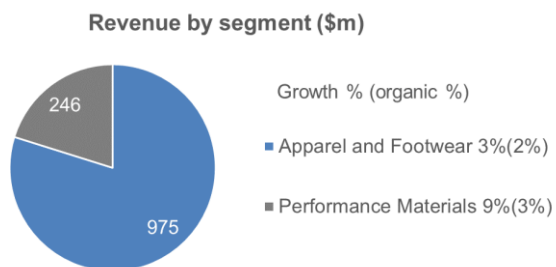
Revenue

- **Asia:** continued solid growth of 3%, driven by growth in majority of key Apparel and Footwear markets
- **Americas:** (2% decline) continued declines in US consumer durables and Brazil, offset by solid growth in other key LatAm markets
- **EMEA:** strong 14% growth including bolt-on acquisitions; 7% organic growth driven by double digit growth in key A&F markets, alongside strong Performance Materials performance

A&F and Performance Materials trading update covered in Business Review

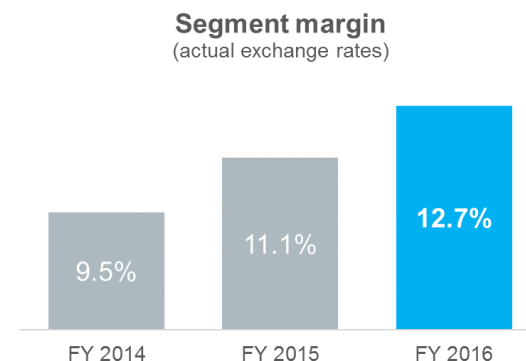
Segmental profit

- Margin up 160bps driven by lower raw material costs, and productivity and procurement gains, offsetting continued pricing challenges and structural inflation



\$m	2016	2015 ¹	CER ¹ change %	Organic change ⁴ %
Asia	720	700	3%	3%
Americas	249	254	(2)%	(2)%
EMEA	252	221	14%	7%
Total²	1,221	1,176	4%	2%

Segment profit^{2,3}	155	131	18%	16%
Segment margin	12.7%	11.1%	160bps	150bps



- 1 2015 figures restated at 2016 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

Crafts Americas

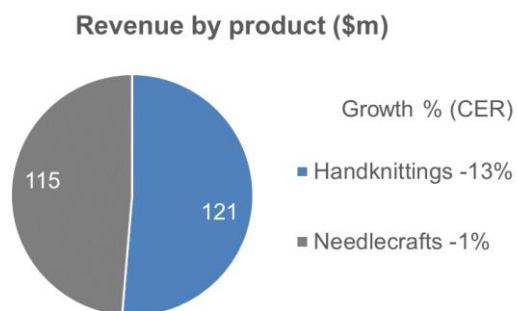
Revenue

- **North America:** down 11% due to declines in US Handknittings, however an improvement on 23% decline seen in H1 (H2 decline 5%)
- **LatAm:** growth of 4%, driven by pricing gains

Handknittings and Needlecrafts trading update covered in Business Review

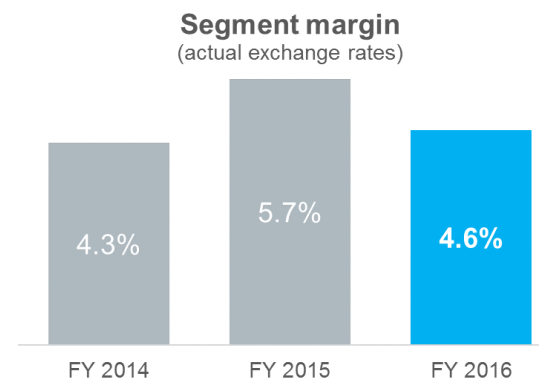
Segmental Profit

- Segment profit margin of 4.6% declined 110bps on 2015.
- Margin downside from sales decline was limited by taking cost actions and tightly controlling overheads. Offset by headwinds from strong H2 2015 margins



\$m	2016	2015 ¹	CER ¹ change FY
Revenue			
North America	176	198	(11)%
Latin America	60	58	4%
Total	236	256	(8)%

Segment profit ²	11	15	(26)%
Segment margin	4.6%	5.7%	(110bps)



¹ 2015 figures restated at 2016 exchange rates, and excluding UK Crafts
² On an adjusted basis which excludes exceptional and acquisition related items

Income statement

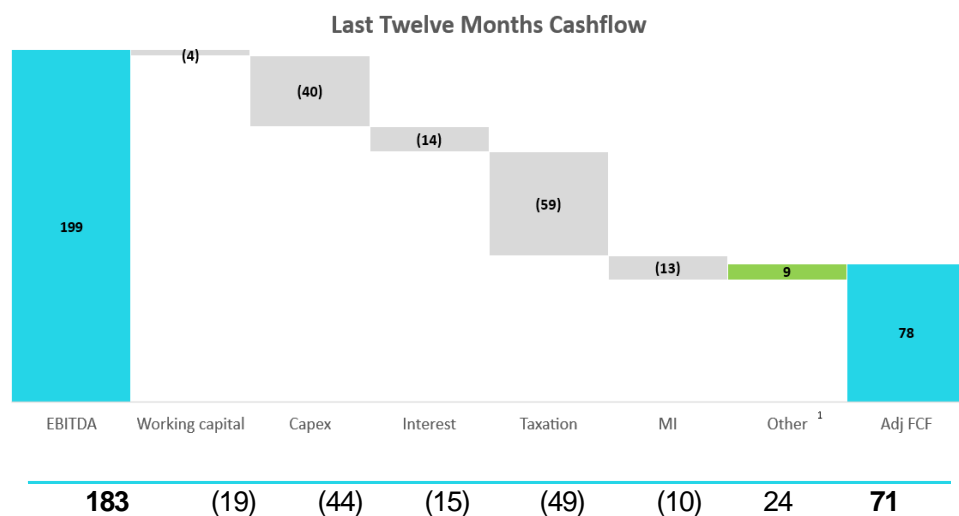
- **Exceptional / acquisition related items:** significantly reduced in the year. 2016 relates only to acquisition related items (e.g. earn outs)
- **Finance costs:** marginally up on prior year due to reduction in interest costs offset by increased MTM losses on FX contracts
- **Underlying tax rate:** reduced to 34% from 35% in prior year
- **Discontinued operations:** in 2016 represents only UK Crafts. 2015 includes EMEA and UK Crafts
- **Minority interests:** marginally increased due to higher profitability in Vietnam and Bangladesh
- **Adjusted EPS:** 4.91c per share, 23% growth on 2015

\$m	2016 reported	2015 reported
Adjusted operating profit	158	140
Exceptional / acquisition related items	(5)	(28)
Operating profit	153	111
Share of profit from JVs	1	-
Finance costs	(32)	(31)
PBT	123	80
Tax	(47)	(44)
Profit / (loss) after tax	76	37
Discontinued operations	(5)	(76)
Profit / (loss) for period	71	(39)
Minority interest	(12)	(11)
Attributable profit / (loss)	59	(51)
Adjusted EPS (cents)	4.91	4.00
EPS (cents)	4.28	NA

All data shown on a reported basis, i.e. 2015 not CER basis

Cash flow and leverage

- \$78m free cash flow in 2016 (2015: \$71m) – 10% increase driven by higher profitability, controlled working capital, stable capex spend, offset by higher cash tax
- Overall reduction in net cash of \$162m principally due to UK pension payments (\$99m), acquisitions (\$36m) and FX movements (\$79m) predominantly on parent group cash
- Operating business at 1.3x leverage, within 1-2x target range (2015: 1.4x)
- Increase in 2017 capex to up to 1.5x depreciation (2015: 1.0x) to support future growth, and reinforce environmental compliance credentials (e.g. effluent treatment plants to reduce water usage)



\$m	2016	2015
Adj free cash flow	78	71
Pensions	(99)	(34)
Discontinued	(9)	(34)
Acquisitions	(36)	(6)
Exceptionals and other	(18)	(19)
FCF	(84)	(21)
FX and other movements	(79)	(59)
Change in net cash	(162)	(80)

\$m	2016	2015
Parent group cash	343	505
Ops business net debt	(265)	(264)
Total net cash	78	241

Leverage ²	1.3x	1.4x
NWC % sales	10%	10%

1. Primarily pensions recovery payments, and parent group investment income included in EBITDA
2. Leverage calculated on operating business net debt (i.e. excludes parent group cash)

UK pension regulator investigations

- Signed binding Settlement agreements with the Trustees of Coats and Brunel schemes
- Written assurances received from UK Pensions Regulator ('TPR') of cessation of regulatory action on completion
- Principal terms of the Coats and Brunel Scheme settlements are as follows:
 - Upfront payments totalling £255m (\$315m). £235m (\$290m) remaining to be paid in 2017
 - Annual deficit contributions, including estimated administration expenses, totalling £15m (\$18m)
- The Coats and Brunel schemes represent c.90% of the Company's UK pension liabilities and schemes' members
- The Trustees of the Staveley scheme have not to date accepted the Company's proposal and TPR's investigation remains open. On going annual payments remain as previously agreed at £4m (\$6m), and the parent group cash will be used for that purpose

Projected impact of Coats and Brunel settlements

- Pro forma 31 December 2016 UK IAS19 deficit reduces to £232m (\$286m)
- Pro forma 31 December 2016 parent group cash reduces to £43m (\$53m)
- Total expected cash outflow in 2017 of £257m (\$317m) representing
 - lump sum payments to Coats and Brunel of £235m (\$290m)
 - latest agreed recurring deficit contributions of £19m (\$24m) and administrative expenses
- No significant impact on 2017 operating profit, EPS and adjusted free cash flow

UK IAS19 pension deficits	\$m	£m
31 December 2016 reported	576	467
Coats and Brunel lump sum payments	(290)	(235)
31 December 2016 – pro forma ¹	286	232

Parent group cash	\$m	£m
31 December 2016 reported	343	278
Coats and Brunel lump sum payments	(290)	(235)
31 December 2016 – pro forma ¹	53	43

¹ Pro-forma 31 December 2016 Balance Sheet position – reflects only the impact of Coats / Brunel lump sum settlement payments of £235m (\$290m)

Dividend

- A strong track record of delivering good levels of free cash through profitable sales growth, delivering self-help initiatives and investing in organic growth opportunities
- Free cash flow will be used appropriately to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders
- The Board proposes to pay an ordinary final dividend for 2016 of 0.84c per share, which represents a pro-forma full year dividend of 1.25c per share
- Pro-forma 2016 dividend represents earnings cover of c.3.9x times and cash cover, post recurring pensions deficit contribution payments, of c.2.6x
- The Board intends to pursue a progressive dividend policy going forward



Business review

Rajiv Sharma

Apparel and Footwear: delivering market share gains at enhanced margins

- Underlying market demand conditions challenging throughout 2016.
- 3% growth to \$975m, at CER. 2% organic growth.
- Higher growth with major brands through the Global Accounts programme.
- Share and mix gains, including strong sales growth in our premium Epic brand. Double digit sales growth in denim and active sportswear.
- Continued activity in new product launches (eg sales in new gym zips and launch of new yarns for sports footwear uppers).

eCommerce

Live in over 25 countries and used by > 12,000 customers

> 70% of total orders

85% thread sampling through Coats Colour Express



Software Solutions

Providing leading operational excellence tools, software and consultancy to the global apparel and footwear industry



Corporate Responsibility (CR)

Supplying high quality products and services in a responsive and responsible way across the world



Apparel and Footwear: Leading the response to changing industry needs

The consumer is pushing brands, retailers and manufacturers to focus on...

- Speed** → **First to market**, in-season flexibility, colour, sampling, sourcing
- Productivity** → **Reduce labour exposure**, Lean, design to cost
- Innovation** → **Fabrics**, finishes, production technology, consumer experience
- Quality** → **Differentiation** and consumer value through quality
- Compliance** → **Responsible sourcing**, labour, chemicals, environment

Coats portfolio of world class products and services:



Threads



Zips



Trims



Technology Solutions

Coats is uniquely positioned to drive and benefit from these market needs

Performance Materials: Value through innovation and best-in-class service

- Performance Materials¹ revenue grew 9% to \$246m, including acquisitions.
- Organic growth 3% impacted by US market decline. Sales growth outside USA 18% (incl. Gotex).
- Strategy is to build scale and drive accelerated growth opportunities along three strategic avenues.

1 Geographic expansion

- Double digit growth in Asia & EMEA
- **Automotive** focus



2 New technology innovation

- Mega trend: light weighting may trigger shift from metal to textiles
- **Carbon composites**: next generation advanced materials

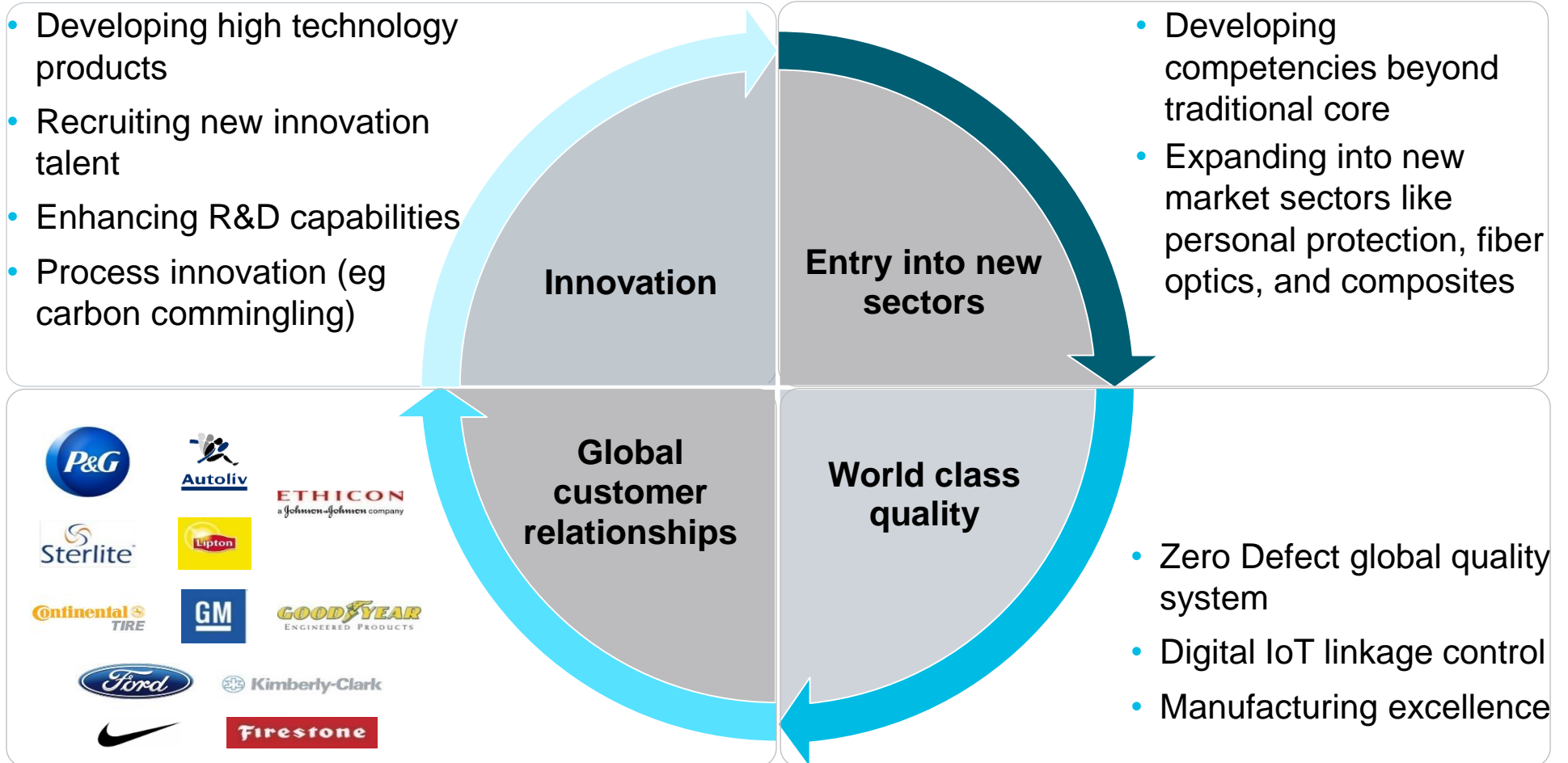


3 Bolt-on acquisition - Gotex

- 50% sales growth post-acquisition
- Global expansion of Gotex new products and coating technologies



Performance Materials: Moving beyond the stitch line



Innovation and quality assurance are critical success factors

Crafts: Maintaining leadership position despite tough market conditions

- Sales declined 8% in tough market:
 - Handknitting down 13% with H2 improvement
 - Needlecraft sales down 1%
- Cost actions implemented to protect operating profit and cash.
- Loss-making UK business closed
- Leading market position in all categories we choose to compete.
- Ongoing focussed investment in Digital
 - New Redheart.com with e-com capabilities.
 - New B2B website for fabrics.
- New product launches helped to offset some of underlying market decline (e.g. Red Heart Scrubby)





Summary and outlook

Rajiv Sharma

2016 Summary

- **Operating profit of \$158m up 16%** through sales growth, margin enhancement and productivity improvements
- **Free cash flow of \$78m up 10%** through increased profitability and controlled net working capital
- **Reinstatement of dividend** with pro forma 1.25c per share
- **Successfully executed bolt-on acquisitions** of Gotex and Fast React
- **Settlement agreements signed** with Coats and Brunel pension schemes

2017 outlook

We **enter 2017 on a solid footing** however **remain cautious** about market conditions. We expect to **continue to deliver growth** in line with management's expectations through our initiatives to deliver market share gains, productivity improvements and tight cost control. Growth is likely to be weighted to the second half of the year due to strong profit growth in H1 2016, and may also be subject to further foreign exchange headwinds on translation that have been seen in recent periods. We will also **continue to focus on cash flow generation** in order to allow us to reinvest in organic and inorganic growth opportunities.

Themes for the future

- Future strategy will be an **evolution of the current strategy** that is proven to be working
- Continue to take the business from the **Industrial Age to the Digital Age**
- **Defending the core** whilst continuing to build **beyond the “stitch line”**
- This will be focussed around the key drivers of **digitisation, simplification, innovation and efficiency** to underpin profitable share gains
- Financial discipline remains key to **deliver EPS growth and cash to reinvest in future growth**

“Moving from the Industrial Age to the Digital Age”



Appendices

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



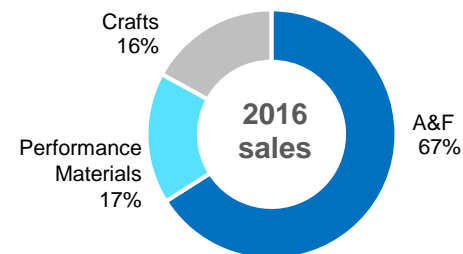
Crafts Americas

- Foundation and fashion handknitting
- Needlecrafting (includes sewing and lifestyle fabrics)



Global footprint

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



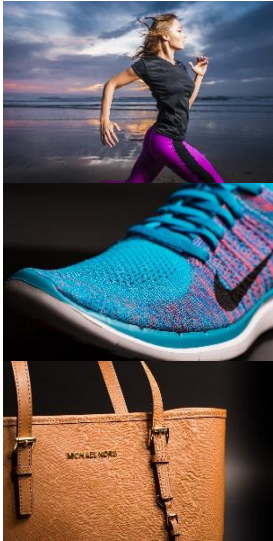
Group	2016
Sales	\$1.5bn
Operating profit	\$158m
Adj EPS growth	23%
Adj free cash flow	\$78m
ROCE	39%

Markets and global customers

Industrial

Apparel and Footwear

End uses include

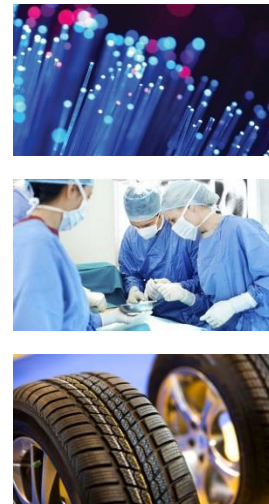


Customers include



Performance Materials

End uses include

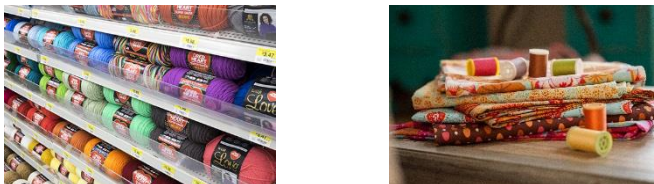


Customers include



Crafts

End uses include



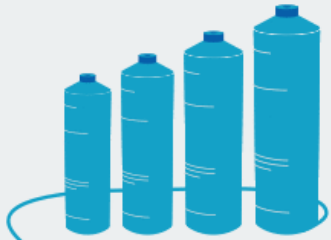
Brands include



Global market leader

\$1.5bn

full year sales in 2016



Proven track record of delivering

**innovative,
high value
added**

products and services



Our team is made up of

19,000

people in some 60 countries



Each year we make enough thread to go into over

8 billion

pairs of jeans – that's one for every person on the planet!



More than

450 million

pairs of shoes are made every year using our thread



More than

100 million

car airbags are made using our thread every year



Our investment case – a strategy that is working

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



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

Increasing share through:

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

Opportunity to grow in **fragmented, high growth market** through

- geographic expansion
- product innovation
- bolt-on acquisitions

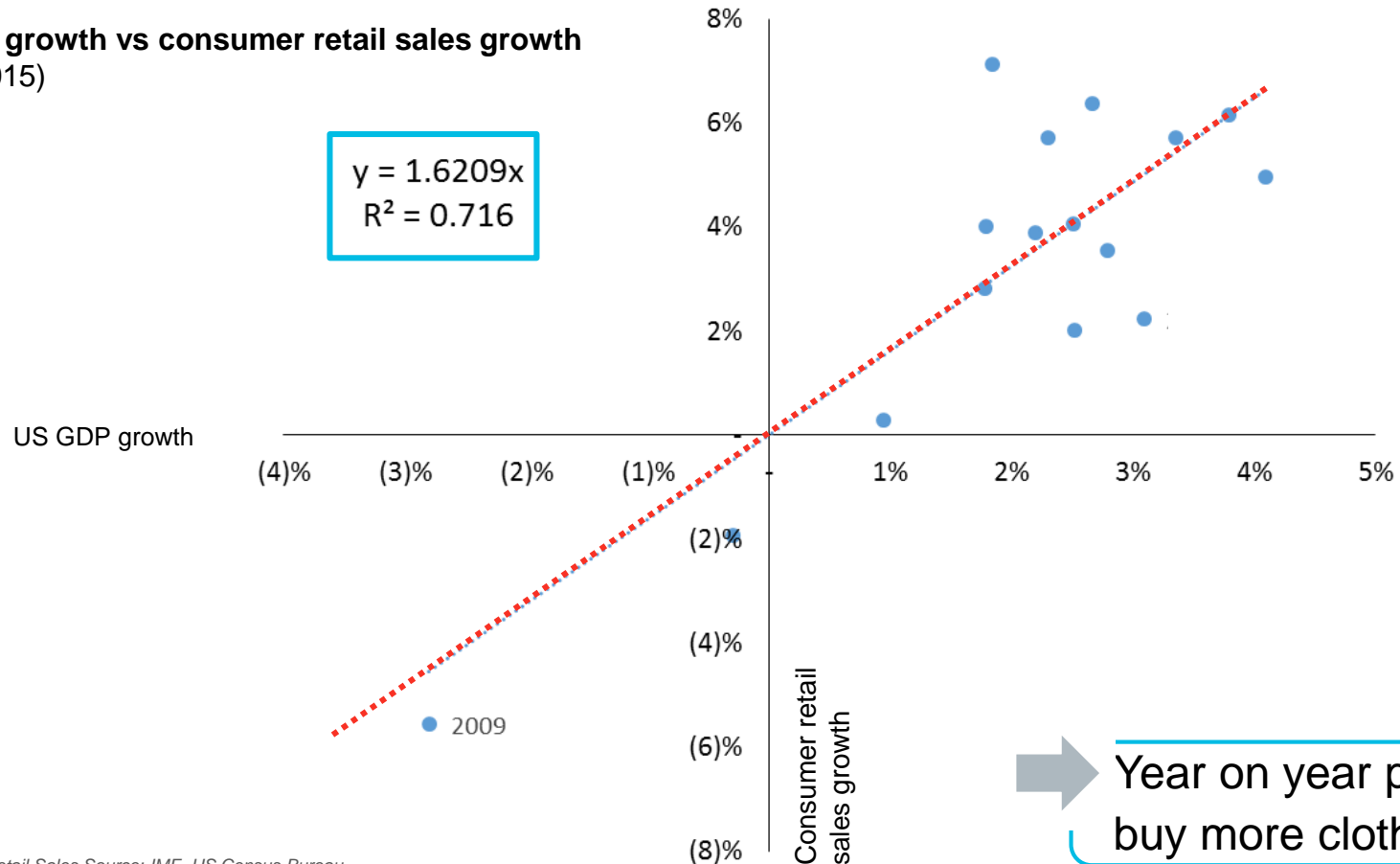
Leading consumer brands, strong market positions and customer relationships; ability to **improve margins and deliver consistent cash flow**

Apparel and Footwear: a growing, but stable underlying sector



- Strong link between clothing retail sales and GDP growth.
- For the US, clothing retail sales growth is approximately 1.6 times GDP growth

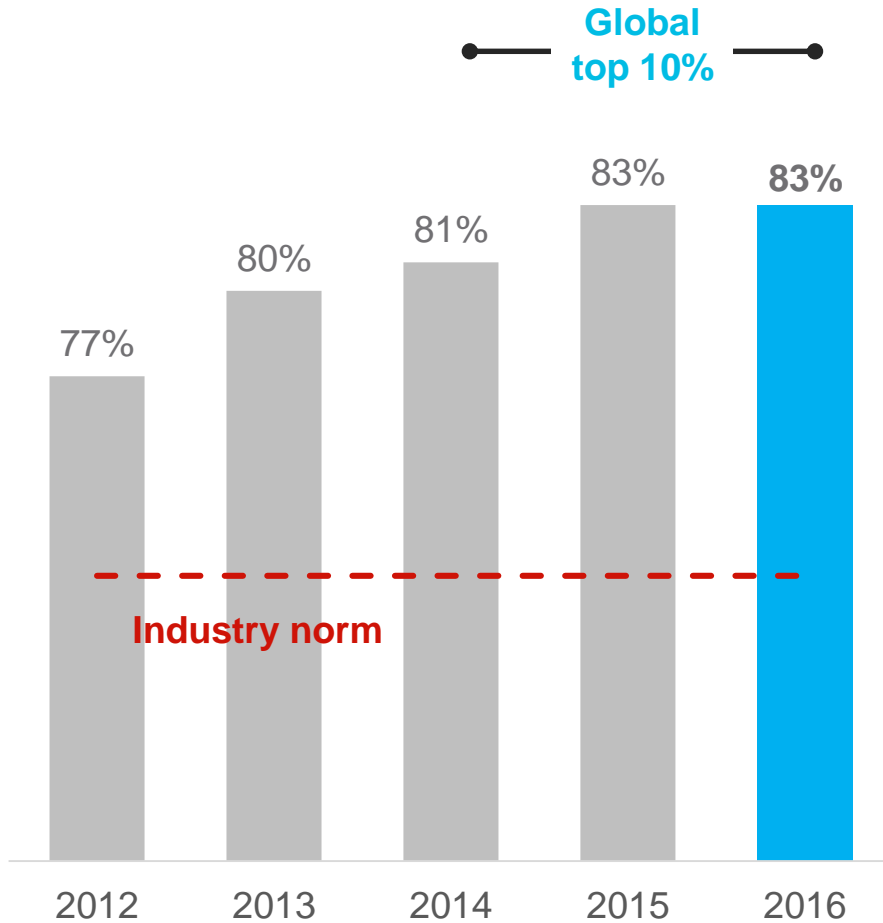
US GDP growth vs consumer retail sales growth (2000-2015)



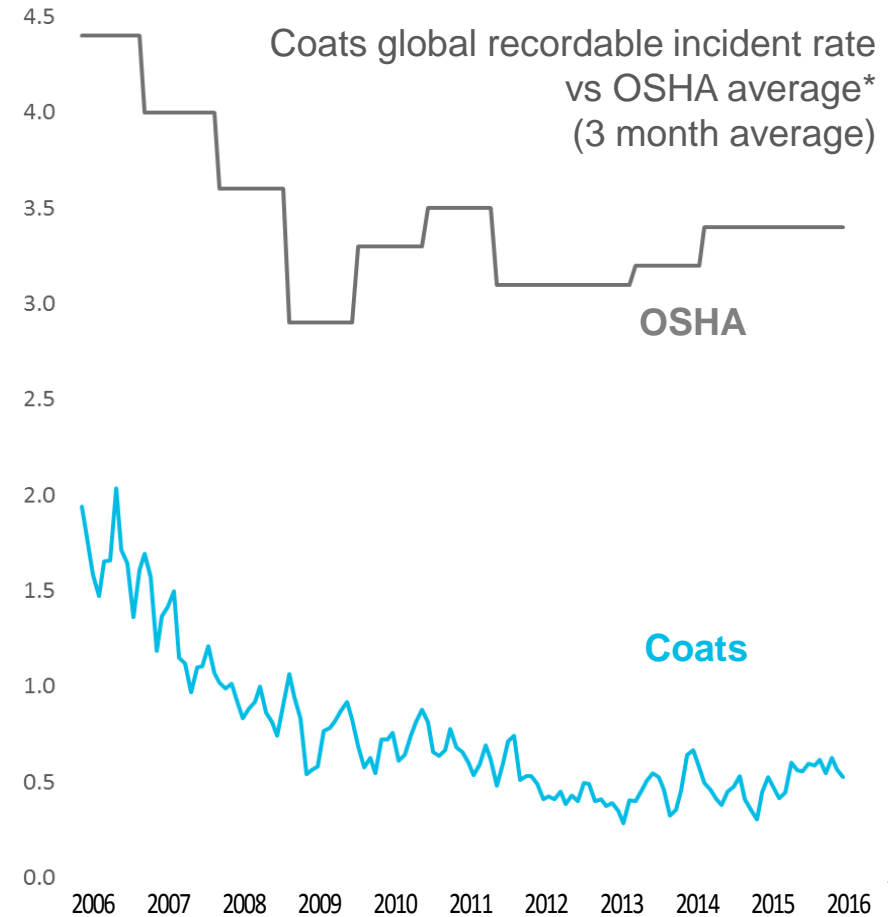
CRS: Clothing Retail Sales Source: IMF, US Census Bureau

Safe and engaged workforce

Employee engagement



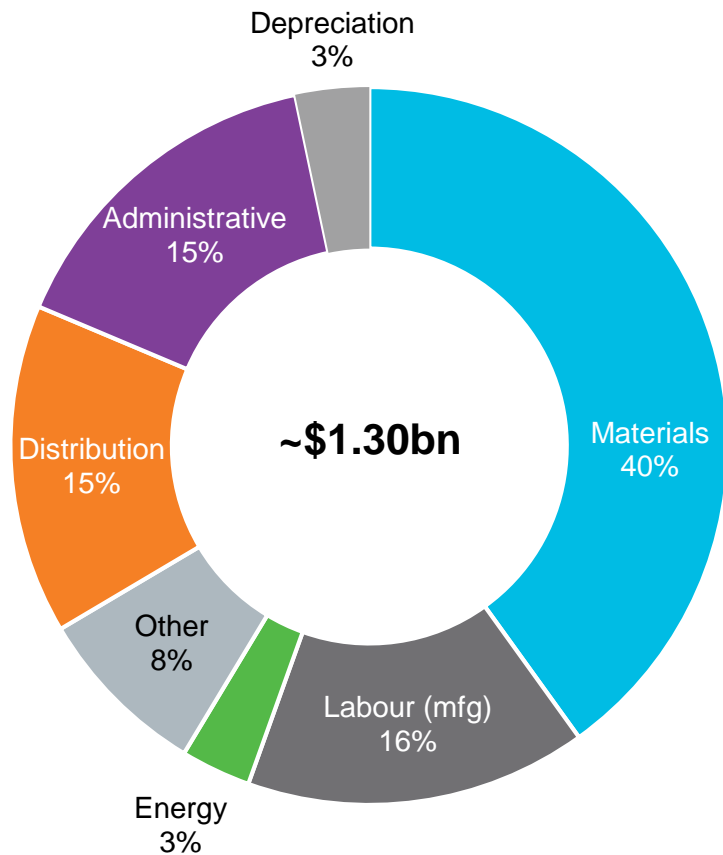
Recordable incident rate



* Occupational Safety and Health Administration, agency of US Department of Labor, average of US textiles mills

Cost base

Pre-exceptional costs – 2016



- 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

Finance costs and foreign exchange movements

Operating items

- \$3m lower interest partly due to fixed rate swaps coming to an end
- \$4m lower investment income primarily relates to \$3m compensation received in 2015 from historic state-financing arrangement
- Other includes ~\$5m unrealised losses on FX contracts in part due to depreciation of GBP vs USD

Parent group

- Reduced FX exposure by moving balance to GBP in H2'15 (\$3m FX loss in 2015)
- Consequently investment income fell to \$2m due to lower interest rates on GBP holdings

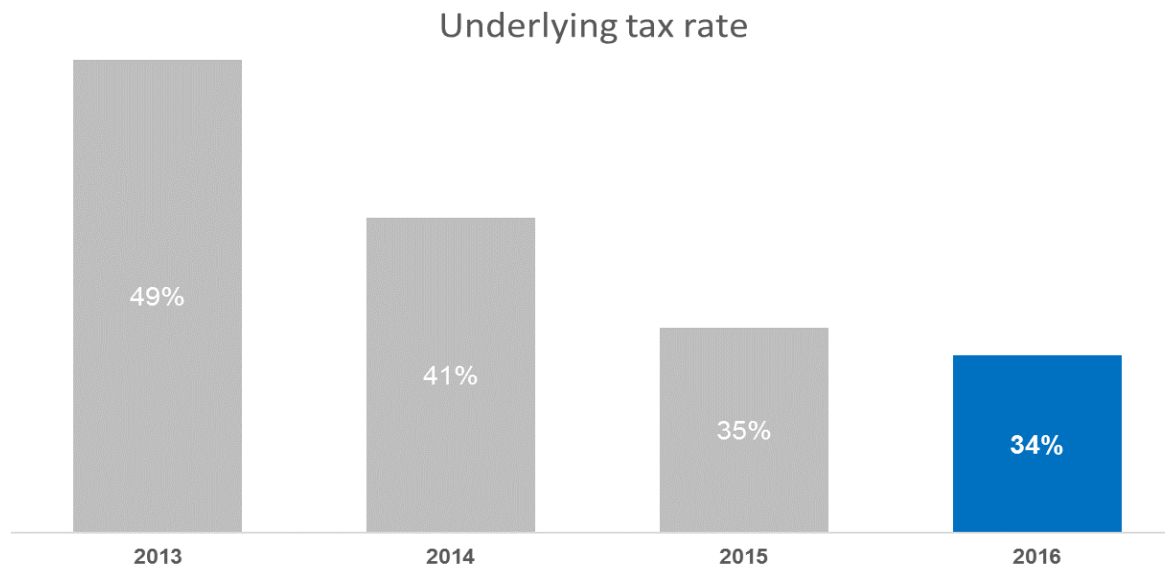
Pensions finance costs

- \$3m decrease due to lower IAS19 pensions deficit at y/e 2015 (compared to y/e 2014).

\$m	2016	2015
Operating items		
- Interest on bank and other borrowings	(14)	(17)
- Investment income from operating activities	2	6
- Other (including unrealised gains / (losses) on FX contracts)	(8)	(5)
Parent Group		
- FX (losses) / gains on parent group cash	-	(3)
- Investment income on parent group cash	2	5
Pension finance costs	(14)	(17)
Total finance costs	(32)	(31)
Adj EPS impact (exc FX losses / gains)	(32)	(28)

Taxation

- Reported tax rate 38% (2015: 54%)
- Underlying tax rate¹ (UTR) reduced 100bps to 34%
 - Reduction in unrelieved losses
 - Favourable change in profit mix
- Improvement in UTR benefits EPS



¹ Excludes exceptional and acquisition related items, IAS19 finance charges and FX gains/losses on parent group cash



Pension schemes: income statement and cash flow impact

\$m	Brunel		Staveley		Coats UK		Total UK		Coats other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Service charge	-	-	-	-	2	4	2	4	7	8	9	13
Administrative expenses ¹	1	2	2	2	4	7	8	9	1	1	8	11
Pre-exceptional operating profit impact	1	2	2	2	6	11	9	14	8	9	17	24
Exceptional administrative expenses	-	-	-	-	-	1	-	1	-	-	-	2
Operating profit impact	1	2	2	2	6	12	9	16	8	9	17	26
Finance charge	2	3	2	3	9	11	13	16	1	1	14	17
Total income statement impact	3	5	4	5	15	23	22	32	9	10	31	43
UK contributions for active members	-	-	-	-	1	3	1	3	-	-	1	3
Cash payments to pensioners and other	-	-	-	-	-	-	-	-	7	8	7	8
Cash outflow within adjusted FCF	-	-	-	-	-	3	-	3	7	8	8	11
UK recovery contributions and admin expenses paid ²	27	9	53	3	19	21	99	34	-	-	99	34
Mexican reorganisation	-	-	-	-	-	-	-	-	-	2	-	2
Total cash outflow	27	9	53	3	20	24	100	37	7	11	107	48

1. Administrative expenses of Brunel, Staveley and Coats UK plan equate to UK Pension admin charge in segmental operating profit split on slide 11

2. As per pensions recovery payments line in adjusted FCF to change in net cash reconciliation table on slide 15

Pension schemes: balance sheet positions

31 Dec	Brunel		Staveley		Coats UK		RoW schemes		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<i>\$m</i>										
Assets	157	162	274	253	1,886	2,138	241	235	2,559	2,787
Liabilities	(222)	(233)	(319)	(339)	(2,353)	(2,402)	(275)	(274)	(3,169)	(3,249)
Net deficit	(64)	(72)	(45)	(87)	(467)	(264)	(34)	(39)	(610)	(462)
Unrecognised asset	-	-	-	-	-	-	(16)	(8)	(16)	(8)
Net deficit recognised	(64)	(72)	(45)	(87)	(467)	(264)	(51)	(47)	(627)	(469)
<i>£m</i>										
<i>Equities</i>	34	30	43	38	529	496			606	610
<i>Bonds</i>	63	56	169	108	870	835			1,102	1,060
<i>Other</i>	31	24	10	25	130	119			171	158
Total assets	128	110	222	171	1,529	1,450			1,879	1,731
Liabilities	(180)	(158)	(258)	(230)	(1,907)	(1,629)			(2,345)	(2,017)
Net obligation	(52)	(48)	(37)	(59)	(378)	(179)			(467)	(286)
Discount rate (%) ¹	2.50	3.60	2.50	3.60	2.50	3.60				
Inflation (%) ²	3.30	2.95	3.30	2.95	3.30	2.95				
Rate of increase in pensions in payment (%)	3.15	2.85	3.15	2.85	3.15	2.85				
Life expectancy	26.2	26.1	25.5	25.4	25.8	25.7	For male retiring today at 60			
Increase in real discount rate to eliminate deficit (bps) ³	90	345	130	250	95	140				

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 2016: 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. The liabilities have also been reduced by the £235m Coats and Brunel settlement payments...



For more information

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