

PENSION PRESENTATION
UPDATE ON PENSIONS REGULATOR PROCESS

MAY 2013

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Presentation Team

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- ❑ Richard Howes - Coats plc Chief Financial Officer
- ❑ Richard Jones - Punter Southall Transaction Services
- ❑ Dan Schaffer – Herbert Smith Freehills LLP, Partner and Head of Pensions

1. What has happened?

- ❑ TPR wrote to GPG plc in April 2013.
- ❑ TPR has not issued a “Warning Notice”
- ❑ TPR is *investigating* whether there are grounds to issue a “Warning Notice” in respect of Coats and Brunel schemes
- ❑ Most investigations by TPR do not lead to a Warning Notice for FSDs/CNs
- ❑ Negotiations with Coats Trustees on April 2012 valuation continue – TPR investigation may impact timing of the process
- ❑ GPG plc has only been in discussions with TPR since April 2013
- ❑ No TPR investigation as yet in respect of Staveley scheme – but position being analysed nonetheless by GPG plc

2. TPR powers under Pensions Act 2004

- ❑ Since 2005, TPR has been able to force companies to support pension schemes within the same corporate group by issuing:
 - ❑ A “**Financial Support Direction**” – only 1 financial support arrangement since 2005 (Sea Containers 2009). 3 further cases in legal process (Nortel (2010), Lehman Bros (2010), Box Clever (ITV) (2011)) – all insolvent companies
 - ❑ A “**Contribution Notice**” – only 1 issued against corporate. Bonas - TPR sought £20m, settled for £60,000
 - ❑ From publically available information only one “Warning Notice” for FSD issued so far in respect of a scheme with employers with an ongoing business/not in distress-insolvency (Great Lakes 2011 where no FSD ultimately issued)
 - ❑ No “Warning Notice” issued against GPG plc by TPR to date

3. Criteria for being able to issue a FSD

- “Connected with” or “an associate of” (Insolvency Act definition) – GPG plc: Yes

- Two part test:
 - “Insufficiently resourced” (statutory test) (or service company)

 - “Reasonableness” (TPR can only issue FSD where reasonable to do so)

4. “Connected with” / “associate of”

- ❑ Defined by Insolvency Act 1986 definition
- ❑ Usual for all wholly owned subsidiaries in a group to be “associated” with parent company
- ❑ GPG plc satisfies criteria in respect of the sponsoring employers of the Coats and Brunel schemes (and Staveley scheme)

5. “Insufficiently resourced” (1/2)

- ❑ Is value of the resources of the sponsoring employers of the Coats/Brunel schemes less than 50% of the estimated s75 (buy out) deficit?
 - ❑ Work being completed for Brunel – looking like it is “insufficiently resourced” (not formally confirmed however)
 - ❑ Coats is in the process of being assessed
- ❑ Coats scheme:
 - ❑ buy out deficit of c£1.4bn is not correct
 - ❑ calculated by Scheme Actuary as £0.8bn (April 2012). Company advisers estimate current position is broadly unchanged.
 - ❑ in any event, “insufficiently resourced” test is against each employer’s share of overall buy out deficit (there are three Coats scheme employers). Therefore not correct to refer to whole buy out deficit

5. “Insufficiently resourced” (2/2)

- ❑ Is value of GPG plc's resources more than difference between value of the resources of the sponsoring employers of Coats/Brunel schemes and 50% of each employer's share of estimated s75 (buy out) deficit?
 - ❑ Work being completed in respect of Brunel scheme – if Brunel employer is insufficiently resourced it is anticipated that GPG plc would satisfy this part of the test
 - ❑ Coats scheme is in the process of being assessed

6. “Reasonableness”

- ❑ Very limited precedent indicating what “reasonableness” means in FSD context
- ❑ Lehman and BMI (Lufthansa) were insolvency/distress cases
- ❑ Each case highly fact sensitive
- ❑ TPR required by Pensions Act 2004 to consider all relevant factors
- ❑ Receipt of financial benefit is relevant to reasonableness – but not the only factor

7. “Reasonableness” and GPG plc

- ❑ GPG plc expects that investment realisation proceeds equivalent to £124m will be required to be retained by the GPG Group for Brunel and Staveley schemes
- ❑ The transition plan to New Coats will include a thorough review of the appropriate capital structure
- ❑ To date, GPG plc has been advised that it would not be reasonable for TPR to require GPG plc to support the Coats scheme or the Brunel (or Staveley) schemes over and above this £124m
- ❑ Independent review now being conducted to help assess any potential exposure and advise on GPG plc’s response

8. What happens now?

- ❑ GPG plc in regular contact with TPR
- ❑ TPR investigations do not move quickly and to follow the process could take many months if not years
- ❑ Capital returns by GPG plc are suspended until we are clearer on TPR's position and pending the outcome of the independent review
- ❑ In meantime GPG plc will work constructively with TPR and Coats/Brunel trustees
- ❑ If following investigation TPR case team is minded to issue a "Warning Notice", case will be heard by independent Determinations Panel and Upper Tribunal where usually affected parties will have right to make written and verbal submissions
- ❑ We have the opportunity to settle at any stage