COATS GROUP PLC
ANNUAL REPORT 2019

Delivering with every fibre

Connecting – Pioneering – Trusted

DELIVERING WITH EVERY FIBRE

CONTENTS

Strategic report
01 2019 full year results and highlights
02 Coats at a glance
04 Chairman's foreword
05 Investment case
06 Group Chief Executive's statement
08 Market trends
10 Business model
13 Our strategic framework
14 Our strategic goals
15 Our strategic pillars
17 Key performance indicators
19 Stakeholder engagement
25 Working responsibly
31 Principal risks and uncertainties
40 Operating review
44 Financial review

Corporate Governance
47 Chairman's introduction
50 Board of Directors
53 Corporate Governance Report
59 Audit and Risk Committee Report
64 Nomination Committee Report
66 Directors' Report
69 Directors' responsibilities statement
70 Director's Remuneration Report
86 Director's Remuneration Policy

Financial statements
95 Independent auditor's report
105 Primary financial statements
111 Notes to the financial statements
176 Company financial statements
179 Notes to Company financial statements

Other information
181 Group structure
187 Five-year summary
188 Shareholder information

WE ARE CONTINUING TO TRANSFORM FOR GROWTH AND ARE COMMITTED TO DELIVERING SUSTAINABLE VALUE

Coats is the world's leading industrial thread company. Through innovative solutions and sustainable values, we create durable products that touch humanity, protect and improve lives, and form the fabric of life.

This report details how we are delivering for our customers, their industries, our shareholders, our people and the communities in which we operate.

We are achieving this by focusing on three key areas.

- Connecting – for over two centuries, we have developed a global footprint and unrivalled talent base connecting with our stakeholders to give us unrivalled access to markets, garment manufacturers and brand owners.

- Pioneering – we are always seeking to create advanced products and services. We partner with customers across multiple industries to understand and meet the challenges they face by delivering innovative solutions.

- Trusted – our success rests on our reputation. It is enabled by the trust of the people we do business with, the communities we operate in, our employees and our shareholders. Sustainability sits at the heart of this.

Find out more online:

- For a more visually engaging way to read about our progress in the year see our online 'Year in Review' at www.coats.com/ara2019

- A full copy of this Annual Report can also be downloaded from www.coats.com/investors

- Throughout this document you will see references to where supporting information can also be found online at www.coats.com

Sustainability Report

- To read our Sustainability Report, and for more on our policies, their impact and our approach to 'Pioneering a sustainable future', go to www.coats.com/sustainability

FTSE4Good

THE GLOBAL COMPACT

2019 FULL YEAR RESULTS AND HIGHLIGHTS

Continuing operations: Revenue ($m)

Ⓐ Adjusted operating profit ($m)

Operating profit ($m)

Key Performance Indicators

We have indicated with * those measures we consider KPIs. See pages 17 and 18 for more details and historical performance.

1. Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 37. Constant exchange rate (CER) figures are 2018 results restated at 2019 exchange rates. Organic figures are results on a CER basis and excluding contributions from bolt-on acquisitions (Threadsol). Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.

2. Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.

3. All figures on a continuing basis (i.e. exclude North America Crafts which is presented as a discontinued operation), unless otherwise stated.

4. IFRS 16 (leases) applied on a prospective basis from 1 Jan 2019; 2018 as previously reported, and excludes impacts of IFRS 16.

5. Underlying effective tax rate removes the tax impact of exceptional and acquisition related items and net interest on pension scheme assets and liabilities.

Ⓐ Alternative Performance Measures – see note 37 on page 172 to 175

Financial performance

Continuing operations [3]	2019	2018	Change	Ⓐ CER change [1]	Ⓐ Organic change [1]
Adjusted [1]					
Ⓐ Operating profit	$198m	$195m	2%	5%	6% *
Ⓐ Operating margin	14.3%	13.8%	50bps	50bps	60bps
Ⓐ Basic earnings per share	7.0c	6.9c	1% *		
Ⓐ Free cash flow	$107m *	$96m	11%		
Ⓐ Return on capital employed (ROCE)	42.3% *	42.6%	(30)bps		
Reported [2,3]					
Revenue	$1,389m	$1,415m	(2)%	1%	1% *
Operating profit	$191m	$147m	30%	34%	35%
Basic earnings per share	6.7c	3.9c	73%		
Net cash generated by operating activities	$144m	$102m	41%		
Net debt (incl. IFRS 16 [4])	$215m	$223m	n/a		
Full year dividend per share	1.85c	1.66c	11%		

Financial highlights

- Revenue growth of 1% on a CER basis in line with November trading update; 2% decline on a reported basis as a result of H1 foreign exchange translation headwinds.
  - Apparel & Footwear CER revenue growth of 1.0%; core thread sales up 2.1% driven by on-going share gains;
  - Performance Materials CER revenue growth of 1.4%; growth in Personal Protection, and Telecoms and Energy, offset by Transportation.
- Adjusted operating profit up 5% on a CER basis to $198 million; adjusted operating margin up 50bps to 14.3%.
- Adjusted EPS up 1% to 7.0 cents; 200bps reduction in underlying effective tax rate[5] to 29%, offset by certain non-operational one-offs (e.g. initial impact of IFRS16 (leases) and higher year-on-year pension finance charge).
- Adjusted free cash flow of $107 million reflecting strong cash conversion; supporting 11% growth in dividend.
- Closing net debt (excl. IFRS 16) of $150 million; net debt (incl. IFRS 16) of $215 million (0.9x leverage).
- Reported operating profit of $191 million (up 30%) and basic EPS of 6.7 cents (up 73%); continued strategic progress and significantly lower net exceptional costs in the year.

Strategic highlights

- Connecting for Growth two-year transformation programme now concluded:
  - Cost actions completed ahead of original expectations and faster than scheduled; final two-year net savings of $28 million; exceptional reorganisation charge $31 million;
  - On-going focus now on driving reinvestments in innovation and digital; three innovation hubs now open; $16 million incremental sales from innovation in 2019.
- Sustainability: significant progress towards 2022 targets; dedicated ESG Investor Event hosted in London.
- Acquisition of Pharr High Performance Yarns, announced in November 2019, now completed; combination with existing Personal Protection business delivers significant scale and market leadership in attractive growth market.
- Balance Sheet in a strong position to drive ongoing operational growth initiatives, fund further value-added M&A in key strategic focus areas, and deliver shareholder returns.

COATS AT A GLANCE

COATS IS THE WORLD'S LEADING INDUSTRIAL THREAD COMPANY. HEADQUARTERED IN THE UK, WE OPERATE GLOBALLY AND IN 2019 GENERATED REVENUES OF $1.4BN.

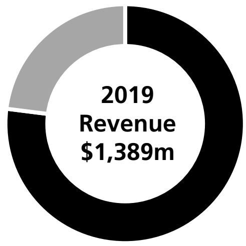
What we do

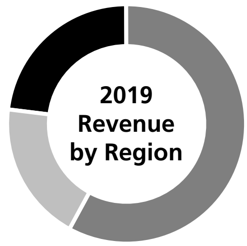
We deliver innovative and value add product and service solutions for our c.40,000 global customers to meet the design specifications they require.

Our products are a small but critical component in international global industries such as Apparel and Footwear, Telecoms and Energy, Personal Protection and Automotive industries.

Sustainability is at the heart of our core business values. We look to do business at all times in an ethical manner, respectful of our environment, and delivering peace of mind for our customers.

Each year we aim to produce more from less of the planet's resources.





$1.4bn Group revenues
14.3% Operating margins

$107m Free Cash Flow
42% Return on Capital Employed

Where we operate

Headquartered in the UK and quoted on the London Stock Exchange, we have a global sales presence and digital platforms to enable us to serve customers wherever they are located. Our unrivalled global reach and footprint serve as one of our competitive advantages.

Sales in around **100** countries

c.40,000 Customers globally

250 Years of textiles experience

How we operate: Our Sustainability Strategy

Our strategy 'Pioneering a sustainable future' focuses on five priority areas:

- Water
- Energy
- Effluent & emissions
- Social
- Living sustainably

We launched our strategy in 2019 with challenging targets for 2022 and 2024. We have made good progress towards the targets, but much remains to be done.

Action plans are in place to deliver across all of them. In 2019 we revisited our materiality assessment, and though there have been changes we can confirm that our strategy continues to align to our key material issues.

COATS AT A GLANCE
CONTINUED

APPAREL & FOOTWEAR

2019 revenue: $1,063m
2019 operating profit: $156m (14.7% margin)

We are the trusted value adding partner, providing critical supply chain components and services to the $1.8tn global Apparel and Footwear industry. Our portfolio of world class products and services exist to serve the needs and requirements of our customers and brand owners.

Main customer markets

We ultimately supply products and services to premium global brands across many end uses such as active sportswear, denim, sports footwear, and apparel tailoring.

30,000
Apparel & footwear manufacturers

4,000
Retailers & brands

Product type	End uses	Key Coats brands
Apparel, footwear & accessories threads (c.85% of A&F sales)	Menswear, ladieswear, activewear, outdoor, denim, workwear, intimates and footwear	Epic, Dual Duty, Seamsoft, Nylbond, Gral, Gramax, Astra, Sylko and Knit
Zips, trims and crafting (c.14% of sales)	Zips, interlinings, reflective tapes, and Crafting products (Latin America)	Opti, Permess, Signal and Connect
Software solutions (c.1-2% of sales)	Enabling supply chain productivity gains, increasing speed of supply and facilitating compliance	Coats Digital – including Fast React, Vision, GSD, Evolve, ThreadSol, Intellocut and Intellobuy

PERFORMANCE MATERIALS

2019 revenue: $326m
2019 operating profit: $42m (12.8% margins)

We are experts in the design and supply of a diverse range of technical products that serve a variety of strategic end use markets.

Derived from our longstanding global market leading Apparel and Footwear thread expertise, which has been built up over 250 years, we are able to provide niche solutions to meet our customers' needs by incorporating specific design features into various thread and yarn based products.

Main customer markets

These include hi-tech applications for the Telecoms and Energy sector, Personal Protection clothing and solutions for Transportation sector.

$16m
Incremental new product sales in 2019 from innovation

End use sector	End uses	Key Coats brands
Telecoms and Energy (c.20% of PM sales)	Protective layers for cables / steel replacement composites	Ultrabloc, Gotex ARG, Gotex FG, Aptan
Personal Protection (c.30% of sales)	Combining comfort, safety and protection – fire retardant and cut resistant threads and yarns	FlamePro, Flame Master, FlamePro Splash Protect, Firefly, Protos
Transportation (c.15% of sales)	High performance threads and yarns for various parts of the automotive industry	Neophil, Aptan XTRU
Household and Recreation (c.20% of sales)	Everyday consumer applications, including bedding / quilting / tea bags	Gral, Opti
Other Industrial Applications (c.15% of sales)	Various other technical applications for light / strong / flexible / innovative threads	Admiral FH, Prolene, Magellan

CHAIRMAN'S FOREWORD

Dear Shareholder,

Coats has a long standing heritage and our success has, and will always rely on, our ability to continually evolve the business and refocus our activities to meet the needs of our current and future customers. Our purpose, behaviours and principles guide all that we do and we never lose sight of our core values. 2019 presented some difficult market conditions given disruptions to trade, sluggish market growth and high political and economic uncertainty. Although some of these headwinds will continue into 2020, along with the current uncertainty around the Covid-19 (Coronavirus) outbreak, we have a great opportunity to gain market share as we leverage our market leadership and customer relationships as trading opportunities improve.

Increasing agility whilst maintaining responsible business practices are consistent themes. We will continue to operate in an ethical and sustainable way to ensure that when we develop innovative, digital solutions, and provide quality products and services, we also deliver sustainable value and long term benefits for all our stakeholders.

Sustainable progress

Coats is a leader in the area of sustainability, underpinned by a long-standing commitment to high standards of corporate behaviour and responsibility. In March 2019, we launched our sustainability strategy, publishing our ESG priorities alongside ambitious targets across all of our operations. We are a business that strives to do the right thing, including from an environmental and sustainability angle, and developing the people and the communities in which we operate. From a governance perspective, we have also steadily improved the way we operate, both at Board level and across the world. I am proud of the fact that we have set stringent goals and made a very public commitment to these targets.

It is also clear that these approaches are important to our investors, our customers, and our staff. External recognition of our strengths in these areas also counts. In addition to our listing on the FTSE4Good index, I am pleased to announce that Coats is now a participant in the UN Global Compact, an initiative for businesses committed to aligning their strategies with 10 universally accepted principles in human rights, labour, environment and anti-corruption.

Looking back at the year under review

Due to the tough market conditions, delivering our commitment to growth has inevitably been challenging. However, following the successful execution of our global strategic transformation programme, we have now created the space to invest in the business and as a result of this I see significant opportunities in 2020.

At the end of the year, we agreed to purchase the business and assets of Pharr HP which further complements Patrick Yarns, the business we acquired at the end of 2017. We are building critical mass in our Personal Protection business, a key part of our Performance Materials segment. We have also continued to strengthen our innovation agenda by opening a further two Innovation Hubs in EMEA and Asia in April 2019, in addition to the Innovation Hub opened in the US in the latter part of 2018. Bringing our customers to these hubs and working together, we generate new ideas and we are now focused on accelerating the pace at which we commercialise these great ideas. We have already produced new products such as Flamepro™ Splash Protect from work undertaken in the hubs.

Coats Digital is our integrated software solutions business with great growth potential. It provides us with tools in which to improve the productivity and agility in the apparel supply chain, particularly as fashion cycles are increasingly getting shorter. Over recent years, we have acquired a suite of products that will enable our customers to run an increasingly agile and efficient business. Our long standing heritage gives us the experience and contacts across the sector, so joining the products together with that access and experience in the industry makes for a powerful combination.

A world class team

The Board visited several sites during the course of the year and also some key customers. What strikes me is the consistency with which we follow the sustainability agenda and the high health and safety standards at all of our sites, so that wherever we are in the world we recognise we are at a Coats site. When we visit our customers, I see that they are also embracing the sustainability agenda and are meeting the need to bring technology to bear to make them more agile to meet the tighter cycle times and mass customisation of products demanded by consumers today.

Coats has celebrated some key milestones this year, with the 50th anniversary of our operations in Bursa, Turkey, and our Vietnamese business celebrating 30 years of operations. Being global has been part of our DNA for most of our history and as one of the first truly global manufacturing multinationals, I take great pride in hearing the stories from our long serving staff in our sites and I am always impressed by the dedication and specialist knowledge of our teams across the world.

Dividend

The Board is proposing a final dividend of 1.30c per share which, combined with the interim dividend of 0.55c per share, gives a total dividend for the year of 1.85c (2018 full year dividend: 1.66c per share), which represents an 11% increase on the previous year. Subject to approval at the forthcoming AGM, the final dividend will be paid on 26 May 2020 to ordinary shareholders on the register at 1 May 2020, with an ex-dividend date of 30 April 2020.

Looking ahead

2019 was a year of significant change for Coats. We have focused on moving out of B2C and our sale of North American Crafts at the beginning of the year marks the culmination of this. We are now an organisation firmly focused on our core businesses and sectors, with an exciting digital agenda and a commitment to investing in innovation. I would like to thank our dedicated and highly engaged Board, our Group Executive Team and all our workforce across the world for their commitment and contribution to making Coats the success it is today. As we move into the next decade, our consistent performance coupled with the determined execution of our strategy ensures that the Board continues to look to the future with confidence.

Mike Clasper

Chairman

4 March 2020

INVESTMENT CASE

There are five elements to our investment case – each element is a strength in itself but together they combine to set us apart from our competitors, giving us a solid platform from which we can innovate, grow and deliver consistently strong shareholder returns.

Throughout 2019 we continued to review each element of our investment case and looked to align these more closely to the future core operations of our key business segments and the ongoing integration of recent acquisitions.

Element	Which provides us as an organisation with:	Key attributes of this element	Highlights in 2019
1. Global market leader in Apparel and Footwear (A&F)	A strong and defendable core business representing some 77% of Group sales	Global leader in A&F thread market Consistently increasing market share in a stable market Leading the response to meet changing industry needs – speed, productivity, innovation, quality, responsibility and sustainability	**+2%** Sales growth in A&F thread – continued market share expansion **+5%** Sales growth in premium brands such as Epic and Nylbond
2. Leading player in Performance Materials market	Ability to build scale through technology, innovation and acquisition. Representing some 23% of Group sales	Global presence in multiple but focused end use sectors; building scale both organically and inorganically Performance Materials offer products that guarantee performance and safety, and solve customer solutions through applying our vast textile expertise Innovation in developing or acquiring new competencies and technologies – such as lightweight carbon and innovative composites	**+1%** Revenue growth **+6%** Organic sales growth in key strategic focus area of Personal Protection **>20%** Of revenues from products that did not exist 5 years ago
3. Track record of delivering continuous improvements and operational excellence	Focused improvement programmes and experienced management to deliver margin and other financial improvements Ensuring the Group is 'fit for purpose' and agile in the modern high-paced world	Productivity gains and procurement initiatives Investing in energy / waste reduction to improve operational efficiencies Global transformation programme – Connecting for Growth (C4G) – delivered ahead of schedule General cost discipline around the organisation	**+6%** Adjusted organic operating profit growth through focussing on operational improvement initiatives – for example procurement and productivity savings, general cost control and C4G savings more than offsetting input cost pressures **+30%** Reported operating profit – significantly reduced exceptional items **$28m** Net benefits from 2-year C4G programme **42%** Sustained strong return on capital employed (ROCE)
4. Track record of delivering free cash flow	Strong cash flow generation and high ROCE	Balancing key cash demands of organic investment, pension schemes and shareholder returns Sustained high levels of ROCE over recent years	**+11%** Full year dividend payment of 1.85c per share **$107m** Adjusted free cash flow
5. Value adding acquisitions	Ability to build scale in the strategic focus areas which are currently fragmented competitively	Continue to identify strategic and value add bolt-on acquisitions principally in the areas of hi-tech Performance Materials and software solutions for the Apparel and Footwear industry	Completion of Pharr HP acquisition delivering further scale and presence in the attractive Personal Protection growth market **0.6x** Strong balance sheet leverage position providing significant fire power to complete further value-added deals

For more go online www.coats.com/investor

Ⓐ Alternative Performance Measure see note 37 on page 172.

GROUP CHIEF EXECUTIVE'S STATEMENT

'WE ENTER 2020 AS A PURE INDUSTRIAL B2B BUSINESS THAT IS FITTER, FASTER AND AGILE.

WE ARE A GLOBAL MARKET LEADER WITH A CLEAR STRATEGY, STRONG TEAM AND ROBUST END-MARKETS.'

Dear Shareholder,

Coats is entering 2020 having made significant positive strategic progress during 2019. We have successfully completed our strategic transformation programme called Connecting for Growth (C4G), that we launched in 2018. We have completed this ahead of schedule, with greater cost savings than originally expected, and with minimal reputational or operational risk. It has been one of the best planned and executed transformation programmes over my career. We have been able to start reinvesting a proportion of the gross savings from C4G to accelerate our capabilities in digital, innovation and sustainability. Today, the organisation is fitter, faster and more agile than ever before which will allow us to navigate market volatility and uncertainty (e.g. the recent Coronavirus outbreak) with greater confidence and speed.

2019 performance

I am pleased to report another year of growth in profits, margins and cash, despite a market backdrop where we saw lower than normal growth in retail sales of Apparel and Footwear (exacerbated by US-China trade tensions), and temporary softness in some of the industrial end-markets that we serve in Performance Materials. We delivered sales growth in Apparel & Footwear by taking market share, improving our product mix and effective pass through of raw material inflation. 2019 was a year where ESG and sustainability was firmly and increasingly on the agenda of many brands and companies in our industry. It is fast becoming a license to do business with several global brands.

Globally, industrial output was dampened and this notably impacted two of our five end-markets in Performance Materials. Global automotive production was down year-on-year and Telecoms (in H2) had large infrastructure investment projects delayed in Europe. We launched several new products in 2019 with the best seller being Flame pro, an innovative yarn that goes into the manufacture of protective clothing.

Despite this market backdrop, we delivered growth in profit, margins and cash by executing well with our internal productivity and self-help programs. Coats has a high ROCE and a strong Balance Sheet. This allows us to invest in growing the company organically and through acquisitions.

Strategic update

We have delivered excellent strategic progress in 2019. At the start of the year we completed the exit of our non-core North American Crafts business, which means we are now a fully focused industrial B2B business producing thread for the Apparel and Footwear industry, and chosen attractive end-markets in our Performance Materials segment.

On the acquisition front, we are pleased to have acquired Pharr High Performance Yarns (Pharr HP). The Pharr acquisition adds to our five previously completed deals, and further takes us down our value-add acquisition journey.

The latest Pharr HP acquisition is in line with our stated strategy in Performance Materials of building scale in our chosen end-markets; in this case, combined with our existing organic business, this gives us around 20% share of the addressable market in the attractive growth end-market of Personal Protection. We will drive forward performance and margins in this business to extract significant incremental shareholder value.

Connecting for Growth - reducing cost & complexity

We have now successfully closed the two-year Connecting for Growth programme, ahead of schedule, delivering higher benefits than originally anticipated, and for broadly the same overall cost. In total, we delivered $28m of net annualised savings from the programme, which is after the planned reinvestments, for a cost of $31m.

We are now a lean and agile business, ready to thrive in the modern business world. As part of the programme we have rationalised our regional structure from around 45 separate country management teams to seven scalable and coordinated clusters, and we have extracted our back office local support functions to being global expert teams (e.g. finance / legal / HR) supporting the wider business. We have continued to trim the portfolio effectively by exiting some small tail-markets, and rationalised certain tail customers / products; we have exited five smaller markets during the year, and during the course of the C4G programme reduced our SKUs down by over 1/3, with minimal loss to our customer experience. This continuous review of the edges of our portfolio is required to reduce non-value-added complexity. There is a small negative sales impact in 2019 due to exiting smaller markets which has partly impacted headline group sales growth, but this will help us get fitter and faster as an organisation in 2020.

GROUP CHIEF EXECUTIVE'S STATEMENT
CONTINUED

Connecting for Growth – reinvestments in innovation, digital and talent

Our focus now turns to driving incremental sales and value from the planned reinvestments of some of the gross project savings in the areas of innovation, digital and talent. This allows us to further raise the bar in delighting customers. It also allows us to move quickly and smartly in deploying resources to take advantage of market volatility and uncertainty.

In the area of innovation, we now have three Innovation Hubs open with China and Turkey opening in the spring of 2019 following the opening of our US Hub in October 2018. These are proving, as expected, to be of significant value for our customers as they work with our technical experts in real-time, on dedicated machinery, to develop innovative solutions for their specific design needs. In 2019 alone, we have seen $16 million of incremental sales driven largely from these new facilities. The innovation infrastructure we have now built will allow for faster and bigger levels of customer innovation in the coming years, and we will continue to invest in new technical talent to drive this progress.

In the digital space, we continue to make progress on our customer facing tools to enable better customer experience and more value delivery. The analytics engine allows us to better serve customers and organise our internal supply chain. On the latter we have launched pilots during the year to stream data insights from our manufacturing lines to manage inventory and labour more efficiently. We also track in real time the performance of a number of our effluent treatment plants. We are continuing to roll out investment in the digital space, including investing in appropriate technology and talent.

Sustainability

There is an ever-increasing momentum around the sustainability agenda within our industry, and from other key stakeholder groups (e.g., financial markets). This has long been at the forefront of Coats' thinking, and "doing the right thing" has always been core to our values. We are delighted that this focus on responsible business and ethical behaviour is now becoming mainstream in the industry, and we intend to leverage our leadership position in this space not only for our own benefit but also for the good of the industry and our planet. This is one of many key differentiators in our offering, and the incremental peace of mind this delivers for our partners partly underpins our market share gains. We expect this to become an increasingly important differentiator in the coming years, and reflecting this we will be linking management remuneration from 2020 onwards in part to our performance on key sustainability metrics.

In 2019 we launched our inaugural Sustainability Report, and alongside this Annual Report, we have launched our latest update report on sustainability. This outlines our progress towards our medium term targets, which are on track, as well as our many other activities in this space, for example the hosting of a dedicated ESG event for financial investors/analysts at the London Stock Exchange in June 2019.

For more details of our activities/targets in this area, please see www.coats.com/sustainability

Looking ahead

We enter 2020 as a lean and agile organisation, having delivered significant positive strategic change through 2019. We are well placed to take advantage of the fast-paced and rapidly changing modern world, by capturing the many opportunities this presents to Coats as a truly global business.

Absent a material impact from Covid-19, Coats remains well placed to execute our strategy and deliver another year of growth in 2020.

Rajiv Sharma
Group Chief Executive
4 March 2020

MARKET TRENDS

What markets do we serve?

Apparel and Footwear (A&F)
Coats is the global market leader in supplying premium thread to the A&F industries, and are estimated to be more than twice the size of our nearest thread competitor. The global market for thread is estimated to be c.$4 billion and while thread represents only 1-2% of the cost of a typical garment, it is recognised to be a critical component in the overall garment performance and efficiency of the production process. We are one of the few global players of a key supply chain component in the $1.5 trillion global apparel and c.$350 billion footwear industries which are projected to grow at low single digits in the medium term. We also provide software solutions to our customers which help drive speed, productivity, efficiency, and savings in their operations.

Performance Materials
We are global experts in the design and supply of high technology, high performance technical threads and yarn used in a range of industries which include personal protection, transportation, household and recreation, telecoms and energy, and other industrial end uses. We estimate the addressable market (i.e. into which we currently or could realistically serve in the near term) is c.$3.5 billion in size, of which c.$2.5 billion is in relation to high technology end uses (e.g. personal protection, telecoms and energy, and transportation), and as a result a market share of around 10%. We anticipate upper single digit medium term organic percentage growth in this area, with growth weighted towards higher technology end uses.

Trends that are impacting our businesses:

1. Speed to market
The rise of fast fashion, which has dramatically reduced the time between catwalk to high street, and consumers demanding more than just the traditional two season cycle has put tremendous pressure on the full garment supply chain. Not only do all participants need to act faster to respond to shorter lead times, they need to act smarter, focusing on productivity.

Our unrivalled global footprint means we are uniquely placed, across the entire component supply chain, to manufacture and distribute consistently high quality products to service retailers' multi-location sourcing strategies. We also have the industry leading digital tools such as our web-based service Coats Colour Express, the fastest thread sampling service in the world.

Trend #1: Our response in the year

Continued development and refinement of our customer facing digital tools – online payment facilities rolled out to 14 markets, 94% customer adoption.

Our new geographic cluster structure and back office support functions put in place through Connecting for Growth make us more agile and nimble as an organisation and enable us to respond to our customer needs in a quick and coordinated way on a global basis.

We have initiated pilot programmes within certain factories to retrofit sensors to our existing machines to stream data and drive insights into our production processes.

2. Innovative uses of threads, yarns and fabrics
Consumers are demanding more innovative products in every area of their lives and as a result new thread based application end uses continue to be identified. We are at the forefront of innovating smart thread and yarns to enhance the functionality or performance of many products in multiple end markets. This is a core competency in our Performance Materials business in which we have developed and grown sales in many new products such as flame retardant threads used in protective wear, and water swellable threads that protect fibre optic cables and composites that deliver high performance, light-weight solutions in industries such as oil and gas (e.g. deep water pipes) and automotive.

In addition in A&F, we continue to partner closely with global brands to help support their ambitious innovation agendas. We listen to their requirements and work with them to develop the required solutions. As a global market leader, with unrivalled customer connections and a history of delivering excellent customer service and solutions, we are at the forefront of the industry in working to develop these innovation solutions.

Trend #2: Our response in the year

All three of our Innovation Hubs are now open, which span the globe and reduce innovation lead times for our customers. Our innovation ecosystem is now largely in place, which provide customers with a dedicated capacity for us to develop their new product solutions. These are driving incremental new product sales; $16 million in 2019.

We have seen increased commercial interest from the automotive industry in the year in our innovative carbon composite solution – this provides a lightweight, low waste, steel replacement solution

3. Operating sustainably, increasing compliance and ethical standards
The global apparel and footwear market is coming under increased pressure to become more sustainable, which means requiring improvements from their supply chains. We are continuing to maintain our leadership position as a major component supplier by pursuing a strategy with ambitious targets related to a broad set of Environmental, Social and Governance (ESG) issues.

As a result, a growing share of consumers, shareholders, authorities, brands / retailers and manufacturers are demanding more sustainable products and becoming increasingly focused

MARKET TRENDS
CONTINUED

on operating in a compliant and ethical way. Entire supply chains are coming under pressure not just to conform to local requirements but also to higher international standards as well – be these environmental, labour or sourcing.

Increasingly shareholders seek to protect the long term viability of their businesses and investments and ESG standards are being used by current and potential investors as a critical part of their assessment criteria. These challenges present both a need for driving change at scale but also an opportunity for long term value creation. This goes to the heart of Coats' values and standards. Our sustainability programme is integrated with our business strategy and helps us build and maintain both our reputation and our relationships with key stakeholders.

Specifically in relation to climate change we treat this as an emerging risk which means that it is considered at Board level and we will be developing our mitigation approaches during 2020. For more information in relation to our response to the climate change risk please see our separate Sustainability Report.

Trend #3: Our response in the year

During the year we undertook a strategic review of our sustainability activities, building on our long-standing leading credentials and commitments in this area, and launched the 'Pioneering a sustainable future' programme; this is based around our five key priority areas and aligned to clear targets to be achieved by 2022.

We also hosted a dedicated investor event on ESG related matters at the London Stock Exchange in June. This highlighted the commercial benefits of our leading sustainability credentials, as well as our fundamental belief that operating ethically is the right way to do business.

Our 100% post-consumer recycled thread, Epic EcoVerde, saw significant interest and traction in the market place during the year, especially with brands who are aligned to our ambitious sustainability targets.

4. Growth of the urban middle class in Asia

Globally, the A&F thread market is expected to grow by low single digits percentage over the medium term, but this is projected to be higher in Asia. In 2018 retail sales in North America and Western Europe for the first time accounted for less than 50% of all global sales. Not only will Asian consumers demand more garments in the future, but more affluent consumers will demand higher-end garments, so we expect that regional sales from our many factories in Asia will increase over time.

Demand for Performance Materials threads and yarns is increasing due to the pace of urbanisation (for example, the rollout of fibre optic cable networks) and economic growth, which means consumers purchase more products which require high performance materials (for example, leisure goods, automotive and personal protection).

Trend #4: Our response in the year

Our China Innovation Hub was opened, which focuses on A&F product solutions.

We have further invested in incremental capacity in select Asia markets to reflect the increased production demand in those territories.

Asia domestic sales whilst currently relatively small to the Group, grew by 8% in the year, which included a number of key customer wins.

5. Increasing adoption of digital services

Digital solutions and services are playing an ever-increasing role in everyday life and this is replicated in the industries in which we operate, giving us a market leading online proposition. Together with our Coats Digital software solutions business, we are applying digital technology and services proactively for the benefit of both our internal operations and as a service offering for our customers.

Our customer facing E-commerce platform has now seen adoption reach 86% (proportion of thread orders) and 94% (customer adoption) by the end of 2019. This is a crucial platform for us to engage with our customers online to deliver speed, convenience, transparency and efficiency and we continue to improve customer experience through further digitisation of the order to cash process.

We have been at the forefront of digital innovation by component suppliers to the global garment industry for several years now. Our Coats Colour Express service is the fastest thread sampling service in the world and Opti Express is a revolutionary zip sampling service. We are continuing to enhance the services of our online sales organisation to manage sales to smaller customers. Our Online Business teams provide high levels of service and technical support to customers, as well as enabling customers to place, monitor and pay for their orders using our market leading e-commerce platform.

Trend #5: Our response in the year

We have rebranded our software solutions business under the Coats Digital umbrella brand name, which provides a wide array of productivity / planning / efficiency software solutions for our customers.

Twine Solutions launch of the protype digital thread printing system in June 2019, at ITMA (Barcelona). Unique water-free printing technology received with significant positive interest in marketplace.

Continued progression of our Digital Advisory Council, reporting directly to the Board, provides latest insights and developments in technology and its impact / opportunity for Coats.

For more information on our market environment go online www.coats.com/investors

BUSINESS MODEL

Our business model

The elements of our business model

Goals and culture
We deliver both our purpose and our strategy through the way we work

Our purpose is to harness talent and technology to create thread, yarn and service-based solutions to benefit all our stakeholders – our customers and their industries, our shareholders, our people and the communities in which we operate

Our strategy 'Transforming from the Industrial to the Digital Age'

Our business model is built on our foundations of safety, compliance, sustainability, performance, speed, agility and technology

Apparel and Footwear		Performance Materials
Products We are the world's leading manufacturer and supplier of a range of industrial sewing threads, with leading products such as Epic (fashion apparel), EcoVerde (recycled thread), Dual Duty (denim) and Nylbond (footwear); under the Opti brand we are a major global manufacturer of metal, plastic and spiral zippers; we offer a growing range of other trim products to the global garment industry, such as reflective tape and premium interlinings.	**Services** Our newly launched brand offers a technology business with deep industry expertise delivering great customer value and ideally placed to solve the Apparel and Footwear industry's big problems – cost, speed, and transparency. Our most recent acquisition ThreadSol, which was completed early in 2019, complements our previous acquisitions of GSD and Fast React allowing us to offer an ever broader suite of industry leading consultancy, tools (e.g. cost benchmarking) and PLM software to garment manufacturers and brands / retailers.	**Products** We produce multiple innovative threads and yarns for traditional and high technology uses and sell directly to global original equipment manufacturers. End-markets include household and recreation, healthcare (medical sutures), transportation (airbag thread), telecoms (coated fibreglass to provide strength to fibre optic cables), oil and gas (composite tapes for reinforcing pipes), personal protection (flame retardant yarn) and composites (combinations of carbon fibre aramids, para and meta aramids, fibre glass, nylon, polyester). Our recent acquisition of Pharr HP expands our existing manufacturing capabilities, widens our innovation offering and drives further penetration into the Personal Protection market.
'Through our activities we make an economic impact that stretches far beyond the boundaries of our own operations as we buy from local, regional and global suppliers.'		

BUSINESS MODEL
CONTINUED

Capabilities	**Sales and marketing**	Through our network of customer and supplier relationships we have close interactions with the world's leading global retailers, brands and manufacturers and are able to respond quickly to their specific needs, pressures and aspirations.
	Manufacturing	We are able to service our customers with a globally consistent quality and colour that has been manufactured to high ethical, labour, and environmental standards. Whilst only 1-2% of the cost of a typical garment, seam failure as a result of lower cost threads can involve costly returns as well as reputational damage. Our products are tested and measured against stringent quality and safety standards. Above all, we provide 'peace of mind' to our customers.
	New product / process innovation	Through our global network we have a culture of seeking to innovate in the industries in which we operate. Following the opening of our first innovation hub in the US in 2018, we opened further hubs in China and Turkey in 2019, giving us a global innovation offering across both A&F and Performance Materials. These facilities provide a dedicated space to collaborate with our customers to deliver prototypes for their specific requirements. We expect these hubs to drive incremental new product sales which form a key part of our future growth prospects. Our R&D team works with customers to understand their needs, with support from academic institutions and specialist companies, developing new product solutions with our customers' needs always in mind.
	Technical	We use our expertise to support our customers by making thousands of technical interventions to help our customers on the shop floor every year.
	Digital	By offering an industry leading set of services, from colour sampling to online training, e-commerce to supply chain management tools, we make it easier to do business with us and offer greater value and time benefits to customers. We rebranded our software solutions business to Coats Digital during the year which brings all of our software solution tools under one single umbrella brand.

Core Strength	**Customer relationships**	We work with nearly 30,000 apparel, footwear and accessories customers, approximately 4,000 retailers and brands globally and around 8,500 customers in our Performance Materials business. These strong relationships, across all levels of our customers' organisations provides us with deep market insight.
	Global asset base	We manufacture at some 50 sites, on six continents, with 100+ warehouses, the majority of which are connected by a global ERP system; this ensures we are uniquely positioned to deliver consistently high service levels for the industries we serve on a short lead time basis.
	People	Our diverse international workforce of nearly 18,000 with an entrepreneurial and solution-focused culture is both highly engaged and committed, and valued by the organisation.
	Suppliers	We have a diverse and global supplier base of raw materials (predominantly polyester and nylon), intermediates (grey thread) and other materials (cones and chemicals). We proactively review market developments and continue to monitor and manage our supply chain carefully, as well as looking to transition to recycled inputs wherever possible (for more detail see our separate Sustainability Report). See Supplier Risk in the Principal Risks and Uncertainties table on page 27.
	Responsibility	'Doing the right thing' is in our DNA. Our strong environmental, social and governance (ESG) and corporate social responsibility (CSR) credentials and ethical reputation amongst all garment suppliers to the global garment industry helps us build and maintain both our reputation and our relationships with key stakeholders.

'WE USE OUR EXPERTISE TO SUPPORT OUR CUSTOMERS BY MAKING THOUSANDS OF TECHNICAL INTERVENTIONS ON THE SHOP FLOOR EVERY YEAR.'

BUSINESS MODEL
CONTINUED

Stakeholders	**Employees** Workforce	We are committed to the safety, rights and wellbeing of our 17,000 employees. Our aspiration is to create a culture that nurtures innovative, solutions-focused performance.	Year-on-year reduction in our recordable accident rate KPI; remains well below industry averages
	Customers Customers	We aim to better address customer needs and adjust our operations to meet market demands. As customer expectations evolve, we are also proactively marketing our products as responsibly sourced and sustainably produced.	c.40,000 customers served
	Shareholders Shareholders	We are committed to delivering superior returns – and aim to deliver long term value.	3 year TSR (total shareholder return) vs FTSE 250 – Coats in 87th percentile
	Environment Environment	We are developing new ways to work more sustainably as a business to meet the challenges of a sustainable future. This includes producing less waste, lower carbon emissions, and less water / energy usage.	CO2 emissions intensity -3% Water intensity -2% Energy intensity -1% Waste intensity +6%
	Communities Local communities	We create jobs for local communities and pay millions of US$ in taxes. We also contribute to local economic and social development, the impact of which is often felt even after our operations have ended.	Opening of employee crèche in our Turkey facility Donation of excess thread in Vietnam to community textile initiatives
	Suppliers Suppliers	We look for the right balance of global, national and local capability, working with partners to drive innovation and create local supply chains wherever we can.	>$0.8bn paid to suppliers

You can read more about the way we engage with our stakeholders on page 22.

OUR STRATEGIC FRAMEWORK

EACH ASPECT OF OUR STRATEGIC FRAMEWORK IS ALIGNED TO DELIVERING LONG TERM VALUE

Our purpose

Our purpose is to harness talent and technology in an ethical manner to benefit all our stakeholders – our customers and their industries, our shareholders , our people and the communities in which we operate

Our vision

To be the world's leading industrial thread company delivering innovation, digital solutions and sustainable value

Our strategic goals

How we are working to achieve our visions

1. Profitable sales growth
2. Increased productivity
3. Delivering value

Our strategic pillars

Guided by four pillars to enable us to create value over the long term

- Innovation
- Sustainability
- Digital
- Acquisition

Our strategy is aligned to the key strengths of our business model and investment case

Business model pages 10-12

Investment case page 5

OUR STRATEGIC GOALS

Strategic goal	2019 progress	2020 priorities	Relevant risks
1. Profitable sales growth For A&F we must remain relevant to the global industry supply chain, ensuring we meet the industry imperatives of speed, productivity, quality, innovation and sustainability. We achieve this through continually developing our industry leading brands, strong market positions and customer relationships, and by offering new software services and operational excellence tools delivered digitally. For Performance Materials this means focusing our efforts in those markets where we have the ability to build scale through innovation, technical excellence and acquisition. Our global footprint allows us to connect growth technologies to new markets and customers.	During 2019 we have continued to deliver sales growth at enhanced margins, despite mixed end-market performance. Our key focus areas have performed well (A&F thread, Personal Protection, Telecoms and Energy). Incremental new product sales have been driven through leveraging our enhanced innovation capabilities and global hubs.	For 2020 our priority is to strive to generate sales growth across all our regions. Incremental sales from innovation will be key, as well as continuing to meet customer needs for speed, quality, peace of mind, innovation and sustainability to drive further market share gains.	• Economic • Talent and capability • Supplier non-performance • Health and safety
2. Increased productivity As a Group this means we are always focused on meeting our commitments to generate consistent and strong free cash flow each year, and ultimately deliver more output from less inputs (e.g. materials, labour, energy). This enables us to fund our organic growth ambitions and facilitate further value-enhancing acquisitions.	During 2019 we made good progress in this area with ongoing cost control, productivity and procurement savings. We also delivered further incremental net savings from our Connecting for Growth (C4G) programme, which is allowing us to deploy reinvestments back into the business (in the areas of innovation, digital and talent) to support future growth initiatives. This has been reflected in a 50bps increase in our operating margins, despite limited top line sales growth.	Looking ahead to 2020 we will continue to embed our new ways of working following the successful roll out of C4G – this enables us to be a more nimble and agile organisation, take decisions quickly, and drive efficiencies in the organisation. We will also continue to roll out the digitisation initiatives within our own factories – including the retro fitting of sensors to our assets to stream data / insights and ultimately productivity improvements.	• Environmental non-performance • Supplier non-performance • Cyber • Talent and capability • Health and safety
3. Value delivery For us as a Group this means providing superior value to our customers and shareholders through balancing our growth and efficiency agenda. Furthermore, we seek to provide a value proposition to all of our employees where they can develop to their full potential within a safe, respectful and inclusive workspace.	During 2019 we have continued to invest selectively in organic growth opportunities and in support of our ESG related credentials (e.g. effluent treatment plants). Our strong cash performance, allows us to continue to adequately support all of our stated capital allocation priorities, which also includes pensions, shareholder dividends and M&A.	Looking ahead to 2020 we have a strong Balance Sheet position, expect further organic cash generation, and this will allow us to continue to support our key capital priorities. Notably our strong Balance Sheet will allow us to complete further value-add acquisitions in our chosen focus areas.	• Pensions scheme deficit funding • Talent and capability • Supplier non-performance • Health and safety

OUR STRATEGIC PILLARS

OUR STRATEGIC PILLARS ARE OUR LEVERS FOR CHANGE AND PROVIDE THE TOOLS THAT WILL ENABLE US TO DELIVER VALUE

Our strategic pillars anticipate the continuing challenges from the macro trends that are shaping the world – be that urbanisation, the drive to sustainability or the ever-increasing adoption of digital technology – and give us the tools that will enable us to deliver value to customers, shareholders, employees and communities over the long term.

The pillars – Digital, Innovation, Acquisition and Sustainability – are the building blocks to help us meet these challenges.

Pillar	Description	Example
DIGITAL	To stay relevant, we recognise the need to evolve in new directions. This requires us to think 'beyond the stitch line' to collaborate with internal and external stakeholders, to repurpose our products into new areas and use machine learning and artificial intelligence for new ways of operating, fit for the digital age.	We are leveraging data science and advanced analytics. We have manufacturing machines streaming data with two million new data points every day from our pilot programmes within certain of our factories. Our Digital Advisory Council, which incorporates external digital / technology advisors, provides up to date advice and insights as to how we can adapt and benefit from the latest technological developments.
INNOVATION	This is at the heart of everything we do. We recognise that big, bold, game-changing ideas are crucial to our success.	Innovation Hubs – These are areas dedicated to innovation and new product development which will help us to deliver sales growth from new product launches and to put the customer at the heart of innovation by providing dedicated spaces to collaborate with them on, creating exciting new products together. More than 20% of our organic Performance Materials revenues are in relation to products that did not exist five years ago. Our Epic EcoVerde, 100% post-consumer recycled thread, continues to see significant increase demand from our brands as they pursue their own sustainability agendas / targets.
SUSTAINABILITY	Our customers are increasingly pursuing their own ambitious sustainability agendas, so it is fundamental to our success to support them and align our material issues with theirs. Leading in this area will enable us to access new markets and opportunities to grow our business.	Real time monitoring of effluent and emissions – we are using technology to bring greater visibility and transparency across our manufacturing operations. Solid progress towards our targets for effluent, social certification and recycled polyester, modest progress in water and energy, underpinned by developed plans for delivery in 2020, and greater consistency in non-manufacturing waste reporting that has led to an increase of reported waste, but a clearer understanding on which to base our 2020 action plans. Dedicated ESG investor / analyst event held at London Stock Exchange for financial stakeholder groups – outlining industry dynamics, the Coats response, and the commercial benefits this can deliver.
ACQUISITION	We look to identify companies with unique capabilities, technology, innovations, or Intellectual Property that can be scaled to deliver value for customers and shareholders. Any acquisition must allow us to solve complex customer problems with ease.	The acquisition of Pharr HP provides us with further manufacturing / innovation expertise, and together with our existing Personal Protection business delivers scale and presence in this attractive growth market. Our Balance Sheet remains strong and will enable us to do further value-add acquisitions in the future. The exit of our non-core B2C North America Crafting business allows us to focus entirely on our B2B capabilities, which is where our core strengths lie.

OUR STRATEGIC PILLARS
CONTINUED

A TRANSFORMATION PROGRAMME ACCELERATING OUR TRANSITION FROM THE INDUSTRIAL TO THE DIGITAL AGE

Connecting for Growth is our two year global transformation programme, launched in 2018, designed to drive speed, agility, innovation and lower costs across the organisation, whilst enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age.

Leadership of the programme throughout has been provided by the Group Executive Team, supported by a team of project managers. The programme is reviewed regularly, including through the use of key performance and risk indicators, at both executive management and Board level.

This programme has focused on simplification across many aspects of the organisation, connecting the business end-to-end, and releasing funds for reinvestment in our customer-focused initiatives (e.g. innovation, marketing), digitisation and our people.

Activities in 2019

The programme extends beyond productivity improvements to delivering process excellence, improving customer satisfaction, and creating a wider pool of world class talent, all of which underpin our growth strategy and increase shareholder value.

We have continued the accelerated progress made in 2018 and were pleased to report that the majority of cost actions in relation to Connecting for Growth were completed ahead of schedule, and driving higher than expected net savings, in the first half of 2019. Since we reported this in our half year results, we have completed the remaining cost actions (this part of the programme now being closed) and will continue to drive the "reinvestment phase" of the programme. This includes continuing to reinvest a proportion of the total gross savings from the programme in the areas of innovation, digital and talent which will underpin our growth and agility as an organisation.

Leaner processes	Organisational agility	Speed and harmonisation	Empowering teams
Digitising our manufacturing footprint – A programme for enhancing our manufacturing effectiveness. For example, collecting digital data from the thousands of machines we have across our supply chain allows us to gather data and insights to better understand root causes of efficiency losses and address them proactively. Our organisation, which is now in a matrix structure, is now fit for purpose for a global organisation. Our back office support functions operate on a global basis providing quick support and underpinning rapid decision making.	**Smaller markets** – In smaller markets we have changed our operating model by exiting these territories (e.g. South Korea), without any impact on service levels for our global customers. This has included us helping local management teams buy Coats businesses. Our geographic structure is now based around seven scalable clusters, as opposed to previously where we ran c.45 separate country management units.	**Product harmonisation** – Simplifying our product ranges and portfolios (e.g. lower margin products) has allowed us to improve our speed of operation and customer service. We have moved from a range of 300+ brands to less than 150 and delivered a reduction of some c.400,000 SKUs.	**Training and tools** – To support and embed the new function operating model, training programmes have been developed. These include Business Partner Training and Sales Accelerator Programmes. **New talent** – Introducing new specialists into the organisations. These hires provide the skills, talents and experience to deliver new digital growth programmes.

Final cumulative net benefits for the programme are $28 million (of which $13 million in 2019), which is significantly ahead of the initial estimate of $15 million net benefits expected by 2020, when the programme commenced in 2018. The increased level of net savings have been delivered through exceptional project management and continuous course correction, for example by reducing the originally planned geographical cluster structure from 10 (previously c.45 geographic markets) to 7. We have achieved this whilst making reinvestments to embed our innovation, digitisation and people strategy initiatives which are an integral part of the programme.

The final net exceptional reorganisation charge for the programme was $31 million ($8 million in 2019), marginally higher than the initial $30 million estimate at the start of the programme as further opportunities for savings were identified.

KEY PERFORMANCE INDICATORS

Approach in 2019

MONITORING PERFORMANCE TO MEASURE THE GROUP'S PROGRESS TODAY AND ONGOING PERFORMANCE TOMORROW

During 2019 we continued to monitor our performance and progress using the consistent range of key performance indicators used in the prior year, each of which is a non-GAAP measure. For further details of how these financial Alternative Performance Measures are reconciled to the nearest corresponding statutory measure see note 37 on page 172.

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2019 commentary
Revenue growth[1] Linked to our strategic goal 1	Annual organic growth in sales at like-for-like exchange rates.	Measures the ability of the Company to grow sales by operating in selected geographies and segments and offering differentiated, cost competitive products and services.	2019 1 2018 3 2017 5	1% sales growth despite mixed end-market conditions. Growth in both Apparel and Footwear (1%) and Performance Materials (1%).
Adjusted operating profit growth[2] Linked to our strategic goals 1 2	Annual organic growth in operating profit, adjusted for exceptional and acquisition related items, at like-for-like exchange rates.	Measures the underlying profitability progression of the Company.	2019 6 2018 23 2017 14	6% growth in organic operating profit. Successful pass through of inflationary pressures via pricing, productivity, procurement, cost control and C4G savings.
Adjusted earnings per share growth[3] Linked to our strategic goal 2	Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.	Measures the underlying progression of the returns generated for shareholders.	2019 1 2018 21 2017 42	EPS growth despite year-on-year foreign exchange translation headwinds. 200bps reduction in effective tax rate, broadly offset by certain non-operational one-offs (e.g. IFRS16 and pension finance charge).
Adjusted free cash flow[4] Linked to our strategic goal 2	Cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, and UK pension recovery payments.	Measures the Company's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.	2019 107 2018 96 2017 76 All figures are in $(m)	Strong free cash flow performance driven by operating profit growth, controlled working capital, and lower tax / interest spend.

KEY PERFORMANCE INDICATORS
CONTINUED

KPI	Description	Why we measure this	Performance (%) (% Year-on-year)	2019 commentary
Return on capital employed (ROCE)[5] Linked to our strategic goal 2	Pre-exceptional operating profit from continuing operations for the year divided by capital employed (property, plant and equipment plus net working capital) at year end.	Measures the ability of the Company's assets to deliver returns.	2019: 42 2018: 43 2017: 35	Broadly stable on 2018 as operating profit growth in line with movement of effectively controlled capital base.
Recordable accident rate (RAR) Linked to our strategic goal 3	Number of work-related injuries and illnesses per 100 Full Time Employees (FTEs) per year that are considered recordable by the US Occupational Safety and Health Administration (OSHA).	Measures the performance of the Company in delivering a safe and healthy working environment for employees.	2019: 0.50 2018: 0.62 2017: 0.56 Work related injuries per 100 FTEs 2018 figure restated for delayed impact incidents	Remains significantly below Occupational Health, Safety & Environment (OHSE) industry averages.
Employee engagement score Linked to our strategic goal 3	Annual global survey with results benchmarked by IBM Kenexa, a leading specialist survey organisation.	Measures the Company's performance in delivering an effective and efficient work place culture and how proud and willing people are to work towards achieving common goals.	2019: n/a 2018: 83 2017: 83	Whilst it remains a KPI, we are enhancing our approach to Employee Engagement Surveys in 2020 by moving to a 'continuous listening' model. In 2019, while we undertake the transition, we held three pulse surveys on key areas of employee engagement (see pages 19 and 25)

Paying for Performance

The incentive plans used to reward the Directors and our senior managers, include Performance Measures linked to our Key Performance Indicators. For more detail see the Directors' Remuneration Report on pages 73 to 94.

1 Revenue growth in 2017 and 2018 excludes contribution from acquisitions made during the period. Revenue growth in 2017 also excludes the discontinued North America Crafts business.

2 Adjusted operating profit growth in 2017 excludes contribution from acquisitions made during the period. Adjusted operating profit growth in 2017 also excludes the discontinued North America Crafts business.

3 Adjusted EPS growth in 2017 excludes the discontinued North America Crafts business.

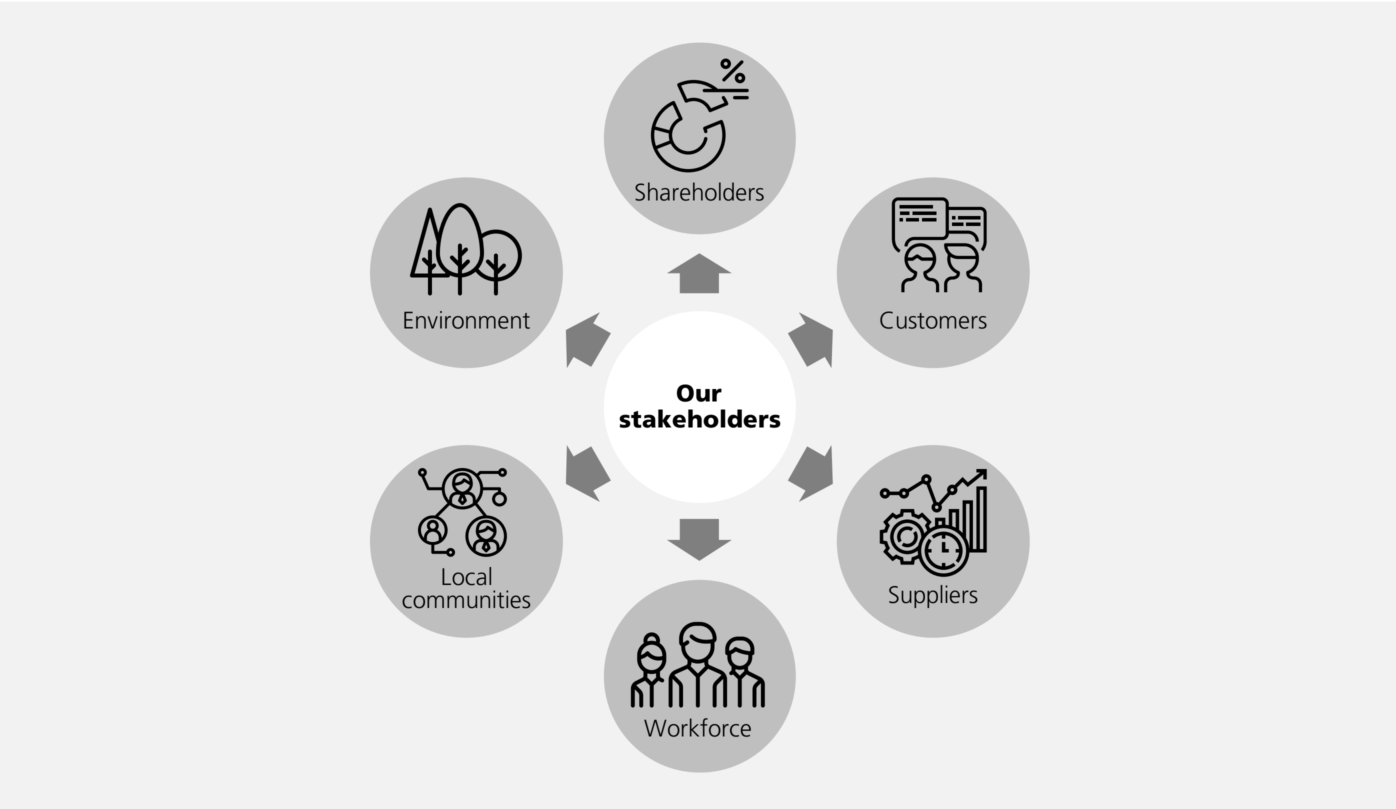
4 Adjusted free cash flow in 2017 excludes the discontinued North America Crafts business.

5 ROCE based on adjusted operating profits and excludes the discontinued North America Crafts business. With effect from 1 January 2017 capital employed used in the definition of ROCE includes intangible assets in relation to recent acquisitions.

STAKEHOLDER ENGAGEMENT

HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

Responsible business practice is at the core of everything that we do. For over two centuries our purpose has remained the provision of good service and the creation of long term value for all of our stakeholders. In order to create this value, it is important to first identify who our stakeholders are and understand what matters to them.



Honest and regular engagement with our shareholders and wider stakeholders is a vital ingredient of building the sustainable business we are so proud to be a part of.

As a company, we recognise that our responsibilities go far beyond delivering excellent returns to our shareholders. For us it is as much about confirmation that we are doing the right thing as it is about healthy profits. Our reputation as a Group is founded on always meeting the highest ethical standards. This is evident in the suppliers and all our other stakeholders, as detailed on the next page.

STAKEHOLDER ENGAGEMENT
CONTINUED

Employees

Our 17,000 strong workforce is at the heart of making our business a success and we recognise that listening to them and keeping them engaged is essential to that success continuing.

How the Board engaged in 2019

The Board has always paid close attention to workforce engagement and in March we appointed Fran Philip, Non-Executive Director, as Board representative for workforce engagement. The Non-Executive Directors have all carried out site visits throughout the year. For example, in 2019, we visited our facilities in Vietnam and Indonesia and in addition to this Fran held specific meetings with representative groups at all those locations to find out about their experience of working at Coats and what are the important issues to them. She also met with employees in the UK and joined various conference calls with globally representative groups to gain more insights and bring the voice of employees into Board meetings.

What we learnt

Employees are proud to work at Coats. When it comes to improvements, it is the little things that count and go a long way to improving employee experience. For example, having private spaces for breast feeding was cited as something that would make a difference.

What we are going to do in 2020

To help address the ‘little things that count’, in 2020 Coats will take a more strategic approach to health and well-being (see page 25).

In 2020 Coats will be transitioning to a new ‘continuous listening’ approach to the Employee Engagement Survey so the Board will benefit from these additional regular insights into employee sentiment (see page 25), allowing us to hear feedback and react more regularly.

Customers

We have been helping to connect and form the fabric of daily life on our planet for over 200 years, and our global footprint provides unrivalled access to markets and customers.

How the Board engaged in 2019

Three Innovation Hubs have been opened in 2019. These are centres of excellence where we can develop new and potentially industry disrupting ideas, collaborating with customers, and other innovation partners such as brands, suppliers, universities and start-ups. The Group Chief Executive attended the opening of the Shenzhen and Bursa Innovation Hubs.

Coats exhibited at the ‘Made in Tunisia Made for Fashion’ trade show in December, a move which was highly anticipated by Tunisian brands from the textile clothing, leather and footwear sectors. Coats showcased its industry leading products with a focus on sustainability which produced very positive feedback from existing and prospective customers, designers, textile engineers and students.

In October members of the Board attended a gala celebration dinner with customers, suppliers, employees and joint venture partners to commemorate 30 years of operating in Vietnam.

What we learnt

The Group marketing team carried out a customer experience survey which gave a useful insight into the customer experience. The Board reviewed the outcome of that survey as part of the review of the strategy.

What we are going to do in 2020

In 2020 we intend to focus on areas of improvement that have been identified through improved education programmes and smarter use of technology.

The Board will be considering the outcome of a country-by-country level deep dive into customer needs at the Board Strategy day in 2020. The Board will also be considering customers as part of the segmental reviews.

STAKEHOLDER ENGAGEMENT
CONTINUED

Shareholders

The Board maintains and values regular dialogue with shareholders throughout the year.

How the Board engaged in 2019

The AGM is an important event in our annual programme of engagement activities. The AGM is attended by our Board and some of our senior management team and is open to all our shareholders to attend. A summary presentation of financial results is given before the Chairman deals with the formal business of the meeting. All shareholders present can ask questions of the Board during the meeting.

We gave formal trading updates to the market in March, May, August and November. Following the full-year and interim results a presentation call was made to shareholders and analysts.

Throughout the year, meetings and conference calls were organised in the UK, across continental Europe and in the US, at which the Group Chief Executive / Chief Financial Officer / Investor Relations meet with investors, either individually or in groups, to discuss Group strategy and performance and respond to any questions raised. In addition, throughout the year our senior management team presented at multiple conferences organised by investor bodies and investment banks for their institutional investor bases, in order to further widen the breadth of reach of our investment case. In June 2019 we hosted an inaugural ESG investor / analyst event at the London Stock Exchange, to lay out our Sustainability strategy and the benefits this is expected to deliver for our various stakeholder groups, including our shareholders, and in October we hosted a group of investors / analysts to our production site in Bursa, Turkey.

The Chairman and Senior Independent Director also attend an appropriate cross section of the shareholder meetings, and investor events, to maintain an active dialogue and understanding of shareholder sentiment. They also proactively offer availability for one-on-one consultations with shareholders, aside from these executive interactions.

The Board receives regular updates on investor communication activity, changes to the shareholder register, analysis of share price performance and particular investment themes such as ESG compliance. In addition, the feedback from shareholder / analyst interactions is shared with the Board on a regular basis, via our dedicated in house Investor Relations function and our Corporate Brokers.

We were pleased to see that the sell-side analyst research on Coats continued to increase during 2019, with eight independent analysts now writing research coverage on our business, and the large majority expressing a positive view of our strategy and prospects.

What have we learnt

Shareholders have indicated that they were pleased to hear commercial benefits of the sustainability trends in our industry, and the execution of the Connecting for Growth transformation. They understand our future growth plans, including the technological and innovation solutions but are keen to see the traction from these C4G reinvestments, as well as delivery of our active M&A pipeline.

What we are going to do in 2020

We will continue to engage with our shareholders throughout 2020, including consulting with key investors on the proposed new remuneration policy. We look forward to welcoming shareholders at our AGM in May where the policy and other resolutions will be put to a vote, and at the investor conferences and roadshows which are being held through the year.

Environment

Coats is working proactively with customers and suppliers to help them improve the sustainability of their products.

How the Board engaged in 2019

Engaging with the environment is reliant on representative proxy bodies that can act as a voice. The Zero Discharge of Hazardous Chemicals Association, the UN Global Compact, and the UN Fashion Industry Charter for Climate Change have been identified by Coats as the most relevant bodies to the business. The Board has held discussions on each of these organisations, to drive decision making with regards to action the business takes to each one. The combined individual experiences and contacts of each Board member, outside their direct Board commitments, have helped to inform such decisions. The inclusion of Climate Change as an emerging Risk on the company Risk Register, and the transparency of the related issues that this brings to the Board has been especially relevant in the decision making process.

STAKEHOLDER ENGAGEMENT
CONTINUED

Environment
(continued)

What we learnt

That Coats has been working on the right things for many years in terms of reducing energy use, switching to renewables, using less water and recycling more, applying global effluent control limits, moving to more sustainable products, increasing the efficiency of material use and applying a sustainability hierarchy to waste management. Given the complex and evolving nature of environmental concerns, especially in terms of climate change, and the multi-tier nature of textile supply chains, the Board has decided that Coats should play a much more active part in external bodies that relate to the environment, rather than working in relative isolation. Dealing with and mitigating the environmental impacts of the textile industry is not best achieved by individual action from companies but by collaboration along the supply chain so that the impacts between companies can be properly addressed.

What we are going to do in 2020

The Board has decided that Coats will take a participative (rather than merely signatory) approach to working with the proxy bodies that represent the environment. This will entail participating in working groups and looking to share best practice with other companies and learn from what has worked for other companies. The key areas for this work in the coming year will be around climate change and controls on effluent. More details on the activities sanctioned by the Board can be found in the Sustainability Report and online.

Communities
We operate in 50 countries across six continents around the world.

How the Board engaged in 2019

Whilst the Board does not generally engage directly with the communities within which Coats operates, it receives regular updates from senior management within our clusters on the activities which the Group participates in each year. These cover a wide range of community engagement activities, through which we strive to directly benefit the communities Coats operates in globally. During 2019, around 350 community programmes were implemented. Examples include, but were not limited to: free health care check-ups for local community residents; community clean-up campaigns designed to raise awareness surrounding the importance of reducing plastic use; and the provision of essential educational tools for underprivileged school children. Please see our Sustainability Report, available on our website, for further information and examples of community engagement initiatives that have taken place throughout the past year.

What we learnt

Coats has longstanding and fruitful relationships with many communities in the countries where it has operations. The company has had successful collaborations with local non-government organisations in the past where mutual alignment of focus has been found, but the Board believes that working with partners with a similar global footprint to Coats will allow the company to give more consistent engagement across the many countries in which we operate. This will ensure that the company is able to respond to local needs with a global level of expertise.

What we are going to do in 2020

The trials underway with Save the Children will be the pilot for this revised approach. The charity is able to provide the technical expertise and the methodology for assessing impact, while Coats is able to provide on-the-ground resources and access to target groups. The Board is hopeful that the pilots will deliver tangible and measurable benefits and that they can then endorse the extension of the pilots to form a global and long-term partnership between Save the Children and Coats. More detail on community activities can be found in the Coats Sustainability Report and online.

STAKEHOLDER ENGAGEMENT
CONTINUED

Suppliers

We believe it is important that our suppliers are not only price competitive but also have a strong compliance, quality, service, sustainability and innovation ethos.

How the Board engaged in 2019

Engagement with suppliers is key to our Modern Slavery statement (which can be found on our website). One of the key pillars supporting this statement is our Supplier Code. We continue to engage with suppliers about our Supplier Code, and in particular with those identified as requiring improvement. As part of our Route to Excellence initiative, during 2019 we started talking to our key suppliers about how they can mirror our Sustainability Strategy by 2025.

What we learnt

Compliance is key for our suppliers. Training on our Supplier Code ensures standard processes are being followed and the refresher workshops we offer to suppliers are valued. Sustainability is an important part of any business strategy and suppliers are keen to work with us on this.

What we are going to do in 2020

We will continue our engagement with our suppliers, providing support and guidance to ensure adherence with our Supplier Code, including running new workshops. The supplier portal will allow suppliers to measure their performance through a KPI scorecard and through the newly created innovation hub we will continue to drive supplier-led innovation. We will expand the roll-out of our Sustainability Strategy.

STAKEHOLDER ENGAGEMENT
CONTINUED

SECTION 172 STATEMENT

The Board of Directors of Coats Group plc have always taken decisions for the long term, and collectively and individually our aim is always to uphold the highest standards of conduct. We expect all of our colleagues, at every level of the business, to do the same. Similarly, we understand that our business can only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers and the shareholders to whom we are accountable. This is reflected in our five strategic priorities and our sustainability report sets out more detail on how we manage our relationships with them.

As the Board receives presentations and make decisions, we ensure that the impact on any of these groups is considered. We review annually which are our key stakeholder relationships and examine how we engage with them. A summary of this is set out on page 19. We also consider ways to ensure that we maintain open lines of communication with those stakeholder groups and whether there are ways that the Board's engagement can be improved to help us operate more effectively.

Culture: We have a strong culture with shared values.

We are proud that Coats people continue to live by our values – connecting, pioneering, trusted – and that their engagement keeps improving.

Our purpose is to harness talent and technology to benefit all our stakeholders.

Strategy

As an example, during a meeting where the Board considered three particular potential acquisition targets, preliminary due diligence findings were presented by management which detailed the strategic rationale, synergy case, risks, financial valuation, customer reactions and cultural impact as well as potential investor reactions. The Board discussed the value creation potential and risks as well as integration effort and approach. Consequently, the Board decided which potential targets would be in the best interests of the Company to take to the next stage of the acquisition process and which ones to cease.

See page 13 for a detailed description of our strategy.

Governance

As an example, in February 2019 the Board considered the operation of the Pensions Committee, an ad-hoc committee, originally established following the initiation of the UK Pensions Regulator's investigation and with sole focus on the UK defined benefit schemes. Following the conclusion of that investigation and the consequential changes implemented the Directors agreed that the Pensions Committee was no longer required and that it would be disbanded with effect from 6 March 2019. Pensions are now considered, when required, at the main Board meetings.

See the governance section which starts on page 47 for more detail.

Stakeholder

As an example, in September at the Strategy Day, the Board examined how the Group engages with customers and suppliers, looking at the customer experience and how our Sustainability story was driving our relationships. The Directors also agreed to explore making more use of the DAC's expertise to further improve the customer experience.

See page 19 for a deeper dive into our stakeholder engagement process.

WORKING RESPONSIBLY

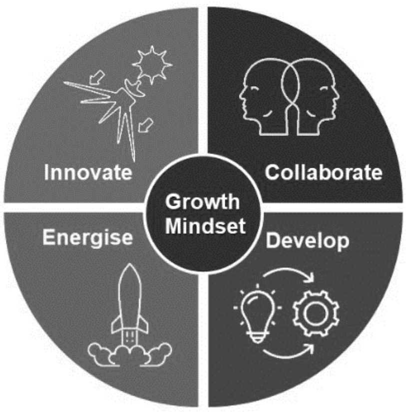
PEOPLE

Highlights of 2019
- Journey to Zero Health and Safety strategy launch resulted in a 20% decrease in injury rate
- Embedding our culture of focussing on leading rather than lagging Health and Safety indicators
- Results of the Health and Safety Climate Survey
- Launch of refreshed Leadership Capability Framework and focus on growth mindset
- Success of Diversity and Inclusion initiatives
- Commencement of the digitisation of key People processes

Priorities for 2020
- Move to 'continuous listening' approach to Engagement surveys
- Continued digitisation and simplification of key People processes
- Building our approach to ensure our remuneration policies are globally consistent and align with 'living wage' requirements
- Global approach to health and well being
- Achieve 'Great Place to Work' for seven countries in 2020

People culture and principles
Coats is a truly global organisation with 17,000 employees working in some 50 countries across six continents. The successful delivery of our company strategy is dependent on us uniting all those people together within our group culture – the character and personality of our organisation which is set at the leadership level and is an outcome of our values, behaviours and beliefs.

As we continue on our journey to transform for the Digital Age we recognise that our culture needs to evolve. To support this evolution, in 2019 we launched our refreshed Leadership Capability Framework describing the skills and competencies our employees need for the future success of Coats. The four capabilities are to the right with digital embedded across all of them.



Innovate – pioneers with the customer through disruptive thinking, digital and data to drive sustainable value

Collaborate – connects across the business to share learnings and create value together for One Coats, in an inclusive and respectful way

Energise – inspires energy for change to drive outcomes and shape Coats for the future

Develop – leverages diverse talent to build a robust talent pipeline, fluid teams and amplify performance

The capabilities are underpinned by a growth mindset which we see as a key enabler and will encompass everything that we do going forward. People with a growth mindset at Coats demonstrate a hunger for growth through learning, courage and resilience in order to evolve in a dynamic context.

The Leadership Capability Framework is a cornerstone of our People Strategy and, as well as supporting our cultural change, is being embedded across our talent and development processes.

Listening to our people
Employee engagement remains extremely important. We are enhancing our approach to Employee Engagement Surveys in 2020 – as well as carrying out our annual survey we will move to a 'continuous listening' model for every stage of the employee life cycle to allow us to make course corrections instead of a taking a reactive approach.

In 2019, while we undertake the transition, we held three pulse surveys on key areas of employee engagement – Health and Safety, Communications and Ethics and Compliance.
Also in 2019 Fran Philip, our Non-Executive Director was appointed as our Board Representative for Workforce Engagement. In her role, Fran regularly meets with groups of employees to hear about their experiences of working at Coats. In 2019 Fran met with employees in the US, the UK, Vietnam and Indonesia, she also led calls with our Cluster Managing Directors. Fran reports her findings back to the Board twice a year and helps us bring the voice of the employee into board decisions.

Health, Safety and well being
Health and Safety remains our number one priority and in 2019 we launched our new Journey to Zero strategy. Based on the belief that all injuries can be prevented, our approach is focused on establishing a proactive safety culture.

Through our digital incident and data management tool, Intelex, we are now able to trend hazard and incident data to gain insights into potential risks allowing us to mitigate against them before they become injuries. These improvement actions have become a foundation of our success – in 2019, we completed 46,377 improvement actions and increased near miss reporting by 36%. Both of these directly contributed to a 20% reduction in our injury rates versus 2018.
Training is another important contributor to our safety culture and on average each employee received 29 hours of safety-related training in 2019. Our unique Generative Behaviour Safety programme, designed to increase discussions between

WORKING RESPONSIBLY
CONTINUED

supervisors and their teams about ‘at-risk’ behaviour has been implemented across the Americas. The programme will be rolled out globally in 2020 and is supported by the introduction of our Intelex mobile app to make it even easier to report hazards, incidents and at-risk behaviour.

Our proactive approach to health and safety was brought to life in 2019 during our inaugural ‘Journey to Zero’ week. The week generated great levels of engagement with activities taking place in more than 24 countries and over 200 conversations on our enterprise social networking tool Yammer. This event has now become embedded in our annual calendar.

Our 2019 Health and Safety Climate Survey results show that we are well on our way to establishing the desired safety culture. 62% of our units had improved scores compared with 2018 and our overall results increased to 99% of all units scoring better than the industry benchmark.

We are continuing our efforts to achieve industry certifications and have nine sites certified to OHSAS 18001 and three sites certified to the new ISO 45001 standard. Our aim is to have all our sites achieving the latter by 2025.

We believe that safety should extend beyond our gates and so we also take commuting safety very seriously. To support this in 2019 we continued to deliver defensive driving courses, driving lessons, and driver awareness training and campaigns. Many units now lend helmets to motorcycle passengers and, where necessary, we have arranged shuttle transport for employees to reduce travel-related risks.

As well as safety it is also important to look after the well-being of our employees. In 2019 we launched our Sustainability Strategy and well-being is an important part of our Social pillar. We have increased our activity in this area and have focused in different countries on issues that are relevant to our employees and families in those locations. So, for example, we have had a multi-faceted campaign in Brazil around skincare, hydration and coping with heat stress; a number of locations, including India, China and Brazil, have had campaigns around wellness issues pertaining specifically to women; and locations like the USA and China have focused on developing confidence and involvement in sporting activities.

99% of our units scored better than the industry benchmark in the Health and Safety Climate Survey

Digitising key People processes
With the introduction of our HR Information System, SuccessFactors, at the end of 2018, we are starting to digitise our key HR processes to make them simpler, quicker and more visible and improve the experience for our employees. For example, in 2019 we automated the salary review process and reduced the time it took by three weeks.

Training
Leveraging the power of growth mindset become a key focus in 2019. To support this, among other things, we have been working with the NeuroLeadership Institute to deliver growth mindset training. Following positive feedback from an initial group of 100 employees (80% of participants felt extremely or very prepared to embrace a growth mindset), it will be rolled out to 500 more people during 2020.

Other training in 2019 included:

- ‘Learning zones’ – more than 1,000 people attended these sessions which are delivered both virtually and face to face and covered 13 topics.
- Our Transcend leadership training programme to increase the talent in our pipeline for senior leadership positions – over two years, 29% of participants were women, 44 employees have graduated the programme, of those 47% started new or expanded roles.
- Compliance, Controls and Culture Workshops across the globe as part of our ‘Doing the right thing’ programme (see more on page 32) – 12 sessions have taken place for more than 600 employees in five countries and we will continue these in 2020.

Diversity
Our Group strategy on inclusion and diversity is mainly focused on increasing gender diversity as that is where we have the biggest opportunity. We recognise that to increase the diversity of our workforce, an inclusive culture is a must and our activities are structured around four areas:

- **Education and capability building** – once again we marked International Women’s Day globally and our teams considered actions that are being taken that could be rolled out globally to have even more impact. Our employees were very engaged with the day, events took place in many locations, with a great level of online involvement.

  Our quarterly Diversity and Inclusion Network calls continued which Fran Philip attended in her role as Board Representative for Workforce engagement. The calls continued to be well attended with over 200 people joining from across the world.

- **Resource groups** – in 2019 we built out our flexible working initiatives both globally and locally. In addition these groups delivered over 400 community activities during the year ranging from refurbishing schools and libraries to running health and well-being events.

- **Talent acceleration and development** – in 2019 we connected with external organisations that have well embedded Diversity and Inclusion programmes. Internally our Digital and Technology function started its own ‘Women in Tech’ programme to encourage more women to enter the world of technology.

- **Measurement and aspirations** – 41% of our workforce are women, the Board is now 33% women and 24% of our senior leaders are now women compared with 23% in 2018.

In 2020 we will continue to build on our progress across all aspects of our People Strategy to support Coats to achieve its goals.

WORKING RESPONSIBLY
CONTINUED

Highlights for 2019

- Foundations laid for delivery of targets
- Joining the United Nations Global Compact
- Strong absolute and relative progress in FTSE4Good index

Priorities for 2020

- Complete renewables strategy
- Accelerate progress towards targets
- Establish climate change strategy

Comparison of top material issues in 2019 and 2017 materiality assessments in ranked order:

2019	2017
Environmental compliance	Water
Environmental footprint	Energy
Talent attraction	Environmental footprint
Energy	Waste
Water	Health & safety
Business ethics	Resource scarcity
Materials	Child labour
Waste	Forced labour
Employee engagement	Transparency & reporting
Brand management	Environmental compliance

Water usage
(litres per kg of production)

*2018 restated without NA Crafts and incorporating Gotex and Patrick Yarns. 2017 not restated

CORPORATE RESPONSIBILITY

Sustainability Strategy

We launched our sustainability strategy; Pioneering a Sustainable Future in 2019, as part of our Annual Report and through our first stand-alone Sustainability Report. One year on, in this document and through our second Sustainability Report (available on our website), we are giving an update on progress towards our strategy targets while also reviewing our strategy itself to ensure that it is still appropriate to the needs of our business and our stakeholders.

The development of our current strategy was done during 2018 based on our 2017 materiality assessment. We run a materiality assessment process every two years and have completed a new one in 2019. We reviewed 69 issues in our latest iteration (up from 66 in 2017), evaluating them for relevance to each of our commercial goals (Profitable Sales Growth, Increased Productivity and Value Delivery) and for importance to each of our key Stakeholder groups (Shareholders, Customers, Employees, Suppliers, Communities and the Environment). Our top ten issues for each of the 2017 and 2019 assessments are shown in the table (sidebar). While there is quite a lot of movement in the assessment, we have reviewed this in detail and it accurately reflects changes in our business and in the external environment that have prioritised some issues at the expense of others. A clearer definition of our stakeholders has impacted on the results as has the clarity provided by our strategy. The relative movements of key issues such as Water, Energy and Environmental issues reflect these changes, but are not significant. More analysis of the changes can be found in our Sustainability Report.

We have reviewed our existing strategy based on the new materiality assessment and concluded that the strategy remains appropriate and still relates to the key issues facing our business and our key stakeholders. The mapping of our material issues to our strategic pillars is shown in the chart below:

Priority area	Materiality issue
Water	Water consumption
Energy	Energy consumption
Effluent & emissions	Environmental compliance, Environmental footprint
Social	Talent attraction, Business ethics, Employee engagement
Living sustainably	Materials, Waste, Brand management

During 2019 our Board confirmed their full commitment to the Ten Principles of the United Nations Global Compact, and as a result we were delighted to join as a Participant of the United Nations Global Compact. Taking an active role in helping extend the United Nations Principles, which are already embedded in our business, and promoting action in our business and through our supply chain to help deliver the 2030 Sustainable Development Goals comes through a natural alignment of our culture and strategy to those principles and goals.

Our 2019 Sustainability Report is our first Communication on Progress (COP) that formally renews our commitment, reports on our activities and outcomes in support of the Principles, covering human rights, labour, environment and anti-corruption, and identifies the Sustainable Development Goals that our activities relate to. We will continue to align our Sustainability Report to the COP reporting obligations of the Global Compact in the future.

Water

Water is predominantly used in our dyeing processes. Here it acts as the medium for applying dyes to our yarns or is used for rinsing and washing yarns before and after dyeing. In the form of steam it is also the medium used for heating water used in processing or for applying curing heat in some coating processes.

Our long-term vision is of processes that are waterless, and our investment in 2018 in Twine, a start-up company developing yarn digital dyeing processes that use no water, was partly aimed at helping to deliver that long-term goal. Twine launched their first generation of sampling machines in June 2019, to much industry interest, and we look forward to working with them on the development and implementation of their technology in the coming years.

In the meantime, our goal is to continue to reduce our use of water and hence to help safeguard this natural but limited resource. Our goal is to reduce our water usage intensity by 40% by 2022 against our 2018 baseline. This requires a further acceleration in water saving initiatives compared to the 28% saving that we achieved in the six years up to 2018. Up to the end of 2019 we have

WORKING RESPONSIBLY
CONTINUED

Energy use
(Kwh per kg of production)

* 2018 restated without NA crafts and including Gotex and Patrick Yarns. 2017 not restated

Renewable energy
(% of total energy used in year)+

+ Based on supplier information, partially certified.

*2018 restated without NA crafts and including Gotex and Patrick Yarns. Prior years not restated

Emissions intensity†
(tonnes CO_2e/$m sales)

† To provide an accurate comparison, 2018 data has been restated to exclude NA Crafts (sold on 20 February 2019). Previous years include NA Crafts.

undertaken detailed water balance studies in 31 of our major plants, accounting for 62% of our total water usage. These studies enable us to map the water into each process in the plant and then determine the opportunities for reducing water usage through process changes.

A number of global and site level projects have been initiated during 2019 as a result of these studies which will impact on water usage in 2020 and beyond. During 2019 our water usage dropped by 2% against 2018, and we are confident that we will see this accelerate in 2020.

Energy

Most of our energy use is for powering motors in our process equipment or for heating used in those processes. The split between the two uses of energy is (2018 in brackets) 55% (55%) for electrical energy used for process power and 45% (45%) for fuels used for generating heat. Most of the heat energy is used during dyeing processes, along with a substantial part of the electrical energy, which therefore makes this our most energy intensive process. Spinning and twisting, which are very significant users of electrical energy account for most of the remainder, with finishing winding and yarn coating processes and ancillary activities such as warehouses and offices making up the total.

Our targets for the energy pillar are two-fold; to reduce energy usage intensity by 7% by 2022 against our 2018 baseline (compared to a 22% reduction in the six years up to 2018), and to shift the sources of our energy much more towards renewables by 2022. During 2019 we have been assessing the scope for accessing renewable energy across our operational footprint and we will complete this work in 2020. The situation varies from country to country and is also changing rapidly. We are proposing to increase the use of biofuels in our operations and to enter more long-term Power Purchase Agreements (PPAs) for onsite and offsite renewable electricity generation projects.

Up to the end of 2019 we have undertaken detailed energy surveys across a number of our larger units that account for 29% of our energy usage, and a large number of detailed energy saving plans are emerging from those surveys, most of which will be implemented in 2020. During 2019 our energy usage intensity dropped by 1% against 2018 on a like for like basis, having restated 2018 to remove Crafts NA and to incorporate Gotex and Patrick Yarns. We expect the rate of reduction in 2020 to be higher as the new projects are implemented.

During 2019 we signed an agreement for a 1 MW on-site solar installation in our Ho Chi Minh plant in Vietnam, which was installed and started functioning in October. We are currently negotiating additional long term supply agreements in the Americas and Asia.

Effluent and Emissions

As noted before, our long term vision is to cease to use water for dyeing, but there is no technology currently available at industrial level to achieve that goal, so while we continue to use aqueous technology we will have a need to manage our effluent to avoid detrimental impacts on the environment. Since 2011 all of our units have worked to an internal set of effluent standards. These are, in most cases, considerably more stringent than the local requirements. In 2016 we joined the Zero Discharge of Hazardous Chemicals (ZDHC) association as this was gathering momentum across the textile industry with the goal of creating common standards that would be applicable across the whole industry. In 2019 we adopted the ZDHC standards as our standards instead of the Coats standards. Our target is to have all units meeting the ZDHC standards by 2022, and thanks to the work already done over 60% of our effluent was compliant by the end of 2019. Late in 2019 the ZDHC standard was updated to include sludge testing as well as effluent. During 2020 we will be adding sludge testing to our targets and adjusting plans accordingly. Early results indicate that we will have to undertake additional actions to achieve uniform sludge compliance. Ensuring that all of our units are capable of meeting the required limits is important but it is equally important to ensure that effluent treatment plants are working consistently and to ensure this we installed, during 2018, automated measurement systems in all of our key units. These take measurements of core parameters every 30 seconds and issue automated warnings if the systems begin to approach control units. We also piloted, in 2019, a system that automatically shuts off discharge if a standards breach is likely and will install this across other units in 2020.

As a significant user of energy, Green House Gas (GHG) emissions are a key concern for us. Our activities have been described above in the Energy section; reduction of energy usage and transition of energy sourcing to renewables. Our target, will be determined once we have established our renewable energy target in 2020. In 2019 we achieved a reduction of 3% in GHG emissions intensity and a reduction of 5% in absolute GHG emissions compared to 2018 (excluding NA Crafts from 2018 data and including Gotex and Patrick Yarns).

WORKING RESPONSIBLY
CONTINUED

Waste

Waste is generated in various ways during textile processing, and over 70% of it is reused internally or recycled externally.

Our target is to reduce the waste we generate, as a percentage of all materials used, by 25%. The first stage is to ensure that we have comprehensive global reporting and analysis of waste and we have been focussing on this in 2019. As a percentage our waste increased by 6% in 2019 to 9.2%. We believe that this is related mainly to the increase in accuracy in reporting from the global reporting system, but highlights the work that needs to be done to achieve our ambitious 2022 target. Action plans for waste reductions in 2020 are being developed.

Sustainability Management

Sustainability in Coats is regularly reviewed by the Board and is championed by the Group Chief Executive and the whole Group Executive Team (GET).

Delivery of the strategy is managed by the Sustainability Delivery Team (SDT). This is led by 3 members of the GET, the Chief Supply Chain Officer, the Chief Human Resources Officer and the President, Apparel & Footwear.

The Head of Sustainability manages the SDT which comprises eight further core members from a range of functional areas, and each of these has a designated area of responsibility for delivery of SDT workstreams or representation for stakeholders in the SDT.

There are then a large number of people in the organisation associated to the SDT via their participation in projects related to the sustainability strategy. In our view delivery of the Sustainability Strategy demands the participation and support of the whole organisation. The SDT meets monthly, and there are a number of sub-groups meeting as per the needs of their workplans.

Underpinning all of our sustainability efforts is a deep commitment to running our business in an ethical, responsible and transparent way. We expect our employees and our suppliers to behave ethically in all their dealing relating to our business. All our senior employees and those with customer or supplier facing roles receive regular training in ethics and compliance, including on modern slavery. These training programmes, available in 12 languages form part of the induction for new starters and are done every two years by all relevant employees. The last global round of training took place in 2018 and will be repeated again in 2020. This training is delivered to over 4,000 employees. To retain focus in 2019 relevant staff are required to do an Ethics Code self-certification exercise annually.

We support the United Nations Guiding Principles on Business and Human Rights in all our operations. Underpinned by our global policies, we uphold the requirements of the United Nations Declaration of Human Rights and the Convention on the Rights of the Child, the core International Labour Organisation Conventions and The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises. We uphold the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015 and publish on our website a statement on our actions to prevent modern slavery in our operations and in our supply chain.

Reporting

Our goal is to make our sustainability reporting as clear and transparent as possible. We want to make it as easy as possible for all of our stakeholders to understand the sustainability profile of our business. Each year we are broadening the scope of our reporting and making it easier for interested parties to find the information that they need.

A full data pack that contains all our published sustainability data is available to download on the sustainability section of our website. We have used the Global Reporting Initiative (GRI) reporting guidelines since 2011 and this year again we report against the latest version, the GRI Standard. A full mapping of our report against the GRI Standard is available on our website, We have also developed and made available again this year a mapping of our data against common ESG (Environmental, Social and Governance) criteria.

WORKING RESPONSIBLY CONTINUED

Non-Financial Information Statement

	Policy	Description
People Principles	Health and Safety Policy	This policy outlines our commitment and actions for the prevention of injury and ill health, and ensuring health and safety excellence across our business.
	Ethics Code	The purpose of the Ethics Code is to ensure that employees across Coats have a clear understanding of the principles and ethical values that the Company wants to uphold. It applies to all employees in all Coats group companies globally.
	Whistleblowing Policy	The policy outlines the reasons for maintaining high standards of ethical and legal business conduct and describes the procedures for reporting acts which are thought to contravene these standards. Also outlined are the actions to be taken by the Company.
	Employment Standards	As a global employer, Coats strives to follow ethical employment standards and believes the human rights of its employees at work are an absolute and universal requirement. Coats subscribes to the United Nations Universal Declaration of Human Rights and the Convention of the Rights of the Child.
	Equal Opportunities Statement	The Company supports equal opportunities in employment and considers it to be an integral part of our employee relations policy.
	Modern Slavery statement	This statement has been prepared for the year ending 31 December 2019 and is in accordance with the requirements of the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act of 2010. Furthermore, we support the United Nations Guiding Principles on Business and Human Rights throughout all our operations.
Governance	Anti-bribery and Anti-corruption Policy	This policy outlines the control of actual and suspected corruption and bribery within Coats, and the processes to be followed in the event of actual or suspected instances of corruption or bribery being discovered.
	Gifts and Entertainment Policy	This policy sets forth the rules related to employees accepting and offering gifts, entertainment, hospitality and meals from and to current customers, suppliers, joint venture partners, brand representatives and others conducting (or proposing to conduct) business, directly or indirectly, with Coats.
	Competition Law Policy	This policy supports Coats' commitment to observing and complying with all applicable competition laws, rules and regulations wherever it operates around the world while acting with the highest ethical standards, in an open and honest way.
Suppliers	Supplier Code (including a statement of transparency in supply chains)	The Supplier Code outlines our expectations required of suppliers and covers labour practices, environmental management, responsible sourcing of materials and products, and business conduct.
	Conflict Minerals Policy	Coats is committed to the responsible sourcing of all raw materials and purchased goods and we continually review our approach to ethical and sustainable supply chain management. This policy refers specifically to our approach to avoiding 'Conflict Minerals' entering our supply chain and supplements our wider supply chain management standards.
Environment	Environmental Policy	Reducing any negative impact on the environment is a fundamental part of our business and is something everyone in Coats takes seriously. Coats senior management has defined objectives and targets to achieve the highest practicable standard of environmental performance for the Group.
	Animal Welfare Policy	This policy covers all the materials and products we buy, but special attention is given to Angora and Merino wool, as they can raise specific ethical concerns.

PRINCIPAL RISKS AND UNCERTAINTIES

EFFECTIVE RISK MANAGEMENT IS ESSENTIAL TO SMARTLY AND PRUDENTLY ACHIEVING OUR STRATEGIC GOALS

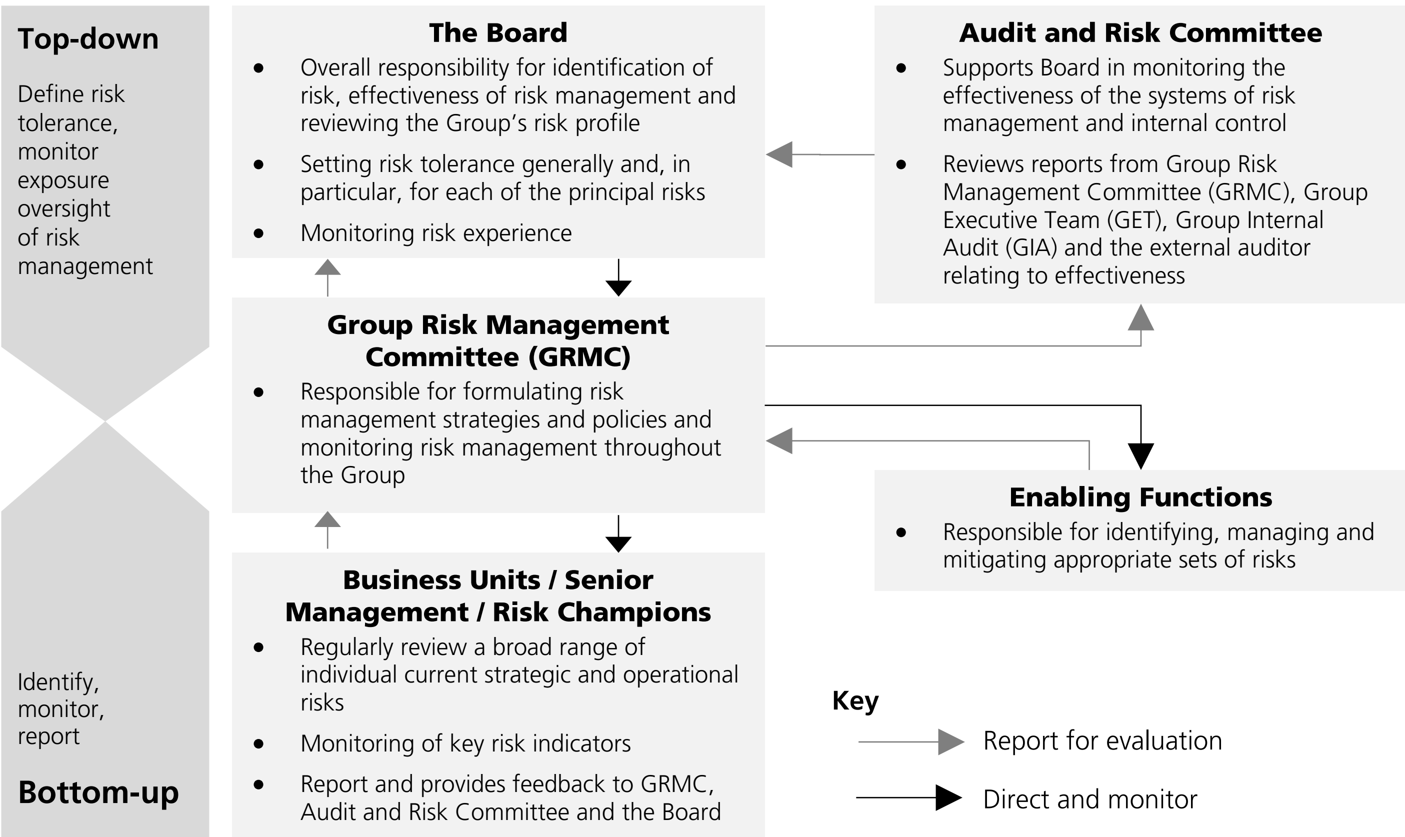
Overview

Risk is inherent in all business activities and as a global industrial manufacturer, we maintain a comprehensive risk management framework that serves to identify, assess and respond to such principal risks.

Our approach is focused on the timely identification of risks and related opportunities, combined with their appropriate mitigation and escalation. We have embedded throughout the Group, the structural means to identify, prioritise and manage the risks involved in all of our activities. This enables us to run our business effectively and deliver our strategy in the knowledge that the likelihood and / or impact associated with such risks is understood and managed within our risk tolerance.

Governance structure

The Group is constantly alert to new and evolving risks. We operate a formal governance structure to manage risk across the Group and assign clear accountability for managing our risks. Overall responsibility for reviewing the Group's risk profile and setting risk tolerance, as well as assessing the Group's principal risks, rests with the Board. However, the management of risk using our common risk management framework is embedded throughout our global manufacturing, distribution, sales and other business operations, as well as our enabling functions, with all our employees having an important role to play.



PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Culture

The Board is keenly aware that the effectiveness of our risk management is dependent not only on systems and processes but also on behaviours. At Coats, there is a culture of openness and transparency in how we make decisions and manage risk. During 2019, we continued to review and reinforce our Ethics Code and supporting policies, training, communications and compliance activities – this also included further training and auditing in relation to our comprehensive Supplier Code. Our focus on reinforcing ethical business behaviour and compliance has been enhanced through an ongoing Coats Ethical Culture programme at both Group and local levels. Ethics and integrity, along with Health & Safety, are at the core of our organisation's DNA, and we continue to embed our ethical culture in order to mitigate against potential scenarios which could put the organisation at risk. Employees are proactively encouraged, through training, discussions and other means, to act with integrity and to question any unethical behaviour. Our programme of 'Doing the Right Thing' in 2019 also included sharing numerous positive examples of when employees clearly did the right thing, as well as examples of employees calling out unethical practices and behaviours – all of which drives greater understanding, engagement, discussion and transparency among employees across the Group.

Risk tolerance structure

Our risk tolerance is determined using four categories which are listed below:

- **Very Risk Averse:** where we are very cautious and seek to minimise the financial and reputational risk as far as possible. Mitigation costs are accepted albeit that they might exceed the potential loss
- **Risk Averse:** where we are cautious and seek to reduce the financial and reputational risk. Mitigation actions are proportional and based on cost effectiveness
- **Somewhat Risk Tolerant:** where we are willing to take some financial and reputational risk to achieve our objectives. Mitigation actions are again proportional and based on cost effectiveness and
- **High Degree of Risk Tolerance:** where we are willing to take significant financial risk to achieve our objectives. Mitigation involves an active management of risk-return trade-offs.

Identification and management of risk

Understanding the risks that our business is exposed to, and deploying strategies that ensure residual exposures remain within acceptable parameters, is key to managing our business well. Our risk framework is based around four categories of principal risks (strategic, external, operational and legacy), as well as key and emerging risks which are used to build the Group Risk Register which is managed by our GRMC. Minutes from this committee are reviewed by the Audit and Risk Committee.

During 2019, the Audit and Risk Committee and the Board received a number of presentations from senior executives on a number of risks including the principal risks, and gave input on the steps planned to mitigate these risks. The risks are considered not only in isolation but also the correlation between risks and the likelihood of one risk occurring at the same time as another or even triggering it, and the potential combined impact of that and any further mitigating actions that can be taken.

Based on the principal risks of the organisation, our Group Internal Audit (GIA) team updates and embeds the key Group risks in its audit process, for instance, compliance with anti-bribery and corruption requirements as well as health and safety requirements.

Every quarter, GIA reviews the Group Risk Register and local Risk Registers from the cluster management committees. This review includes an assessment of the risk management practices of the business units / clusters in areas such as the frequency and adequacy of the cluster risk management committee meetings, minutes of the meetings and following through on actions contained in the local risk register. This provides an assurance that the risk management exercise is carried out periodically throughout the Group and that the risks are reviewed and kept up to date by the respective stakeholders. These updates / key highlights are then presented and discussed in the GRMC meetings.

Taking the insights from these GIA and business unit / cluster risk management activities and focusing on the risks that may impact the strategic objectives of Coats, the Board has defined nine principal risks, as well as a number of key and emerging risks within that Group Risk Register. These risks, and the steps we have taken to mitigate these risks, are detailed on the following pages.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Throughout the year, the Board has kept each of the principal risks under review with support from the GET and the GRMC. The Board also undertook a comprehensive assessment of the principal risks facing the Group, along with the current levels of risk tolerance for each of those risks. Due to the ever-changing global risk environment, the following risks have been updated since the last report:

NEW	The health and safety of our workforce and other interested parties is, along with ethics and integrity, our top priority, and has been for very many years. The Board has now decided that, having treated it in practice as a principal risk throughout that time, it is now appropriate to acknowledge this formally by including this risk on the list of principal risks, to reinforce the degree of focus applied to it at all levels within the Group.
DEMOTED	The Connecting for Growth programme execution risk has been moved off the list of principal risks in light of the progress and results of the programme at the end of 2019. It is now categorised as a key risk which will continue to be monitored by the GET to ensure that new ways of working are fully embedded.
DEMOTED	Products and services liability risk has been moved off the list of principal risks in light of the ongoing focus, monitoring and actions taken by the management team throughout the course of 2019. It is now categorised as a key risk which will continue to be monitored by the GRMC.

Our principal risks, along with a summary of the measures we have put in place to manage and mitigate them, are set out in the table below. As stated above, the Board will continue to keep these principal risks, as well as the appropriateness of this list and the ever evolving broader risk environment, under ongoing review.

Principal risk	Risk trend	Action / mitigation
1 Strategic		
Appropriate talent and capability development Risk of failure to attract and retain talent and capability given business changes and growth in new areas.	Stable	The Board and senior management remain very focused on talent and capability development, as well as retention and succession planning. 2019 capability development actions included completion of our senior leader development programme, 'Transcend', with 47% of participants assuming new roles or expanded roles. Business Partnering and Sales Accelerator training were also continued from 2018 efforts. 2019 was also the second year of our three year People strategy and we incorporated our new Leadership Capability Framework in our succession planning and performance management processes. As part of this launch, we provided specific Growth Mindset training as a pilot to select groups of employees. Further Growth Mindset training will be run in 2020 as a continuation of our commitment to transforming Coats through building capability. Additionally, we confirmed a new vendor for our employee engagement surveys and are finalising a new programme around career mapping for all employees to be launched in early 2020.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk trend	Action / mitigation
2. External		
Economic risk Economic risk arising from political and demand uncertainty – including risk to free trade conventions.	Increasing in light of the ongoing political uncertainty in various parts of the world	The economic outlook for many of the markets in which Coats operates remains highly uncertain. Geopolitical events in recent years and, in particular, the risks to free trade, including in light of ongoing US / China trade discussions, and the potential consequences for economic growth, add to this uncertainty. More recently, the outbreak of Coronavirus has added to concerns that global growth may slow. However, the breadth of our portfolio and our geographic reach help to mitigate our exposure to any particular localised risk and enable us to meet demand if brands / customers were to transition to other countries. As a global industrial manufacturing company with no UK manufacturing facilities and minimal direct sales in the UK, Coats is of the view that there would be limited direct adverse impacts on the Group from the UK leaving the European Union (Brexit). Both the UK and the European Union, however, are significant markets for both Apparel and Footwear and Performance Materials. Therefore any impact on sales and future growth expectations for these markets could have an indirect consequence for our business. We also maintain an appropriate dialogue with our key customers and suppliers regarding their own risk management and mitigation plans including in relation to Brexit. Whilst there continue to be a number of uncertainties in connection with the UK's future trading relationship with the European Union, there are also other potential indirect impacts, primarily the effect of lower discount rates on the accounting valuation of pension liabilities and the movement of sterling / USD exchange rate on our UK costs. Many years of exposure to emerging markets have given us experience of operating and developing our business successfully during periods of economic and political volatility. We continually monitor and analyse economic and demand indicators to ensure that our supply chain remains flexible and our product portfolio remains relevant. This analysis provides a key input to our product development, business planning and pricing strategies. The Group's international footprint and comprehensive portfolio also provide a mitigating balance in our exposure to both European Union and non-European Union markets.
Cyber risk Risk of cyber incidents leading to corruption of applications, critical IT infrastructure, compromised networks, operational technology and / or loss of data.	Stable	In 2019, we refined the existing policies & standards as well as continued to train our user population on IT security and data protection. We educated our workforce on how their diligence and adherence to processes will help to prevent a data breach or data loss incident. Much like enhancements in 2018, 2019 saw improvements in our vulnerability management programme where all new servers undergo an assessment before they may be put into production. This has helped to reduce the threat landscape across our enterprise. By June 2019, Coats completed deploying multifactor authentication (MFA) for our users. This enhancement minimises the risk of leaked or compromised credentials becoming an entry point to our network. In early Q2 2019, Coats shifted to a new training provider which allowed us to add new training content as well as a new phishing service which has helped us educate our user population on how to identify, handle and report phishing or spam messages. This, along with the MFA project, minimises the likelihood of a successful phishing incident which could lead to a potential data breach. In early Q3, Coats engaged an external party to review our security posture in October 2019. That assessment confirmed that our security level has further improved since 2016 and 2017, with Coats now in the upper quartile for manufacturing organisations, demonstrating the return on the investment to the programmes and how security is engrained in our environment. In late Q3 2019, Coats entered into a partnership with GoSecure to receive managed detection and response services from them. This is a managed SOC (Security Operations Centre) service. This gives Coats greater capabilities to detect suspicious and / or malicious software in our organisation. This also gives us trained / skilled analysts monitoring our environment on a 24/7 basis. This includes enhancement software in addition to the service, mainly an EDR (Endpoint Detection and Response) solution which can detect and quarantine malware on a system.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk trend	Action / mitigation
Environmental non-performance risk Environmental non-performance risk given changing standards and increased scrutiny resulting in disruption of existing business, fines and / or reputational damage.	Stable	On 1 March 2019, along with our Sustainability Report for 2018, we launched our ambitious new Sustainability strategy that builds on the good work we have already done in the area of Corporate Responsibility (CR) and accelerates our progress towards a more sustainable future. The strategy places sustainability at the heart of our transformation process and decision making. It is much more than just doing the right thing in the communities where we work, or protecting the environment near our factories; it's about enhancing our business and creating new opportunities to be more efficient and to innovate, developing better products and building stronger relationships with our customers, investors and stakeholders. Our sustainability strategy, which replaces our previous CR strategic themes, includes seven ambitious targets in the five priority areas of water, energy, effluent & emissions, social and living sustainably that we are aiming to achieve by 2022. We also added a Sustainability Projects Tracking Application which allows us to track projects that help us meet our sustainability targets for water, energy and waste. Our progress towards the 2022 targets is good with relative reductions across the Group in water, energy and waste. During 2019, baselining activities took place to understand where we can further reduce water, energy and waste. Our environmental policy applies across the Group. The Coats Global Environmental Policy was updated during 2019 with a greater focus on partnering with our customers to improve our environmental performance. We also improved our global digital platform that is used for our environmental management system by adding an environmental (and health and safety) legal compliance application. This allows us to create a legal register for each jurisdiction we operate in, and to measure and enhance our compliance with it. It also allows us to track all environmental permits and licences we hold in each country we operate in. The Board has approved the implementation of a harmonised global system to effectively manage our energy and environmental impacts in a documented, systematic way. This includes an environmental management system aligned to ISO 14001 and an energy management system aligned to ISO 50001. Implementation of this system will be informed by the materiality assessment that we complete on a biannual basis. This materiality assessment measures the relative importance of issues to our business and to our stakeholders, by reference to our new sustainability strategy (see above) – Pioneering a sustainable future – with its five key areas of focus for our business over the coming years (i.e. water, energy, effluent & emissions, social and living sustainably).

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk trend	Action / mitigation
3. Operational		
Health and Safety Risk Risk of health and safety incident(s) leading to injury or fatality involving our employees or other interested parties such as contractors, visitors, onsite suppliers, etc, along with potential resulting prosecution, financial costs, business disruption and / or reputational damage.	Decreasing	The Board continues to receive and discuss with management – as a priority item at each Board meeting – detailed reviews of health and safety performance and monitoring of progress against established annual health and safety objectives. Senior management and employees throughout the Group likewise remain intently focused on creating an injury-free work environment and it is the first topic discussed at any management committee team meeting and during any site visit. During 2019, a new strategy was deployed alongside the suite of existing measures, to enhance the focus on prevention of health and safety incidents and proactive risk mitigation. This new 'Journey to Zero' strategy, with its emphasis on leading indicators, trends and insights, is supported by investment in, and deployment of, an enterprise-wide incident and data management system which facilitates the analysis necessary to predict and prevent injury. Coats voluntarily extends this safety strategy to encompass a commuter safety programme designed to improve non-work-related travel safety. This includes defensive driving training, education and campaigns aimed at increasing road safety of workers whilst commuting to and from work. More information on commuting safety can be found on pages 25-26. As a result of these efforts, 2019 saw a 20% reduction in the recordable injury rate* (0.50 versus 0.62 in 2018) and a 15% reduction in the lost time case rate (0.31 versus 0.37 in 2018). These rates are far below the US OSHA industry average rates of 3.00 and 2.00, respectively. In 2020, the Board, senior management and employees throughout the Group will continue to refine this approach to identify and mitigate key health and safety risks and to further increase the Group's focus on creating an injury-free work environment. For more information on our deeply embedded approach to health and safety across the Group and additional performance metrics, please see pages 25-26. * Injury rates represent % of FTE workers injured and are calculated as: number of injuries multiplied by 200,000 divided by the total number of hours worked.
Risk of supplier non-performance and / or unavailability and / or price increases of raw materials Risk of local and broader economic and regulatory market developments leading to limited availability of key raw materials and / or restricted number of suppliers for such materials, leading to major disruption to Coats' supply chain.	Stable	The Group conducts scenario analysis and continuity planning on each of our key raw materials to assess what counter measures can be put in place if certain events were to occur. Regular assessment of financial performance of key suppliers and evaluation of suppliers' own risk management plans is undertaken and our dependency on key suppliers and raw materials is reviewed frequently. The recent outbreak of the Coronavirus resulted in these continuity plans being initiated, including a series of actions to limit the impact on the business and proactively leverage our global footprint and supply chain to provide the best possible service to our customers. While in some instances – e.g. flame retardant fibres used in some personal protection yarns; some nylon filaments for threads used in automotive safety critical applications; or some aramid filaments used in energy pipes – supplier selection is at times dictated by downstream customers, we take all appropriate steps to keep our supplier portfolio as balanced as possible with a view to minimising risk from over exposure to a singular supplier, geographic concentration and corporate responsibility risk. There is ongoing development of a pipeline for alternative suppliers and product substitution In order to remain alert to market developments, procurement teams maintain access to good market intelligence on key raw materials and feedstocks. In addition to this we continue to work with third party experts on market developments and market insights, especially as it relates to trade law, where recent changes in NAFTA / CAFTA along with tariffs (US / China) can have an impact on our supplier base.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk trend	Action / mitigation
Bribery and anti-competitive behaviour risk Risk of breach of anti-corruption law or competition law resulting in a material fine and / or reputational damage.	Stable	The Group continues to maintain clear and well publicised policies and processes, spanning bribery and anti-competitive behaviour along with a number of other ethics issues, including in relation to partners, contractors and suppliers which are reinforced through a comprehensive Supplier Code (covering initial due diligence processes, on-boarding, training, ongoing compliance and auditing). These policies are reviewed annually. There is extensive online and face-to-face training and regular communications through a range of channels including through our global ethical champions network. A sub-committee of the GRMC comprising key business and functional leaders meets quarterly to consider a range of ethics risks (including key risk indicators for those risks), legislative and regulatory developments and mitigation plans. The Group actively maintains a whistleblower system, enabling employees and others who are aware of, or suspect unethical behaviour to report it confidentially. Awareness of the system, together with the risk and the policies, has been increased through an ongoing Ethical Culture Campaign which operates at a Group and local level. See page 67 for more details.
4. Legacy risks		
Pension scheme deficit funding risk Risk of potential volatility in UK pension gross liabilities and total assets leading to increased annual cost of repair plan to fund deficit (which could impact one or more of free cash flow and dividend payment).	Stable	The funded UK pension scheme is overseen by its Trustee Board, which is required to have the appropriate knowledge and understanding in this area. Independent professional Trustee Directors are appointed to the Trustee Board to provide additional expertise. In particular, professional investment advice is taken as necessary; investment strategy aligns with funding objectives; and scheme assets are diversified accordingly. Following the merger of its three UK pension schemes in June 2018, the Group and the scheme Trustee successfully concluded the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date. The Group has agreed ongoing annual deficit recovery payments effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous three UK schemes. Following consolidation of the UK schemes, and completion of the 2018 actuarial valuation, the Trustee of the Coats UK Pension Scheme is currently over 80% (2018: 80%) hedged against interest rate and inflation movements by reference to the Technical Provisions liability. The Group and the Trustee Board routinely review de-risking of the scheme through liability management and investment strategies. *See note 10 on page 130 for more details.*
Lower Passaic River Legacy environmental matter risk Detail of the Lower Passaic River legacy environmental matter can be found in note 28 on page 153.	Stable	The Board continues to monitor developments very closely and oversees the strategy in relation to the Lower Passaic River proceedings. *More details can be found in note 28 on page 153.*

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Key risks
In addition to these principal risks, the Group has also identified a number of key risks. These are monitored by the GET and the GRMC, who receive regular updates, and periodic deep dives, on them from the risk champions assigned to each risk.

An example of such a key risk is the risk of disruption to our business operations as a result of events such as natural catastrophes (flood, hurricane, monsoon, earthquake, etc.), fire, water shortage or pandemics. Discussions on this risk, and the steps taken to mitigate it, include regularly stress testing the business continuity plans prepared by units and functions across the Group to ensure we are able to respond quickly and effectively to any such event. The recent outbreak of the Coronavirus resulted in these business continuity plans being activated, including the immediate implementation of procedures to protect our employees and anyone entering our premises, and actions to limit the financial impact on the business and proactively leverage our global footprint and supply chain to provide the best possible service to our customers.

The list of key risks also includes a number of potential disruptive risks arising from, for example, new competitors and new technology. The GET, GRMC and the Board, as appropriate, continue to monitor these potential disruptive risks and also the opportunities that these may present. See page 32 for more information.

Emerging risks
The 2018 UK Corporate Governance Code which came into effect from 1 January 2019, requires Boards to assess emerging risks in addition to principal risks. In adherence with this, we have integrated emerging risks into our current risk management practices monitoring the internal and external business environment to identify and review new and emerging risks to the Group.

The key emerging risk is climate change risk and its potential impacts on the Group. We have assessed this risk through the lens of a number of potential emission level scenarios. During the course of that initial assessment, we have identified a range of risks and related opportunities for the Group, our customers and suppliers, and the communities in which we operate.

In order to mitigate this risk, the Group has previously considered a number of aspects of potential climate change risk in the context of other risk discussions such as, for example, the availability of certain resources in business continuity planning. However, in recognition of the growing awareness and analysis of climate change risk, the Board has decided to identify it as a discrete emerging risk to be considered alongside those other risks.

Following this initial assessment, the Board will in 2020, with the support of executive management, undertake a more in-depth analysis of the risks and related opportunities, including in the context of various potential emission level scenarios. This analysis will include an assessment of the physical risks to our business operations from climate change (including the risks to our supply chain and our customers); additional financial risks from, for example, increased capital requirements and / or operating expenditures such as insurance premiums or resulting from enhanced climate-related expectations from customers; and the transitional risks which might emerge, particularly as the economy moves towards a lower emissions model with associated legislation.

Opportunities which will be assessed as part of this analysis include the competitive advantages from being a leader in this area such as our ability to supply recycled threads, as well as specific opportunities such as the year-on-year increase in our sourcing of non-fossil fuel-generated energy and decrease in our use of water in our production processes, and climate change requirements potentially leading to an increased demand for our lightweight composites for the transportation industries.

The analysis will also include a review of the actions already in hand, and potential additional actions, to mitigate the risks and further leverage the opportunities, and of the metrics and targets used in this regard. We will report further on the outcome of this analysis in our Annual Report for the year ending 31 December 2020. For more information on our Group Sustainability Strategy generally, see page 27 of this Annual Report.

The Board and management continue to remain alert to other emerging risks. These are identified through internal discussions and experiences as well as conversations with external third parties and insights from observing and reflecting on the broader environment in which the Group operates.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Long Term Viability Statement

In accordance with provision one of the revision of the 2018 UK Corporate Governance Code, the Directors have assessed the longer term viability of the Group over the period to December 2022.

The Directors' assessment has been made with reference to the Group's current position and prospects, as detailed in the Strategic Report. This takes into account the Group's business model, strategy, approach to allocating capital and the potential impact of the principal risks and how these are managed. The Directors have also considered committed finance facilities which, following the refinancing exercise concluded in December 2017, all have a maturity of two years or longer.

The Group's strategic objectives and associated principal risks are underpinned by an annual Medium Term Plan process, which comprises a financial forecast for the current year and financial projections for the next three years. The Medium Term Plan represents a common process with standard outputs and requirements at the Group level. The Board reviews the Medium Term Plan annually. Although this period provides less certainty of outcome, the underlying methodology is considered to provide a robust planning tool against which strategic decisions can be made.

The Directors have considered a range of severe but plausible scenarios that explore the Group's resilience to the potential impact of the principal risks as set out on pages 31 to 38 as well as other risks that could crystallise during the medium term. The Directors also considered the Brexit risk which sits within the Group's principal Economic Risk, but for the reasons set out on page 34 in the principal risks table, did not include that element within the set of risks specifically modelled in preparing this statement.

The risks considered to have the most potential impact on viability were:

- A global economic downturn (including the impact of the Coronavirus)
- UK pension scheme deficit funding; and
- Potential developments in the Lower Passaic River proceedings.

These risks have been modelled both individually and in combination, notwithstanding the fact that the likelihood of all of these risks occurring simultaneously is considered to be very low. The Directors have also taken into account a number of assumptions that they consider reasonable within these assessments including:

- The assumption that funding facilities will continue to be available throughout the period under review: the core US private placement borrowings are due in 2024 and 2027, the revolving facility matures in 2022 and it has been assumed that the revolving facility will be successfully renewed in 2021;
- The assumption that following a material risk event, the Group would adjust capital management to preserve cash; and
- The assumption that the Group will be able to mitigate risks effectively through other available action.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

OPERATING REVIEW

	2019 $m	2018 $m	Inc / (dec) %	2018 CER [1] $m	CER [1] inc/(dec) %	Organic [1] inc/(dec) %
Revenue [2]						
By segment						
Apparel and Footwear [3]	1,063	1,083	**(2)%**	1,053	**1%**	**1%**
Performance Materials	326	332	**(2)%**	321	**1%**	**1%**
Total	**1,389**	**1,415**	**(2)%**	**1,374**	**1%**	**1%**
By region						
Asia	800	791	1%	777	3%	3%
Americas [3]	323	349	(7)%	341	(5)%	(5)%
EMEA	266	275	(3)%	257	4%	4%
Total	**1,389**	**1,415**	**(2)%**	**1,374**	**1%**	**1%**
Adjusted operating profit [2,4]						
By segment						
Apparel and Footwear [3]	156	148	6%	145	8%	9%
Performance Materials	42	47	(11)%	44	(6)%	(6)%
Total adjusted operating profit	**198**	**195**	**2%**	**189**	**5%**	**6%**
Exceptional and acquisition related items	(7)	(48)	n/a			
Operating profit	**191**	**147**	**30%**			
Adjusted operating margin [2,4]						
By segment						
Apparel and Footwear [3]	14.7%	13.7%	100bps	13.7%	100bps	110bps
Performance Materials	12.8%	14.1%	(130)bps	13.8%	(100)bps	(100)bps
Total	**14.3%**	**13.8%**	**50bps**	**13.8%**	**50bps**	**60bps**

1 2018 figures at 2019 exchange rates. Organic on a CER basis excluding contributions from bolt-on acquisitions (ThreadSol).
2 Includes contribution from bolt-on acquisitions made during the period.
3 Includes Latin America Crafts.
4 On an adjusted basis which excludes exceptional and acquisition-related items. Segmental split reflects new operating segments of Apparel and Footwear and Performance Materials.

Revenues

Group revenues increased 1% in the year on an organic and CER basis. On a reported basis, Group revenues reduced 2% as a result of the previously flagged year-on-year currency translation headwinds (notably Indian Rupee, Turkish Lira and Brazilian Real) that predominantly impacted in H1. All commentary below is on a CER basis unless otherwise mentioned.

Apparel and Footwear (A&F)

In A&F, our core thread business (c.85% of segment sales) continued its resilient growth (up 2%) and was ahead of global retail markets which grew by around 1%. The ongoing market share gains in thread were underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility and sustainability credentials. The headline A&F growth of 1% was impacted by slower demand for zips and trims (c.10% of segment sales) due to certain in-year fashion trends and conscious low margin product rationalisation (zips and trims down 3% year-on-year), ongoing difficult trading conditions in Latin America Crafts (albeit with an improving trend in H2) as well as the impact of tail market exits (part of the Connecting for Growth programme) and other customer / product portfolio rationalisation actions.

OPERATING REVIEW
CONTINUED

Coats' ability to perform resiliently in mixed retail market conditions was assisted by several factors including deepening its relationships with retailers and brand owners through its global accounts programme and high levels of customer service, and with manufacturers, through the adoption of digital services and software solutions which deliver speed, accuracy and efficiency. This was demonstrated by the launch of online payment functionality in 14 countries, as well as improved functionality / automation of our well established eComm platform (which now has 94% customer adoption, and accounts for 86% of thread sales). We have also seen our sustainability credentials becoming an ever-increasing differentiator as brands and garment manufacturers seek "peace of mind" within their complex supply chains and set their own ambitious sustainability goals. On the latter, we have seen significant increased interest in our EcoVerde products (100% post-consumer recycled threads) with sales of $7 million in 2019, with a further significant increase expected in 2020, and excitement around the launch of the Twine Solutions digital thread prototype printing machine in June 2019.

Performance Materials

Following a review of our Performance Materials strategy during the year we are now reporting our sales activity in five different end-use categories: Personal Protection (c.30% of Performance Materials sales), Telecoms and Energy (c.20%), Household and Recreation (c.20%), Transportation (c.15%), and Other Industrial Applications (c.15%).

Performance Materials revenues grew 1% in the year on an organic CER basis (2% decline reported) marginally lower than the 2% October YTD reported in the November trading update, which was driven by a continuation of the slower H2 performance within the Transportation sector (down 5% for the year and down 8% in H2), largely due to the slowdown in global automotive production, and on-going delayed industry infrastructure investment in Telecoms and Energy. The Telecoms and Energy sector remains a fundamentally attractive growth area (up 7% in the year), however, it has been temporarily impacted by the phasing of customer programmes linked to infrastructure investment decisions.

Growth in our other key strategic focus area of Personal Protection remained robust at 6%, underpinned by our innovative product solutions that deliver both safety and comfort, which has driven penetration into a number of emerging markets. Household and Recreation related products and Other Industrial Application revenues (previously "traditional" end uses) saw an encouraging trend in the year, with a return to marginal growth in H2 (down 3% for the year).

Our innovation credentials across both Performance Materials and A&F have been further enhanced by the opening of two more global Innovation Hubs in Turkey and China in H1 2019, following the opening of the first hub in North Carolina in 2018. These facilities provide opportunities to collaborate with our customers and brands, and work with them to create innovative new product solutions to meet their specific design needs; this helped to deliver incremental new product sales ($16 million in 2019), and a vitality index (% of sales of products launched within the last 5 years) of over 20% in Performance Materials.

Geographical performance

By geography, we saw resilient revenue growth in Asia (up 3% on a CER basis) which was underpinned by Apparel and Footwear growth across key non-China markets (e.g. Indonesia and Vietnam) as they continued to benefit from incremental volumes moving out of China (a dynamic that was exacerbated by US-China Trade War uncertainty in 2019). This resilient performance in Asia was also despite a slowdown in the smaller Performance Materials segment in that territory (mainly due to softness in the China automotive market).

Revenues in EMEA rose 4%, driven by Performance Materials, albeit impacted in the second half by the temporary slowdown in Telecoms and Energy as referred to earlier.

In the Americas, revenues decreased 5% as a result of the decline in Latin America Crafts (albeit with an improving trend in H2), the impact of portfolio rationalisation actions, and lower Transportation revenues. This was offset to some extent by an encouraging performance in certain LATAM Performance Materials markets, and an improving trend in US consumer durables in H2 (which includes Household and Recreational).

Operating profit

At a Group level, adjusted operating profit increased 5% to $198 million on a CER basis (2018: $189 million) and adjusted operating margins were up 50 bps to 14.3% (2018: 13.8%). Year-on-year productivity and procurement initiatives continued to broadly offset structural inflation (e.g. wages and energy). The anticipated continued raw material cost inflation incurred during the year (partly linked to oil price) was recovered in full, however, gross margin percentage was impacted by lower activity levels and stock adjustments in certain territories (predominantly Americas). Operating margin progression was driven by continued cost control and the incremental year-on-year benefits from the Connecting for Growth programme. Group organic adjusted operating profit and margins grew 6% and 60bps respectively, which is ahead of the CER performance referred to above, due to the initial post-acquisition operating losses made by ThreadSol as it becomes integrated with the wider Coats Digital business.

On a reported basis, Group operating profit (including exceptional and acquisition-related items) increased 30% to $191 million (2018: $147 million), primarily due to significantly lower net exceptional and acquisition related items in the year when compared to 2018 (which included the initial Connecting for Growth reorganisation cost). Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to below is on an adjusted basis only.

Segmental profit

In A&F we are the global market leader and deliver a compelling value proposition for our customers (for example speed, quality, innovation, digital solutions and corporate responsibility). There is significant scale to our A&F operations (A&F orders represent over 90% of total Group orders) which drives production efficiencies, and in turn gross margin upside. In Performance Materials we are seeking to build market leading positions and scale in specific strategic focus areas where we excel in designing new product solutions to solve customer needs. As a result, Performance Materials production processes involve more specialisation which drives a higher average sales price and often significantly higher order size

OPERATING REVIEW
CONTINUED

compared to A&F (and with that a lower average selling, general and administrative (SG&A) cost).

In 2019, we saw strong progression in A&F operating margins (100bps) on a CER basis, largely due to the reasons set out above which explain the movement in Group operating margins.

Performance Materials margins declined 100bps on a CER basis, which was largely driven by H2 factors, including the lower sales levels in the period and resulting operating inefficiencies, and inventory adjustments in our Americas business. Year-on-year progression of Performance Materials margins were also impacted by the investment in our innovation centres which have been opened in the last 12 months, which over time are expected to deliver further significant new product sales. Going forward, we expect underlying Performance Materials margins to progress as we return to higher levels of sales growth, although 2020 and beyond will be partly impacted by the initial dilutive effect of the lower margin Pharr High Performance Yarns business (see below).

Connecting for Growth programme

As announced in February 2018, Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation, whilst enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age.

Good progress continued to be made during 2019 and the programme has now finished, ahead of schedule, with the new operating structures embedded successfully within the organisation. Reinvestment projects, funded from the programme savings, are progressing well in the areas of digital (e.g. retro fitting sensors to our existing manufacturing equipment and effluent treatment plants to stream production / compliance data to drive business insights), innovation (e.g. two new innovation hubs opened in 2019), and appropriate talent acquisition. These will all support the ongoing strategy delivery of the Group and our next phase of growth.

Final cumulative net benefits for the programme are $28 million (of which $13 million in 2019), which is significantly ahead of the initial estimate of $15 million net benefits expected by 2020, when the programme commenced in 2018. The increased level of net savings have been delivered through exceptional project management and continuous course correction, for example by reducing the originally planned geographical cluster structure from 10 (previously c.45 geographic markets) to 7. We have achieved this whilst making reinvestments to embed our innovation, digitisation and people strategy initiatives which are an integral part of the programme.

The final net exceptional reorganisation charge for the programme was $31 million ($8 million in 2019), marginally higher than the initial $30 million estimate at the start of the programme as further opportunities for savings were identified.

Acquisition of Pharr High Performance Yarns (Pharr HP)

On 26 November 2019, the Group announced a binding agreement to acquire the business and assets of Pharr HP. This acquisition was completed on 10 February 2020 following the necessary regulatory approvals and other closing conditions.

Pharr HP is a market-leading manufacturer of high-performance engineered yarns based in McAdenville, North Carolina, US. Founded in 1939, it has around 350 employees. In its latest financial year to 31 March 2019, Pharr HP's annual sales were c.$110 million and adjusted EBITDA of c.$5 million. The transaction consideration was $37 million.

Pharr HP specialises in providing technical yarn solutions to the growing markets of Industrial Thermal Protection, Defence and Fire Service industries. The acquisition of Pharr HP's manufacturing capabilities and customer base provides further expertise and scale to Coats' existing Personal Protection business (part of the Performance Materials segment), and gives us a leadership position in this attractive growth market. Coats will enhance Pharr HP's performance by leveraging its extensive textile experience, strong industry connections, existing operational footprint in North America, and Coats' strong global brand to deliver high performance solutions for its customers.

On a pro-forma basis, combined 2019 sales in Personal Protection, including Pharr HP would have been c.$210 million, which represents a c.20% of the estimated addressable market, and c.50% of our total Performance Materials sales. As a result of the initial dilutive effect of Pharr HP lower operating margins, 2019 Performance Materials and Group operating margins would have been 10.5% (as reported: 12.8%), and 13.5% (as reported: 14.3%) respectively. Over time, we expect Pharr HP margins to trend towards Group levels.

Discontinued operations - sale of North America Crafts

As announced on 22 January 2019, it was agreed to sell the non-core North America Crafts business to Spinrite Acquisition Corp, a leading provider of craft products in North America. This transaction was subsequently completed on 20 February 2019. The final acquisition proceeds were $34 million, which was on a debt and cash free basis, and was subject to an adjustment for the level of net working capital as at the time of completion.

The sale of our standalone North America Crafts business has allowed the Group to focus completely on the business-to-business global Apparel and Footwear and Performance Materials businesses.

Coats retains the control and responsibility for the eventual outcome of the ongoing Lower Passaic River environmental matters. There is no change in the Group's overall position in relation to this matter, from that previously reported.

Board change

Alan Rosling, a Non-Executive Director since 2011, will not be standing for re-election as a Director at the 2020 AGM, to be held on 20 May 2020. The Board would like to thank Alan for his insightful guidance and contribution to the Board over the nine years of his tenure including setting up and chairing the Digital Advisory Council. Alan has played a key part in steering significant change to the Group, as we restructured the Guinness Peat Group and Coats Boards, transitioned from an investment holding company to a UK headquartered FTSE 250 manufacturing business and accelerated our Digital journey.

OPERATING REVIEW
CONTINUED

Dividend
Coats has a track record of delivering good levels of free cash through profitable sales growth, delivering self-help initiatives and investing in organic growth opportunities. The Board aims to use this free cash flow to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. As underlying earnings and cash flows increase, the Board intends to continue to pursue a progressive dividend policy.

As a result of this established policy, and reflecting the financial performance in 2019, the Board is proposing a final dividend of 1.30c per share which, combined with the interim dividend of 0.55c per share, gives a total dividend for the year of 1.85c (2018 full year dividend: 1.66c per share), which represents a 11% increase on the previous year. Subject to approval at the forthcoming AGM, the final dividend will be paid on 26 May 2020 to ordinary shareholders on the register at 1 May 2020, with an ex-dividend date of 30 April 2020.

Coronavirus (Covid-19)
As a business we continue to monitor the recent Covid-19 outbreak closely. We are focused on ensuring the safety and protection of our employees, implementing the necessary business continuity procedures and supporting our global customer base.

The impact for Coats to date has been in our China business which currently represents approximately 12% of Group sales, and 4 of our 50 global manufacturing facilities are in the country. These 4 facilities are now operational following the enforced government closures after the Chinese New Year with the majority of our employees now back at work. We are in the process of returning the 4 facilities to full capacity, which we expect to happen by the end of March.

Following the temporary shutdown of our facilities we have seen an $8 million year-on-year reduction in our China sales in the first two months of 2020.

China remains important to the wider A&F supply chain, producing around 40% of the world's garments and footwear. Looking forward we face uncertainty around the impact of the virus on the industry supply chain, both inside and outside of China. We will continue to monitor the situation carefully and respond as necessary.

Coats has an unrivalled global footprint and is uniquely placed to help brands and manufacturers as they look to further de-risk their own exposures to the largest sourcing market of China by moving incremental production volumes to alternative locations.

FINANCIAL REVIEW

Summary

Adjusted operating profit from continuing operations increased 5% to $198 million on a CER basis (2018: $189 million) and operating margins were up 50 bps to 14.3% (2018: 13.8%). On a reported basis, operating profit (which is after exceptional and acquisition related items) increased 30% to $191 million, as a result of the increase in adjusted operating profit, along with the significant reduction in net exceptional and acquisition-related items in the year when compared to 2018 (where the initial Connecting for Growth reorganisation cost was incurred, along with exceptional charges in relation to the Lower Passaic River environmental claim and UK pension equalisation).

The Income Statement on a reported basis was impacted by the relative strength of the US Dollar; particularly compared to the first half of 2018 where we saw FX tailwinds. This resulted in a decline of 2% in reported revenues year on year (vs a 1% growth on a CER basis), and 2% growth in adjusted operating profit (vs a 5% growth on a CER basis). As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. The main currency impact during the period was the strengthening US Dollar against the Indian Rupee, Turkish Lira and Brazilian Real. At current exchange rates we expect broadly neutral translation impact in 2020.

Adjusted earnings per share ('EPS') for the period increased 1% to 7.0 cents (2018: 6.9 cents). This was broadly in line with the reported 2% increase in adjusted operating profit (which includes the H1 weighted translation headwinds). A year-on-year increase in interest costs (including the initial impact of IFRS 16 (leases) and some one-off legacy charges in H1), was offset by a further reduction of 200bps in the underlying effective tax rate to 29% (2018: 31%). The mark-to-market foreign exchange losses on future hedging contracts incurred in H1, largely in relation to Sterling, reversed in the second half due to the Sterling appreciation seen in the period.

On a reported basis, the Group generated an attributable profit from continuing operations of $96 million compared to $55 million in 2018. The increase was primarily due to significantly lower net exceptional and acquisition related items in the year when compared to 2018 where the initial Connecting for Growth reorganisation cost was incurred, as well as charges in relation to the Lower Passaic River environmental claim and UK pensions equalisation.

The Group delivered an adjusted free cash flow of $107 million in 2019 (2018: $96 million) which reflects the adjusted operating profit growth, well controlled levels of working capital, marginally lower spend on capital expenditure, and lower levels of interest and cash tax paid (see later for details).

Return on capital employed (ROCE) remained strong at 42.3% which was broadly in line with 2018 (42.6%) as both adjusted operating profits (including year-on-year foreign exchange translation headwinds) and our asset base grew by 2%.

Non-operating results

Net finance costs in the year were $27.9 million (pre-exceptional), an increase from $24.4 million in 2018. The key drivers of the increase in net finance costs in the year was a $1.7 million increase in the IAS19 pensions finance charge, a $3.7 million impact following the adoption of IFRS 16 (see below), the impact of certain legacy charges in Brazil/China that were booked in H1 ($1.7 million), with some offset from lower interest on borrowings ($1.4m reduction year-on-year). The mark-to-market foreign exchange losses on forward hedging contracts incurred in H1, largely in relation to Sterling, reversed in the second half based on the Sterling appreciation seen in the period (2018: $1.6 million mark-to-market loss).

The taxation charge for 2019 was $50.5 million (2018: $49.0 million) resulting in a reported tax rate of 30% (2018: 40%). Excluding exceptional and acquisition-related items and the impact of IAS19 finance charges, the underlying effective tax rate on pre-tax profits reduced 200 bps to 29% (2018: 31%). This was driven by a reduction in withholding taxes, a favourable change in profit mix for the period and the impact of a reduction in the headline India corporation tax rate during the year.

Profit attributable to minority interests was broadly in line with 2018 at $20.1 million, and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests).

Exceptional and acquisition-related items

Net exceptional and acquisition-related items before taxation were $4.4 million in 2019; which consisted of the remaining exceptional C4G reorganisation charge of $8 million (net of the profit on the sale of property as part of the C4G programme) and acquisition related costs of $2 million (see below), offset by a $6 million credit in relation to a significant historical legacy tax claim in Brazil (includes the operating profit impact and associated historical interest recovery). These were significantly reduced year-on-year (2018: $47.8 million) due to the weighting of the exceptional reorganisation charge from the Connecting for Growth programme ($23 million in 2018), as well as 2018 charges in relation to the Lower Passaic River environmental claim ($8 million) and UK pensions equalisation ($10 million).

Acquisition-related items in the year were $2.2 million (2018: $7.3 million) which consisted of the amortisation of intangible assets acquired ($2.9 million), acquisition transaction costs ($1.0 million) with some offset from the reversal of contingent consideration ($1.7 million).

Investment

Capital expenditure in the year, in addition to ongoing maintenance requirements, related to new product development (e.g. development of our two further global innovation hubs in Turkey and China), process improvements, digital tools, capacity expansion (e.g. in Bangladesh), health and safety, environmental spend (e.g. completion of a zero liquid discharge system at one of our major India plants), and employee welfare (e.g. a creche in our Turkey facility). These help to ensure that Coats maintains its strong corporate responsibility credentials and ethical reputation in the industry as well as benefiting the local communities that we do business

FINANCIAL REVIEW
CONTINUED

in. Total capital spend for the period amounted to $44 million (1.2x depreciation and amortisation), which was slightly lower than 2018 ($48 million).

In order to continue to support our growth strategy and further reinforce our strong environmental compliance credentials we anticipate capital spend to be in the $45-55 million range for 2020.

Cash flow

The Group generated $107 million of adjusted free cash flow in 2019. This was an 11% increase on 2018 ($96 million) due to the increase in adjusted operating profit and controlled net working capital, alongside continued capital expenditure. This free cash flow measure is before annual pension deficit recovery payments, acquisitions and dividends, and excludes exceptional items such as the Connecting for Growth exceptional reorganisation cost.

Adjusted EBITDA (defined as pre-exceptional operating profit before depreciation and amortisation, and excluding the impact of higher depreciation as a result of IFRS 16 (leases)) from continuing operations for the year was $233 million (2018: $231 million). Net working capital outflow in the year was $6 million which was an improvement on 2018 (2018: $17 million outflow) as working capital continues to be effectively controlled. Interest paid was $15 million, $4 million lower than 2018 as a result of lower levels of net debt.

Tax paid was $46 million, a decrease of $4 million from 2018 ($50 million). This reduction is primarily driven by cash tax benefits which arose on 2018 exceptional items crystallising in H1 2019, together with a favourable change in profit mix for the period and the reduction in India corporation tax rate, as well as the timing of certain items that will instead be incurred in 2020 cash tax.

The Group generated a free cash inflow of $72 million in the year (2018: $25 million), as the adjusted free cash inflow of $107 million and the proceeds of the North American Crafts disposal ($30 million; net of pre disposal operating cash outflows and transaction costs), were offset by UK pension payments ($27 million), shareholder dividends ($24 million) and exceptional and acquisition related items ($10 million).

As a result of the above free cash inflow in the year, net debt (excluding the impact of IFRS 16) as at 31 December 2019 was $150 million, $73 million below 31 December 2018 ($223 million).

Balance sheet

An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA (excluding the impact of IFRS 16 – see below), which improved to 0.6x adjusted EBITDA at 31 December 2019 (1.0x at 31 December 2018), and is below the lower end of the 1-2x stated target leverage range, although does not reflect the recent $37 million consideration in relation to the Pharr HP acquisition.

The sale of the North America Crafts business further supports our strong balance sheet and will enable us to invest in our business both organically and inorganically, as well as meet our other key capital demands of funding our pension schemes and making returns to shareholders.

IFRS 16 (leases)

Following the release of IFRS 16, which is effective for accounting periods beginning on or after 1 January 2019, the Group has reviewed and updated its accounting treatment for leases. The primary impact of this new standard for Coats is the requirement to use a single model for lessees which recognises a right of use asset and lease liability for all leases, and as such a removal of the distinction between finance and operating leases.

As at 31 December 2018, the Group held a significant number of operating leases which were previously expensed within operating profit on a straight line basis. The Group has chosen to apply the modified retrospective approach from the new accounting standard transitional date of 1 January 2019 and has therefore not restated comparatives. This has involved calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable operating lease contracts.

The impact on the 2019 Income Statement has been a net increase to adjusted operating profits (due to the replacement of operating lease charges offset by depreciation on the newly recognised assets) of $2.3 million, and an increase to the interest charge of $3.7 million reflecting the newly reflected lease liability. Overall, the impact on profit before tax of this change was therefore an adverse $1.4 million movement in the year.

In relation to the Balance Sheet, the newly recognised assets (previously operating leases) at 31 December 2019 amount to $63 million, with an associated lease liability of $65 million. Net debt, including this lease liability at 31 December 2019 was $215 million. For financial covenant purposes, our leverage remains calculated on the basis without the impact of IFRS 16 (0.6x at 31 December 2019). Including IFRS 16, leverage at 31 December 2019 was 0.9x.

Pensions and other post-employment benefits

The net obligation for the Group's retirement and other post-employment defined benefit liabilities (UK and other group schemes), on an IAS19 financial reporting basis, was $181 million as at 31 December 2019, which is broadly in line with 31 December 2018 ($168 million). This includes a reduction in the UK scheme liabilities, broadly offset by a reduction in the recognised US surplus, as explained further below.

The Group's UK defined benefit schemes, namely the Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, shows a $92 million IAS19 deficit at 31 December 2019 (£69 million), which is $17 million less than at 31 December 2018 ($109 million, £85 million). This reduction predominantly relates to the cash contributions made into the scheme in the year (net actuarial movements minimal).

Following the disposal of North America Crafts, Coats retains the previously incurred pension obligations from the business. The pension scheme was in a recoverable surplus position of $18 million as at 31 December 2019, which is a $30 million reduction from 31 December 2018 ($48 million). This reduction is as a result of fewer serving employees in the US remaining in the Group following disposal of the Crafts business, and in December 2019 the scheme was closed to new entrants from 2020 and closed to future accrual for current members from 2022, which resulted in an associated non-cash curtailment gain.

FINANCIAL REVIEW
CONTINUED

UK pension triennial valuation

As reported previously, following the merger of its three UK pension schemes in June 2018, the Group and the scheme Trustee successfully concluded the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date.

The Group has agreed ongoing annual deficit recovery payments of £20 million ($27 million) per annum increasing annually by the increase in the Retail Price Index (first increase in January 2020) based on a Technical Provisions deficit of £252 million ($334 million). As before, the Group will also meet Scheme administrative expenses and levies estimated at £4 million ($5 million) per annum in the future (i.e. total ongoing payments of £24 million ($32 million) per annum). The new deficit recovery payments have been effective from 1 April 2019 and are payable until 31 December 2028.

The previously agreed level of deficit recovery contributions was £17.5 million ($23 million), including estimated administration expenses and levies. As a result of the timing of the start of the new contributions (from April 2019), 2019 deficit recovery contributions, including estimated administration expenses and levies, were £22 million ($27 million).

The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous three UK schemes.

Simon Boddie
Chief Financial Officer
4 March 2020

The Strategic Report comprising pages 1 to 46 was approved by the Board and signed on its behalf by the Group Chief Executive.

Rajiv Sharma
Group Chief Executive
4 March 2020

CHAIRMAN'S INTRODUCTION

Dear Shareholder,

One of the strong threads that runs through Coats is the idea that we should always 'Do the right thing'. Whether we are thinking of our approach to sustainability, which you can read more about in our Sustainability Report available on our website, or on the launch of our 'Journey to Zero' health and safety strategy, which you can read more about on page 25, doing the right thing is something that is part of the fabric of our everyday lives and actions from the factory floor all the way up to the board room.

The Group Risk Management Committee (GRMC) agreed during 2019 that climate change is included in the Group Risk Register as an emerging Risk (see page 38 for more information on our emerging and principal risks). This means that it is a Board level issue and therefore that evaluation of risks and opportunities and decisions on appropriate strategies and actions have board oversight. The Company is in the process of evaluating the impacts of climate change risks and opportunities on the business, strategy and financial planning. This evaluation will be completed in 2020 and the Company will report on the results and implications.

Doing the right thing when it comes to corporate governance is something the Board takes very seriously. Good governance is important because it leads to a better run and more successful company, delivering more for all of our stakeholders.

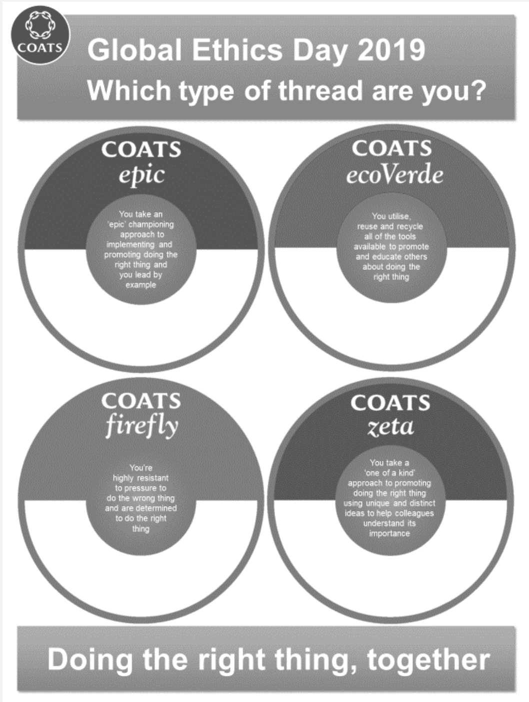
This Governance section of the 2019 Annual Report contains an overview of the roles and responsibilities of the Board and its Committees together with a summary of the activities undertaken during the course of the year ended 31 December 2019.

During 2019 the Board considered the strategy through to 2022 to ensure this continues to address industry headwinds. Although the strategy remains broadly unchanged this has led to a refresh of the pillars which underpin the purpose. You can read more about our purpose and our strategy on page 13. The Board has also spent time considering the changes brought in by the 2018 UK Corporate Governance Code (the Code) and The Companies (Miscellaneous Reporting) Regulations 2018 to ensure Coats' compliance.

Culture and values

The Board recognises the importance of its role in setting the tone of Coats' culture and embedding it throughout the Group and I am committed to instilling and upholding this and the values we expect to see from all of our employees. Our Ethics Code underpins everything that we do and is reinforced through the 'Doing the Right Thing' programme, which sets out the type of organisation we want to be. Everyone who works for and with us is encouraged to actively engage with the programme and to understand its importance to them as well as the Group. In addition to the Board, the Group Executive Team and senior management understand that how we work is as important as what we achieve. This ensures that the importance of compliance and integrity is recognised at all levels throughout the Group.

During the year the Board has been kept abreast of whistleblowing incidents, including an overview of any trends, and details on action taken when our employees and suppliers do not display the values and behaviours expected of them.



The Global Ethics Day in 2019 looked at which thread best described different employees' approach to 'Doing the right thing'. This event ran across the entire Group. Participants discussed within their teams how well balanced they were across the different types and what they could learn from that. The discussions took many different forms including workshops, town hall meetings, quizzes and stage plays. As part of the event a YamJam was run which had 600 messages posted, 54,000 read messages and nearly 3,500 'likes'.

Governance

This is the first year of reporting for Coats under the revised Code and I am pleased to confirm that Coats has applied the principles and complied with all of the provisions except as set out on page 49. The Regulations and Code put more emphasis on engagement with stakeholders, diversity, remuneration structures and the strengthening of corporate culture. We have enhanced our disclosures on these throughout this report which I hope demonstrate the high levels of corporate governance maintained within Coats.

Board composition and succession

The 2019 AGM marked the retirement of Mike Allen from the Board. I would like to thank Mike for his insightful guidance and contribution to the Board. Mike played a key part in steering through the significant change to the Group during his tenure. Looking forward Alan Rosling will step down at the AGM to be held in May 2020 following completion of his term on the Board. I would like to thank Alan for his insightful guidance and contribution to the Board over the nine years of his tenure including setting up and chairing the Digital Advisory Council.

CHAIRMAN'S INTRODUCTION
CONTINUED

Diversity and inclusion
The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense to bring a range of perspectives and insights to support and challenge management and good decision making.

To us, diversity and inclusion means understanding, appreciating and valuing the visible and invisible differences in our colleagues, and understanding that these differences enrich our culture and benefit the business. Recognising this diversity and inclusion is an integral part of our cultural agenda and we continue to have a strong focus on all areas of diversity, not just gender, but including ethnic, geographic and diversity in experience at both the Board and Group Executive Team level and beyond. Further details on the Board's Diversity Policy and our wider approach to diversity and inclusion are contained in the Nomination Committee report set out on page 64 and on page 26 of this Annual Report.

Board effectiveness
This year the Board undertook an externally-facilitated effectiveness review in accordance with the requirements under the Code. The review was undertaken by Independent Audit Ltd. The review highlighted the strengths of our Board but also gave us some pointers for our continued efforts to make the Board as effective as we can. Details of the review, its outcomes and how this will inform the development of the Board's objectives for 2020 can be found on pages 57 to 58.

Board activities
It is said that knowing something and seeing something are two different things. In January 2019 I, together with Mike Allen, Nicholas Bull, David Gosnell and Fran Philip attended the Global Leadership conference in Charlotte, US, alongside Rajiv Sharma and Simon Boddie. During the conference most of the Board members attending took part in the site visits to the Innovation Hub and Patrick Yarns Mill. The theme of the conference was 'Transforming for Growth: Connecting, Pioneering, Trusted' and senior executives from a customer attended and spoke about their opportunities and challenges.

I was very proud to attend the celebration in Vietnam in October 2019 of our highly successful thirty year old joint venture during which we discussed with external experts the future direction and challenges for Vietnam as a country. During the course of the Board visit to Vietnam and Indonesia the Board met and toured the facilities of certain key customers. In January 2020, along with Nicholas Bull, Anne Fahy, David Gosnell and Echo Lu, I attended the Deliver 2020 Workshop where we discussed growth imperatives with business leaders from across Coats.

You can read about the visits that Fran Philip has made and the work she has done as the designated Non-Executive Director to represent the workforce voice on page 25.

An overview of the range of matters that the Board discussed and debated at its meetings during the year is presented on page 56. The reports of the Audit and Risk and Remuneration Committees for 2019 are available on pages 59 to 63 and 70 to 94 respectively.

Our people and our culture
Ensuring the right culture and environment for our people to succeed is critical for business success. During the Board Strategy Day held in September 2019, the Board considered the two strategic themes of 'Moving from the Industrial to the Digital Age' and 'Moving beyond the stitch line with new products and services' which were launched in 2018 with emphasis on the four strategic pillars of Digitisation, Simplification, Innovation, and Acquisition. Management will focus on embedding the understanding of the Coats brand, purpose and values in 2020 throughout the business and the Board will have oversight of this. Information about how the Board has assessed and monitored culture can be found on page 32.

Engagement with stakeholders
We believe strongly that responsibility for the long-term success of the Company is linked to ensuring accountability, transparency and fairness in our dealings with all of our stakeholders. You can read more about how we have engaged with and responded to the challenges raised by our shareholders, customers, people, suppliers, the communities in which we operate and our environmental impact on pages 19 to 24.

In addition to the Board's focus on our people, as I refer to above, the Board receives regular updates on the matters most important to our key external stakeholders and is kept abreast of relevant developments from the interactions between the business and these stakeholders through regular reporting. The Board receives an investor update at each Board meeting and receives regular reports, particularly in relation to assessing risk, on interactions with customers and suppliers. A good example of how this has worked in practice is how this helped to ensure a better clarity around Performance Materials strategy to be more customer driven rather than 'our technology driven'.

Sustainability
Coats is a member of the FTSE4Good UK Index. This recognition of our strong ESG and SRI credentials, as detailed in the Corporate Responsibility section on pages 27 to 30 of this Annual Report shows our demonstrable commitment to the environment and communities in which we operate. We have also published a separate Sustainability Report which can be found on our website. In this we have set out seven ambitious targets in the five priority areas of water, energy, effluent & emissions, social and living sustainably that we are aiming to achieve by 2022 and our progress against these. As explained in the Remuneration Report on page 70, to reflect the importance of the sustainability agenda to our business we will be linking management remuneration from 2020 onwards in part to our performance on key sustainability metrics.

I am proud of Coats' leadership ambitions in all our programmes and the hard work that has gone into supporting these initiatives.

Mike Clasper
Chairman
4 March 2020

CHAIRMAN'S INTRODUCTION
CONTINUED

THE UK CORPORATE GOVERNANCE CODE COMPLIANCE STATEMENT
Coats complied with the relevant principles and provisions of the 2018 UK Corporate Governance Code (the 'Code') during the course of the year ended 31 December 2019 except as set out below:

- Principle O, provision 25 – the terms of reference for the Audit and Risk Committee were updated in February 2019 to reflect the Code and internal governance processes are being restructured to reflect this change.
- Principle O, provision 29 – a discussion encompassing any improvements that could be made to the process for monitoring the Company's risk management and internal control systems is being held in the Audit and Risk Committee forum and any recommendations will be reported to the Board. A report on this will be included in the 2020 Annual Report.

We expect to be fully compliant with the Code by the end of 2020. Other information relating to the corporate governance structures is set out over the following pages.

'I LIKE TO USE THE WORDS 'SILENT RUNNING' TO DESCRIBE A GOOD COMPLIANCE AND GOVERNANCE CULTURE. REPUTATION IS KEY TO ONGOING SUCCESS, IT TAKES YEARS AND YEARS TO BUILD BUT SECONDS OR MINUTES TO DESTROY. THAT IS WHY WE ARE DOING MORE TO ENSURE THE GLOBAL FUNCTIONS ENABLE AND UNDERPIN A STRONG COMPLIANCE AND GOVERNANCE CULTURE.'

ANNE FAHY,
NON-EXECUTIVE DIRECTOR

Board leadership and company purpose	**Read more**
Promoting the long-term sustainable success of the company	Page 5
Generating value for shareholders	Page 5
Contributing to wider society	Page 19
Purpose, values and strategy, and how these and our culture are aligned	Page 10
Resources available to allow Coats to meet its objectives and measure performance against them	Page 59
Control framework	Page 62
Stakeholder engagement	Page 19
Workforce policies and practices	Page 30

Division of responsibilities	**Read more**
The Chairman	Page 53
Division of responsibilities	Page 53
Non-Executive Directors	Page 53
Information and support	Page 54

Composition, succession and evaluation	**Read more**
Succession planning	Page 65
Board diversity	Page 64
Board evaluation	Page 57

Audit, risk and internal control	**Read more**
Independence and effectiveness of internal and external audit functions	Page 62
Fair, balanced and understandable reporting	Page 60
Principal risks	Page 31

Remuneration	**Read more**
Remuneration policies and practices support strategy and promote long-term sustainable success	Page 70
A formal and transparent procedure for developing policy on executive remuneration	Page 90

BOARD OF DIRECTORS

Mike Clasper CBE

N

Position Chairman
Nationality British
Tenure Appointed as a Non-Executive Director on 20 February 2014, Chairman on 16 April 2014[1]

Key skills and experience:
- Extensive executive and non-executive experience, including in general management and marketing for global companies
- Long-term track record of value creation and change

External appointments
Chairman of SSP Group plc and Bioss, Trustee of Heart Cells Foundation, Governor of the Royal Shakespeare Company, Advisory Board member for Arora International. Previously Senior Independent Director at Serco Group plc and ITV plc, Chairman of Which? Ltd, Chief Executive Officer of BAA plc, Chairman of HM Revenue & Customs, President of the Chartered Management Institute and Operational Managing Director at Terra Firma. He has also held a number of senior management positions at Procter & Gamble.

Qualifications
Mike holds an MA in Engineering from the University of Cambridge.

Simon Boddie

Position Chief Financial Officer
Nationality British
Tenure Appointed as Chief Financial Officer on 4 July 2016

Key skills and experience
- Strong financial expertise within an international emerging markets and digital context
- Wealth of finance experience in large listed multinationals

External appointments
Non-Executive Director and chair of the Audit Committee of PageGroup plc, a specialist recruitment company. Previously Group Finance Director at Electrocomponents plc. Formerly worked for Diageo, where he held a variety of senior finance positions, Hill Samuel Bank and Price Waterhouse.

Qualifications
Simon is a member of the Institute of Chartered Accountants in England and Wales and has an MA in Economics from the University of Cambridge.

See the Financial Review on page 44.

Rajiv Sharma

N

Position Group Chief Executive
Nationality Singaporean
Tenure Appointed as an Executive Director in March 2015, Group Chief Executive since 1 January 2017

Key skills and experience:
- 30 years global multi-industry leadership experience
- Leading large complex businesses
- Strategy and transformation

External appointments
Rajiv joined Coats in November 2010 as Global CEO Industrial and was responsible for developing and executing a growth strategy. He has lived and worked in the US, Europe and Asia.

Non-Executive Director of Senior plc. Rajiv has been on the board of joint ventures at both GE and Shell and held management positions with Saab, Honeywell, GE and Shell.

Qualifications
Rajiv holds a degree in Mechanical Engineering, as well as an MBA from the University of Pittsburgh, USA.

See the Group Chief Executive's statement on page 6.

Nicholas Bull

A N

Position Senior Independent Non-Executive Director
Nationality British
Tenure Appointed as a non-Executive Director and Senior Independent Director on 10 April 2015

Key skills and experience
- Global financial services and banking experience
- International business experience and insights, especially in China
- Advocate for ESG and SRI matters at the Board

External appointments
Chairman of Fidelity China Special Situations plc and Conran Holdings Ltd, Trustee of the Design Museum, Camborne School of Mines Trust, The Creative Education Trust and the Conran Foundation. Previously served as Chairman of De Vere, Chairman of the Advisory Board of Westhouse Securities and of Smith's Corporate Advisory Limited. He had a global career in banking with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO.

Qualifications
Nicholas has a BSc in Chemistry from the University of Exeter and is a Fellow of the Institute of Chartered Accountants in England and Wales.

BOARD OF DIRECTORS
CONTINUED

Anne Fahy

A N

Position Independent Non-Executive Director
Nationality Irish
Tenure Appointed 1 March 2018

Key skills and experience:
- Experienced audit committee chairman with extensive financial and internal controls experience
- Global business and developing markets experience

External appointments
Non-Executive Director and Chairman of the Audit Committee of SThree and Non-Executive Director of Nyrstar. Trustee of Save the Children; formerly a Non-Executive Director of Interserve. Previously at BP, Anne gained extensive experience of global business, developing markets, risk management, internal control, compliance and strategy development in the aviation, petrochemicals, trading and retail sectors.

Qualifications
Anne is a Fellow of the Institute of Chartered Accountants in Ireland and a Bachelor of Commerce in Economics, Accounting and Business from University College Galway, Ireland.

See the Audit and Risk Committee Report on page 59.

David Gosnell, OBE

R A N

Position Independent Non-Executive Director
Nationality British
Tenure Appointed 2 March 2015[1]

Key skills and experience
- Strong and deep supply and procurement background in global multi-national companies
- International and strategic mindset

External appointments
Was previously Chairman of Old Bushmills Distillery Company Ltd and a Non-Executive Director of Brambles Ltd. David retired from Diageo plc in 2014 where he had most recently held the role of President of Global Supply and Procurement. Prior to joining Diageo, David spent 25 years at HJ Heinz in various operational roles.

Qualifications
David holds a Bachelor of Science degree in Electrical and Electronic Engineering from Middlesex University. He is a Fellow of the Institute of Engineering and Technology (FIET). He has completed Supply Chain Manufacturing – Drive Operational Excellence at INSEAD (Singapore).

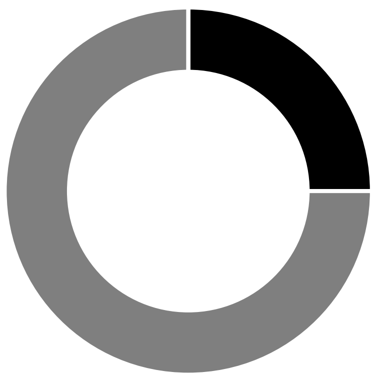
See the Remuneration Committee Report on page 70.

Board profiles

Expertise

- Financial
- Digital
- Strategy
- Retail

Length of service



- 0-3 years
- 3-6 years
- 6-9 years

Key to committee memberships

Committee chair
Committee member
R Remuneration
A Audit
N Nomination

BOARD OF DIRECTORS
CONTINUED

Hongyan Echo ('Echo') Lu

R N

Position Independent Non-Executive Director

Nationality Chinese

Tenure Appointed 1 December 2017

Key skills and experience

- Global business experience gained in different sectors in Europe, Asia and the US
- Strong background in general management and track record of delivering positive change

External appointments

Chief Executive Officer of Haulfryn Group Ltd, a UK leisure business. Previously Managing Director, International of Holland & Barrett International, Managing Director of Homebase Ltd as part of Home Retail Group plc. Echo spent ten years at Tesco plc in a variety of senior leadership roles. Echo was a Non-Executive Director of Dobbies Garden Centres and a steering committee member of the Trestle Group Foundation.

Qualifications

Echo has a Bachelor of Arts in International Economy and Finance from Fudan University, Shanghai and a Master of Science in Industrial Relations and Human Resources from West Virginia University.

Alan Rosling, CBE

A R N

Position Independent Non-Executive Director, Chairman of the Digital Advisory Council

Nationality British/Irish

Tenure Appointed 2 March 2015[1]

Key skills and experience

- International business experience across a diverse range of sectors including textiles and Government
- Start-up and technology insights

External appointments

Chairman of Griffin Growth Partners, Director of Insolight SA, Peotic Technologies and Vyome Therapeutics Inc. Co-founder and director of ECube Investment Advisors. Previously Executive Director of Tata Sons Limited, Chairman of the Jardine Matheson Group in India, Strategy Development Director at United Distillers, co-founder of Kiran Energy Solar Power, a member of The Policy Unit at No. 10 Downing Street. He was CEO of Piersons, a division of Courtaulds Textiles, and an investment banker with S.G. Warburg & Co.

Qualifications

Alan has an MA in History from the University of Cambridge and an MBA from the Harvard Business School.

You can read more about the DAC on page 55.

Fran Philip

R N

Position Independent Non-Executive Director, Designated Non-Executive Director for workforce engagement

Nationality American

Tenure Appointed 1 October 2016

Key skills and experience

- Extensive speciality retailing business experience
- Workforce dynamics experience

External appointments

Non-Executive Director of Vera Bradley Inc., Totes Isotoner and Regent Holding and an industry executive for Freeman Spogli, a US private equity firm specialising in retail and consumer brands. Previously Fran worked for The Gap, Williams-Sonoma and The Nature Company, and LL Bean, where she initially served as Director of Product Development, Home Furnishings going on to hold a number of roles including Vice President, Affiliated Brands, before becoming Chief Merchandising Officer until her retirement.

Qualifications

Fran has a degree in English and Sociology from Bowdoin College, Maine, and an MBA from the Harvard Business School.

See the People section on page 25 for more information about workforce engagement.

1 Date of appointment to Coats Group plc

CORPORATE GOVERNANCE REPORT

Leadership and engagement

The Board

The Board is collectively responsible for the long-term success of the Group and for ensuring leadership within a framework of effective controls. The key roles of the Board are:

- setting the strategic direction of the Group;
- overseeing implementation of the strategy by ensuring that the Group is suitably resourced to achieve its strategic aspirations;
- providing entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed;
- ensuring that the necessary financial and human resources are in place for the Group to meet its objectives; and
- setting the Group's culture supported by its values.

Chairman

- Primarily responsible for overall operation, leadership and governance of the Board.
- Leads the Board, sets the agenda and promotes a culture of open debate between Executive and non-Executive Directors. Ensures that there is a focus on Board succession plans to maintain continuity of skilled resource.
- Provides advice and acts as a sounding board.
- Ensures effective communication with our shareholders.

Senior Independent Director

- Provides a sounding board to the Chairman.
- Leads the appraisal of the Chairman's performance with the other Non-Executive Directors annually.
- Acts as intermediary for other Directors, if needed.
- Available to respond to shareholder concerns if contact through the normal channels is inappropriate.

Non-Executive Directors

- Contribute to developing our strategy.
- Scrutinise and constructively challenge the performance of management in the execution of our strategy.
- Bring their diverse expertise to the Board and Board Committees.

Committees

Audit and Risk Committee

- Oversees and monitors the Company's financial statements, accounting processes and audits (internal and external).
- Ensures that risks are carefully identified and assessed, and that sound systems of risk management and internal control are in place.
- Reviews matters relating to fraud and whistleblowing reports received.

See page 59 for more information

Remuneration Committee

- Reviews and recommends the framework and policy for the remuneration of the Chairman, the Executive Directors, the Company Secretary and senior executives in alignment with the Group's reward principles.
- Reviews workforce remuneration and related policies and alignment of incentives and rewards with culture, to help inform setting of Directors' remuneration policy.
- Consults with shareholders on the remuneration policy.
- Considers the business strategy of the Group and how the remuneration policy reflects and supports that.

See page 70 for more information

Nomination Committee

- Reviews the structure, size and composition of the Board and its Committees.
- Identifies and nominates suitable executive candidates to be appointed to the Board and reviews the talent pool.
- Considers wider elements of succession planning below Board level, including diversity.

See page 64 for more information

CORPORATE GOVERNANCE REPORT
CONTINUED

Other committees

Group Executive Team (GET)
The GET is responsible for the operational delivery of the Group's strategy. This includes day-to-day management of operations and responsibility for monitoring detailed performance of all aspects of our business.

See below for more details on the members and their individual roles and responsibilities.

Disclosure Committee
The Disclosure Committee oversees the Company's compliance with its disclosure obligations. The Committee is chaired by Group Chief Executive and its other members are Chief Financial Officer and the Group Company Secretary.

Digital Advisory Council (DAC)
The DAC advises on how to enhance the Digital and Technology strategy and its execution and provides input and insights to the Board and GET on emerging technology, digital business and change management. It has no formal decision-making authority. See page 55 for more information.

GET members roles and responsibilities

Group Chief Executive
- Responsible for executive management of the Group as a whole.
- Delivers strategic and commercial objectives within the Board's stated risk appetite. See page 31 for more detail on key risks.
- Builds positive relationships with all the Group's stakeholders (see page 19).

Chief Financial Officer
- Responsible for fiscal control.
- Leading the finance management teams.
- Overseeing Coats' relationships with the investment community.

Ronan Cox, President, Performance Materials
- Responsible for delivering the overall strategy for Performance Materials, including commercial activities and developing talent.

Sector review is on page 41.

Hizmy Hassen, Chief Digital and Technology Officer
- Global responsibility for technology including leading on digitising Coats' customer facing interactions.

You can read more about this on page 55.

Adrian Elliott, President, Apparel and Footwear
- Responsible for delivering the overall strategy for A&F, including the development and delivery of value adding products and customer propositions.

Sector review is on page 40.

Kevin Finn, President, Business Operations
- Global accountability for business operations which include inclusive working environment and robust business controls across the geographic clusters.

Monica McKee, Chief Human Resources Officer
- Responsible for delivering the Coats global HR strategy.

Stuart Morgan, Chief Legal & Risk Officer and Group Company Secretary
- Responsible for legal and compliance, governance, risk management, communications and company secretarial matters. He has oversight of the Group Internal Audit function.

You can read more about the Group Internal Audit function's work during the year on page 62.

Michael Schofer, Chief Supply Chain Officer
- Leads the supply chain business with responsibility for procurement, manufacturing, logistics and the programme to digitise Coats' supply chain.

Our seven geographic Clusters are led by a Cluster Managing Director, who report into the GET, supported by a Cluster Management Committee.

CORPORATE GOVERNANCE REPORT
CONTINUED

Council members

Name	Member since
Alan Rosling (Chairman)	2018
David Gosnell	2018
Hizmy Hassen (GET)	2018

In addition, there are two external members; Celso Guiotokois, the former CIO of an automotive OEM, and Srikanth Velamakanni, a digital entrepreneur who has founded a leading company in data analytics. The DAC is advised by Gartner who are permanent invitees. An additional GET member, invited on a rotating basis, also attends meetings. The DAC meets four times a year.

Principal objective of the Digital Advisory Council

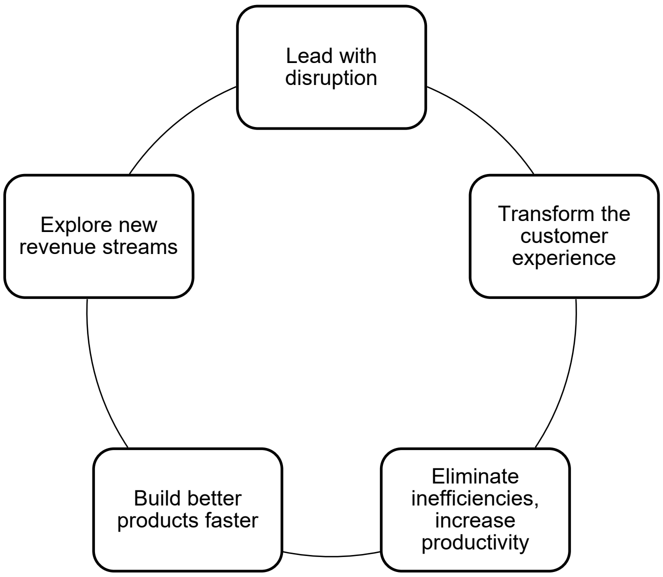
The Council exists to provide the executive team and Board guidance on strategic direction, commercial and leadership on advancing the company's digital transformation. It helps to ensure that the business embraces modern technology to remain competitive and address the risk of competition.

Key responsibilities

- Providing guidance on strengthening the organisation's commercial position while ensuring it will be digitally enabled, data driven, and cyber ready.
- Making introduction to leading entrepreneurs, technology talent networks, potential investments & partnerships.
- Providing insight as to how the company may drive business value from digital assets and stay in front of digital trends.
- Considering ways to improve to drive digitisation into existing business processes.
- Further strengthening relationships with leading organisations.
- Reviewing the Group's digital strategy and ensuring this aligns with the digital programme.

The Digital Advisory Council (DAC) was formed in 2018 to consider our Digital and Technology strategy and its execution to ensure the appropriate expertise and focus in this area by harnessing focused external expertise. The Board is updated on the DACs activities by Alan Rosling.

Digital transformation is about leveraging data to build a smarter business.



Key factors for a successful digital transformation

Goal	Key factors	Strategic programme
New business + Re-engineer current business	1. Customer focus 2. Transform current business operation	Business value innovation
Shift to data driven technology platform	3. By utilizing the data lake, gain insights and drive relevant actions to be a true data driven organisation	Digital technology platform
People, process and culture transformation	4. Speed and continuous improvement 5. Challenge mindset	Information systems agility and quality

CORPORATE GOVERNANCE REPORT
CONTINUED

Board activities

Focus area	Key stakeholders	Activities	Link to strategic priorities
Strategy and operations See Strategic Report starting on page 1	Shareholders, Customers, Suppliers, Environment, Local communities	• Applying the Board's strategic understanding of geopolitical and economic risks in international markets to the Company's challenges. • Consider acquisitions and divestments as identified and determine appropriate course.	① ② ③
Employees and culture See page 25 of the Strategic Report	Workforce, Customers, Environment, Local communities	• Received an update on employee views and engagement. • Designated non-executive director attended meetings with employees on culture. • Ensure the Company remains at the forefront of developing and embedding best practice in responsible business behaviour. • Maintain and enhance Coats' culture and values and key policies and procedures and ensure these are rolled out to existing and acquired businesses. • Continue to monitor senior executive talent management and development plans to provide succession for all key positions.	② ③
Finance See page 44 of the Strategic Report	Shareholders, Suppliers	• Reviewed and approved the Group budget. • Approved full year results, half year results, trading update and the Annual Report. • Reviewed financial Key Performance Indicators (KPIs). • Reviewed the Group's dividend policy. • Reviewed the key risks to the Group and the controls in place for their mitigation. • Considered and monitored the Group's risk appetite and principal risks and uncertainties. • Approved the viability and going concern statements. • Reviewed and approved the tax strategy.	③
Governance See page 47 of the Governance Report	Shareholders, Customers, Suppliers	• Reviewed and approved the Modern Slavery statement. • Reviewed the results from the external Board effectiveness evaluation. • Approved updated Committees' terms of reference. • Approved a new Board Diversity Policy. • Continued to keep key policies updated and monitor ongoing compliance. • Received and considered feedback from shareholder engagement.	③

① Profitable sales growth

② Increased productivity

③ Delivering value

CORPORATE GOVERNANCE REPORT
CONTINUED

Board and Committee attendance

	Board	Audit and Risk	Nomination	Remuneration	AGM
Mike Clasper	11/11	-	3/3	-	1/1
Rajiv Sharma	11/11	-	3/3	-	1/1
Simon Boddie	11/11	-	-	-	1/1
Nicholas Bull	11/11	5/5	3/3	-	1/1
Mike Allen[1]	4/5	-	1/1	2/2	1/1
Anne Fahy	11/11	5/5	3/3	-	1/1
David Gosnell	11/11	5/5	3/3	4/4	1/1
Echo Lu	10/11	-	3/3	4/4	1/1
Fran Philip	10/11	-	3/3	4/4	1/1
Alan Rosling	11/11	5/5	3/3	4/4	1/1

1. Mike Allen stepped down from the Board on 23 May 2019.

In addition to the eight Board meetings, three Board calls were held to discuss business matters that the Chairman and Group Chief Executive decided should be considered by the Board.

All Directors received papers for all meetings. Where Directors were unable to attend a meeting they had the opportunity to comment in advance and received a briefing on any decisions taken. Mike Allen, Echo Lu and Fran Philip were unable to participate in the Board call in February 2019 due to prior business commitments.

In addition to the scheduled meetings, the Senior Independent Director and the Non-Executive Directors meet once a year without the Chairman present in order to appraise his performance. The Chairman and the Non-Executive Directors schedule one Board dinner without the Executive Directors present.

Board evaluation

Formal evaluation is a valuable tool for improvement. With internal evaluations having been carried out in each of the last two years, an external evaluation of the Board and its Committees was conducted during 2019 in keeping with the guidance provided under the UK Corporate Governance Code. Following a tender process run by the Chief Legal & Risk Officer and Group Company Secretary in consultation with the Chairman and the Senior Independent Director, Independent Audit Ltd was appointed, a specialist consultancy which undertakes no other business for the Company and has no links with any individual Director. A formal assessment process was undertaken and the Chairman, together with the Chief Legal & Risk Officer and Group Company Secretary, provided a comprehensive briefing to Independent Audit Ltd.

Observation and questionnaire → Evaluation and report → Discussion and action plan

The Board evaluation process
The review was conducted from September to November 2019. As part of the process Independent Audit Ltd attended and observed a Board meeting and were given access to Board papers to enhance their understanding of how the Board and its Committees operate.

Views were gathered using Independent Audit's online governance platform, Thinking Board. A questionnaire was tailored to Coats' needs and covered the Board's role, composition, dynamics, chairmanship and access to information. Separate Committee questionnaires were used which looked in detail at all the major aspects of the Committees' responsibilities.

The questionnaires were completed by all Board members and executives attending the Board and/or Committees on a regular basis (24 individuals). Independent Audit analysed the results and prepared a report, combining their observations with the views of questionnaire respondents. The report was discussed with the Chairman, Senior Independent Director and Chief Legal & Risk Officer and Group Company Secretary and no material revisions were made. It was then distributed to the Board and Board Committees and was discussed at the December Board and Board Committee meetings. Independent Audit attended to give an overview of the results and answer directors' questions.

CORPORATE GOVERNANCE REPORT
CONTINUED

Outcomes
The review noted many areas of strength of the Board and Committees, including:
- clear contribution to development of strategy;
- strong oversight of the major risks and uncertainties facing the business;
- good focus on compliance and the control framework;
- a diverse Board composition, covering a relevant range of skillsets and backgrounds; and
- trust and openness between Board members with effective chairing of both Board and Committee meetings.

Areas which emerged for the Board's future development of management succession planning were:
- deeper development of the succession planning process to meet the future needs of the business;
- greater focus on talent development within the senior management population to identify potential internal successors; and
- further understanding of how technology can be utilised to contribute to strategic development.

Action plan	Recommendation
Management succession planning and talent development	During the quarterly People updates to the Board, carry out deeper dives on succession planning and talent development, career mapping, development programmes, gender diversity and recruiting and developing talent for the future versus the present.
Strategy	Working with the DAC, improve understanding of how technology underpins the strategy, particularly in driving transformation of the customer experience and supply chain.

'GOOD GOVERNANCE HELPS ENSURE WE DO THE RIGHT THINGS FOR OUR KEY STAKEHOLDERS AND DO THINGS IN THE RIGHT WAY. IT IS NOT ONLY THE RESPONSIBILITY OF THE BOARD, BUT ALSO IS CONSISTENT WITH OUR VALUES. 'DOING THE RIGHT THING' IS OUR KEY GUIDING PRINCIPLE, AND IS AN IMPORTANT PART OF OUR VALUES.'
ECHO LU,
NON-EXECUTIVE DIRECTOR

AUDIT AND RISK COMMITTEE REPORT

Committee members

Name	Member since
Anne Fahy (Chairman)	2018
Nicholas Bull	2015
David Gosnell	2015
Alan Rosling	2015

Principal objectives of the Audit and Risk Committee

- To monitor the integrity of the Group's financial reporting processes.
- To ensure that risks are carefully identified and assessed, and that sound systems of risk management and internal control are in place.

Key responsibilities

- Oversee the accounting principles, policies and practices adopted in the Group's accounts.
- Oversee the external financial reporting and associated announcements.
- Overseeing the appointment, independence, effectiveness and remuneration of the Group's external auditor, including the policy on the supply of non-audit services.
- Conducting a competitive tender process for the external audit when required.
- Reviewing the resourcing, plans and effectiveness of Internal Audit, which is independent from the Group's external auditor.
- Ensuring the adequacy and effectiveness of the internal control environment.
- Monitor the Group's risk management processes and performance.
- Ensure the establishment and oversight of fraud prevention arrangements and reports under the whistleblowing policy.
- Ensure the Group's compliance with the 2018 UK Corporate Governance Code.
- Provide advice to the Board on whether the Annual Report and accounts, when taken as a whole, is fair, balanced and understandable and provides all the necessary information for shareholders to assess the Company's performance, business model and strategy.

Dear Shareholder,

On behalf of the Audit and Risk Committee, I am pleased to present its Report for the year ended 31 December 2019. This report sets out how the Committee has discharged its duties in accordance with the UK Corporate Governance Code 2018 (2018 Code) and its key activities and findings during the year.

We have continued to discuss and challenge the assumptions and judgments made by management in the preparation of published financial information and to oversee the internal controls, including oversight of the external and internal audit functions.

The Committee has an annual work plan linked to the Group's financial reporting cycle, which ensures that it considers all matters delegated to it by the Board. In addition to its annual work plan, it reviewed Treasury controls and policy and the potential risks to internal controls from the organisational change in moving from countries to cluster and group functional structure and considered the adequacy of mitigations put in place by management.

The Committee considers all accounting policy changes and approved the methodology for implementation of IFRS 16 'Leases'. The Committee also reviewed and recommended to the Board the revised segmental reporting adopted in 2019 arising from the disposal of the North America Crafts business.

During 2020, in addition to carrying out its ongoing responsibilities the Committee is intending to conduct an external audit tender with the intention of making a recommendation to the Board on the appointment of new auditors for 2021. You can read more about this on page 63.

This year the Board undertook an externally-facilitated effectiveness review of the effectiveness of the Board and Board Committees, including this Committee, in accordance with the requirements under the Code and you can read more about this on page 57.

Anne Fahy

Chairman, Audit and Risk Committee

4 March 2020

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Membership and Meetings
During the year, the Committee met four times and met privately with the external auditor once. Details of individual Directors' attendance can be found on page 57. In addition to the Committee members, the Group Chief Financial Officer, the Chief Legal & Risk Officer and Group Company Secretary, the Group Financial Controller, the Senior Financial Reporting Manager, the Head of Group Internal Audit, and the external auditor attended parts of these meetings by invitation. The Group Chairman and Group Chief Executive may also attend meetings. The Head of Secretariat acts as Secretary to the Committee. The Chairman of the Committee holds regular meetings with both internal and external auditors, and each has an opportunity to discuss matters with the Committee without management being present.

Meetings of the Committee are scheduled close to the end of the half and full year, as well as before the publication of the associated half and full year financial reports, so as to ensure the Committee is informed fully, and on a timely basis, on areas of significant risks and judgement.

The Committee received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities.

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and depth of financial and commercial, including sectoral, expertise. For the financial year ended 31 December 2019, Anne Fahy and Nicholas Bull were the members of the Committee determined by the Board as having recent and relevant financial experience.

Going concern and viability statements
The Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 39. To do this, the Committee ensured that the model used was consistent with the approved Business Plan and that scenario and sensitivity testing aligned clearly with the principal risks of the Group. Committee members challenged the underlying assumptions used and reviewed the results of the detailed work performed. The Committee was satisfied that the analysis supporting the viability statement had been prepared on an appropriate basis. The Committee also reviewed the going concern statement, set out on page 67 and confirmed its satisfaction with the methodology including appropriateness of sensitivity testing.

Fair, balanced and understandable
The Committee considered whether the Annual Report is 'fair, balanced and understandable', in line with the requirements of the 2018 Code. The Committee members were consulted at various stages during the drafting process and gave input to the planning process, as well as having the opportunity to review the Annual Report as a whole and discuss, prior to the February 2020 Committee meeting, any areas requiring additional clarity or better balance in the messaging.

In this respect the Committee focused on ensuring consistency and completeness in non-financial reporting (for example ESG), use of alternative performance measures, progress on Connecting for Growth and principal risks and uncertainties. On the basis of this work together with the views expressed by the external auditor, the Committee recommended and, in turn the Board confirmed, that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

'CONSTRUCTIVE CHALLENGE FROM THE BOARD EXPANDS THE EXECUTIVE TEAM'S PERSPECTIVE AND ENSURES THAT ISSUES ARE DISCUSSED AND REVIEWED THROUGH DIFFERENT LENSES. EXPERIENCES FROM DIFFERENT INDUSTRIES CAN ENABLE A BETTER OUTCOME.'

**RAJIV SHARMA,
GROUP CHIEF EXECUTIVE**

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Significant issues relating to the financial statements
The Committee considered the following issues relating to the financial statements during the year. These include the matters relating to risks disclosed in the external auditor's report:

Issue	Review and conclusion
Pension matters – valuation of obligations and disclosure	At 31 December 2019, the Group's IAS19 Pension deficit was $181.3 million. The Committee reviewed the methodology for determining key assumptions underpinning the valuation of liabilities of the Group's most significant pension schemes. The Committee also reviewed in detail the various aspects of the continuing obligations to the Group's ongoing schemes. The Committee is satisfied that these, and the disclosures provided in note 10 to the financial statements are appropriate.
US legacy environment provision	The Group has recognised a provision, net of insurance reimbursements, of $14.6 million in respect of remediation and legal / professional costs for the Lower Passaic River. The Committee considered at length management's position on the accounting and disclosure implications surrounding this environmental case, taking into account advice received from external counsel Sive Paget & Riesel P.C.. Following the delivery of the US Environmental Protection Agency's Record of Decision in March 2016, the Committee has continued to review whether subsequent events, including those impacting other parties considered to be responsible for the most significant contamination in the river, triggered the requirement to re-measure the level of remediation provisioning previously established. The Committee is satisfied that there is no requirement to re-measure the remediation provision at 31 December 2019 and that the disclosures provided in note 28 to the financial statements are appropriate.
Taxation	The Group operates in numerous jurisdictions around the world, with different regulations applying in different territories. This complexity together with intra-group cross-border transactions give rise to inherent risks. In addition to reviewing the Group's underlying effective tax rate, which has reduced from 31% to 29%, the Committee also considered the Group's uncertain tax provisions which amount in total to $14.1 million. The Committee is satisfied with the approach and disclosures adopted by management as reflected in the financial statements in note 9 to the financial statements.

The Committee also received regular updates from Chief Legal & Risk Officer and Group Company Secretary on provisions made for litigation and tax matters and the Committee considered the appropriateness of the methodology applied.

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Internal control and risk management
The Board has overall responsibility for determining the nature and extent of its principal and emerging risks and the extent of the Group's risk appetite, and for monitoring and reviewing the effectiveness of the Group's systems of risk management and internal control. The principal risks and uncertainties facing the Company are addressed in the Strategic Report and in the table on pages 33 to 37. The Board has delegated to the Committee the responsibility for monitoring the effectiveness of the systems of risk management and internal control.

The Committee receives reports from management, Internal Audit and the external auditor relating to the effectiveness of the control environment. During the year, the Committee specifically looked at the treasury controls and policy and reviewed the impact of the changes arising from a cluster/function structure. The Committee and the Board are satisfied that these systems operate effectively in all material respects with weaknesses remediated in a timely fashion.

The Committee reviews the minutes of the Group Risk Management Committee meetings regularly, and discusses matters arising therefrom with management.

Internal audit
The Head of Group Internal Audit agrees the Internal Audit department's programme of work annually in advance with the Committee. At each Committee meeting, the Committee reviews key findings from internal audit reports, receives detailed reports from management where appropriate, and monitors the rate at which actions agreed with management are implemented. The Committee carries out an annual internal review of the effectiveness of the Internal Audit function to satisfy itself that the quality, experience and expertise of the function is appropriate for the business. Key themes considered in the internal audit reports throughout the year included checking for any impact of changes to management oversight of certain operations following the move to a cluster structure, as a result of the Connecting for Growth global transformation programme and reviewing the reasons behind the increase in whistleblowing reporting (noting the continuing year on year downward trend in the uphold rate) (see page 67 for more detail on our whistleblowing policy and how it operates) including ascertaining reasons for control weaknesses highlighted during an investigation and the adequacy of control measures implemented as a result of these investigations. In 2019, the Committee has also focused on supporting management's re-enforcement of control systems for regulatory compliance, notably in India and Central America.

The Head of Group Internal Audit also consolidated and presented to the Committee a biannual review of in-country operational risks, which included a summary of any new risks that have arisen in the period with agreement on appropriate actions and interventions.

External audit

Independence
The Committee is responsible for reviewing the independence of the Company's external auditor, Deloitte LLP, agreeing the terms of engagement with them and the scope of their audit. Deloitte has a policy of partner rotation, which complies with regulatory standards, and, in addition, Deloitte has a structure of peer reviews for its engagements, which are aimed at ensuring that its independence is maintained.

Maintaining an independent relationship with the Company's external auditor is a critical part of assessing the effectiveness of the audit process. The Committee has agreed the Company's policy on non-audit fees, and this was reviewed by the Committee during the year ended 31 December 2019. The Committee also regularly reviews the level of audit and non-audit fees paid to Deloitte. The key principles of the policy on non-audit services are:

- The Committee has approved a list of all permitted non-audit services which are allowed under UK statutory legislation and complies with the European Union Directive on audit and non-audit services. Permitted services include audit-related services such as reviews of interim financial information or any other review of accounts required by law to be provided by the auditor.
- The list includes certain tax compliance services for Group subsidiaries incorporated outside the European Union.
- The Committee has approved a list of prohibited services which include services remunerated on a success fee or participation in activities normally undertaken by management.
- Any service that is not on the list of permitted services, if in excess of US$25,000, requires the approval of the Committee.

During 2019, the external auditor provided services in relation to the Group's interim results and tax advisory services outside the European Union. The external auditor has confirmed to the Committee that they did not provide any prohibited services and that they have not undertaken any work that could lead to their objectivity and independence being compromised.

The non-audit services supplied by the external auditor can be found in note 5 of the financial statements. The ratio is 76/24 audit to non-audit services. The non-audit services primarily relate to tax compliance and advisory services in India and the Committee considered and approved a proposal for the external auditor to continue these works in India. In the case of each engagement, it was considered appropriate to engage Deloitte LLP for the work because of their existing knowledge and experience from prior Group engagements. The Committee discussed with, and received confirmation from, the external auditor that the audit team have not relied on the work performed by their tax teams as part of the audit and their objectivity and independence has been safeguarded.

The lead partner is rotated every five years. Ed Hanson was appointed as the lead audit engagement partner in 2018.

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Consideration of Audit tender

The UK Corporate Governance Code recommends that FTSE 350 companies put their external audit provider out to tender at least once every ten years. The EU Audit Regulation, effective across all Member States from the 17 June 2016, enforces mandatory audit firm rotation after a period of maximum tenure, set at 20 years. Deloitte LLP was appointed the Company's external auditor in 2003 and therefore a new audit firm must be appointed for the year ending 31 December 2023 at the latest. The Board intends on undertaking a competitive tender process for the external audit during 2020, with the intention of the Board appointing a new audit firm for the year ended 31 December 2021.The tender process will consider Big Four as well as non-Big Four audit firms. There are no contractual obligations that restrict the Company's choice of external audit firm but the restrictions on audit rotation as set out in the EU Audit Regulation preclude Deloitte from the tender process.

Assessment of audit process

The scope of the external audit is formally documented by the auditor. They discuss the draft proposal with management before it is referred to the Committee who reviews its adequacy and holds further discussions with management and the auditor before final approval.

In respect of the financial year ended 31 December 2019, the Committee assesses the performance and effectiveness of the external auditor, as well as their independence and objectivity, on the basis of meetings and a questionnaire-based internal review which was completed by the Committee members, regular attendees to the Committee and those Coats colleagues globally who interact most frequently with the external auditor. The summary of the results of the questionnaire has been reviewed by the Committee and appropriate feedback has been shared with the external auditor. The Committee is satisfied that it can recommend to the Board that the Board should propose to shareholders the reappointment of Deloitte LLP as auditor for the year ending 31 December 2020.

Assessment of the effectiveness of the Committee

The Committee effectiveness in respect of the year ended 31 December 2019 was evaluated as part of the external review undertaken by Independent Audit Ltd, described on page 57. The key issues that were identified in the previous year's assessment were discussed by the Committee to ensure these were adequately addressed and the Chairman provided an update where appropriate.

Looking forward

As well as the regular cycle of matters that the Committee schedules for consideration each year and conducting the audit tender, we are planning over the next 12 months to:

- Continue to monitor legislative and regulatory changes that may impact the work of the Committee.
- Consider the impact of proposed audit industry changes.
- Consider a wider range of topics for Committee training.

The Committee's report was approved by a Committee of the Board of Directors on 4 March 2020 and signed on its behalf by:

Anne Fahy

Chairman, Audit and Risk Committee

4 March 2020

NOMINATION COMMITTEE REPORT

Committee members

Name	Member since
Mike Clasper (Chairman)	2014
Rajiv Sharma	2015
Nicholas Bull	2015
Anne Fahy	2018
David Gosnell	2015
Echo Lu	2017
Fran Philip	2016
Alan Rosling	2015

Principal objective of the Nomination Committee

To make sure the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and has oversight of all matters relating to corporate governance.

Key responsibilities

- Reinforcing the culture and diversity expertise in the Board's and senior management team's composition and maintaining ongoing succession plans.
- Considering ways to improve diversity in the pipeline for senior management roles.
- Further strengthening of the senior management team.
- Reviewing the Group's talent management process.

'WHEN THINKING ABOUT NEW APPOINTMENTS, THEY SHOULD HAVE INTEGRITY, AUTHENTICITY, A TRACK RECORD OF DELIVERY AND STRATEGIC VISION. FOR THE NOMINATION COMMITTEE THE CHALLENGE IS HOW DO WE MAINTAIN THE BALANCE OF TEXTILE KNOWLEDGE, GEOGRAPHICAL KNOWLEDGE AND BOARD EXPERIENCE ON THE BOARD.'

DAVID GOSNELL,
NON-EXECUTIVE DIRECTOR

Dear Shareholder,

The following Nomination Committee Report summarises our work over the past year and I am pleased to update you on the matters that we have considered. This year, the focus of the Committee continues to be on Board composition and succession planning matters.

During the year, the Committee continued to focus on the combined skillset and capabilities of the directors to ensure their effectiveness in driving our strategy forward. It also continued to fulfil its core responsibilities of reviewing the structure of the Board and Committees.

Board diversity policy

Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Diversity Policy (the Policy), which can be viewed on our website. The Board will continue to keep the Policy under review to ensure that it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, social background, skillset and breadth of experience.

Diversity and inclusion have continued to be promoted across the business with a number of initiatives, including education and capacity building, resource groups, talent acceleration and development and leveraging data and analytics to help achieve our ambitions. You can read more about the work that has been done in this area and the benefits they bring to the Group on page 26.

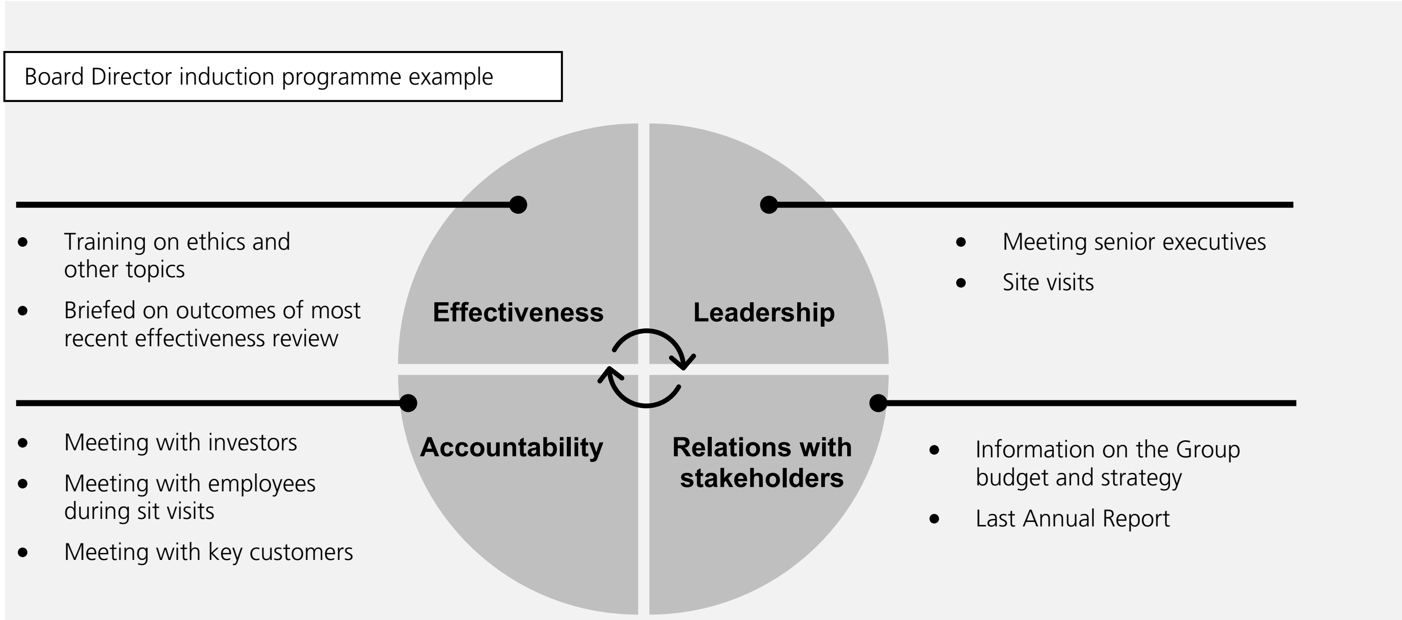
The Committee has focused on these areas for a number of years and will continue to consider the various diversity factors set out in the UK Corporate Governance Code 2018 (the 2018 Code) and the Hampton-Alexander and Parker Reports appropriately. We have 33% female representation on the Board and have two ethnic minority Directors. You can see more information on the gender split across the Board, senior management team and the Group as a whole on pages 50-52.

Skills matrix

Building the right Board for the Group and the right pipeline means the Committee needs to ensure a good balance of competencies to address the challenges faced as they arise. The Committee considers the experience, skills, attributes and capabilities of existing Board members and challenges the skills matrix in the talent pool. It routinely:

- Reviews the competencies and skills the Board, as a whole, should possess;
- Assess what competencies and skills each incumbent director possesses; and
- Considers the character of directors and their fit with the current Board culture, looking at wider attributes including self-awareness, integrity and high ethical standards.

NOMINATION COMMITTEE REPORT
CONTINUED



Succession planning
The Committee, on behalf of the Board, regularly assesses the balance of Executive and Non-Executive Directors, and the composition of the Board in terms of skills, experience, diversity and capacity. As I mentioned in my Chairman's letter on page 47, Alan Rosling will be standing down after the AGM on 20 May 2020 and on behalf of the Board, I would like to thank Alan for his valuable contribution to Board discussions.

We are in the process of recruiting a new Non-Executive Director. A role specification has been agreed with Russell Reynolds Associates, an external agency which undertakes no other business for the Company and has no links with any individual Director. Candidates are being interviewed by a number of the Executive and Non-Executive Directors and then the Committee will then make a recommendation to the Board. When making decisions on new appointments, Board members consider the skills, experience and knowledge already represented on the Board and the benefits of diversity, in all its forms including gender and ethnicity.

The Committee has continued to monitor the Group Executive Team (GET) and senior management talent pool to ensure that succession planning for business-critical roles is proactively reviewed. The Board considered the implications of the new requirements relating to the development of a diverse pipeline for succession for the Board and the GET contained within the 2018 Code.

Independence
During 2019, the Committee reviewed the balance of skills, experience and independence of the Board. For Non-Executive Directors independence in thought and judgment is vital to facilitating constructive and challenging debate in the boardroom and is essential to the operational effectiveness of the Coats Board and its committees.

The Committee is satisfied that the external commitments of its Chairman and members do not conflict with their duties as Directors of the Company.

Committee performance and effectiveness
The Committee's performance was evaluated as part of the external effectiveness survey carried out by Independent Audit Ltd, as described on page 57. The review was completed by all Committee members and routine meeting attendees. A deeper dive into succession planning was recommended. The Committee agreed that this should be addressed by the full Board.

Mike Clasper

Chairman, Nomination Committee

4 March 2020

DIRECTORS' REPORT

Coats Group plc (the Company) is the holding company of the Coats group of companies (the Group).

Annual General Meeting

The Annual General Meeting (AGM) of the Company will be held on Wednesday, 20 May 2020 at 2.30pm at FTI Consulting, 200 Aldersgate, London EC1A 4HD.

Corporate Governance statement

The Corporate Governance statement, prepared in accordance with rule 7.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, comprises of the following sections of the Annual Report: the 'Strategic Report'; the 'Corporate Governance Report'; the 'Audit and Risk Committee Report'; the 'Nomination Committee Report'; the 'Remuneration Committee Report'; together with this Directors' Report. As permitted by legislation, some of the matters required to be included in the Directors' Report have been included in the Strategic Report by cross reference including details of the Group's financial risk management objectives and policies, business review, future prospects and environmental policy.

Directors

The names and biographical details of the current Directors are shown on pages 50 to 52 of this Annual Report. Particulars of their emoluments and beneficial and non-beneficial interests in shares are given in the Directors' Remuneration Report on page 79 and 80.

The appointment and removal of Directors is governed by the Company's Articles of Association, the 2018 Code and the Companies Act 2006. The Directors may, from time to time, appoint one or more Directors. In the interests of good governance and in accordance with the provisions of the 2018 Code, all Directors, with the exception of Alan Rosling who is not standing for re-election, will retire and submit themselves for re-election at the forthcoming AGM.

Directors Powers

The Board manages the business of the Company under the powers set out in the Company's Articles of Association. These powers include the Directors' ability to issue or buy back shares. Shareholders' authority to empower the Directors to make market purchases of up to 10% of its own ordinary shares is sought at the AGM each year (as set out in the Share Capital section below). The Company's Articles of Association can only be amended, or new Articles adopted, by a resolution passed by shareholders in a general meeting by at least three quarters of the votes cast.

Further discussion of the Board's activities, powers and responsibilities appears within the Corporate Governance Report on pages 53 and 56 of this Annual Report. Information on compensation for loss of office is contained in the Directors' Remuneration Report on page 87 of this Annual Report.

Directors' conflicts of interests

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with the Company, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Directors' indemnities

The Directors of the Company have entered into individual deeds of indemnity with the Company which constitute 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the Directors, and the directors of the Company's subsidiary companies, to the maximum extent permitted by law.

The deeds were in force for the whole of the year, or from the date of appointment for those appointed during the year. In addition, the Company had Directors' and Officers' liability insurance cover in place throughout the year.

Share capital

Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 26 to the financial statements. The Company has one class of ordinary shares with a nominal value of 5 pence each (Ordinary Shares), which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions or agreements known to the Company that may result in restrictions on share transfers or voting rights in the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation. Shareholder authority for the Company to purchase up to 144,011,000 (representing approximately 10% of the Company's issued shares as at the latest practicable date before the publication of the notice of the annual general meeting held in May 2019) of its own Ordinary Shares was granted at the 2019 AGM. No shares were purchased pursuant to this authority during the year.

Shareholder authority for the Company to allot Ordinary Shares up to an aggregate nominal amount of £23,977,000 was granted at the 2019 AGM. No shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2019 was approximately £72,240,801 divided into 1,444,816,041 Ordinary Shares.

Since 31 December 2019, 1,234,543 new shares have been issued as a result of the exercise of share options by the Company's share option scheme participants and the total issued share capital at 4 March 2020 is 1,446,050,584 Ordinary Shares. The Company's Ordinary Shares are listed on the London Stock Exchange. The register of shareholders is held in the UK.

DIRECTORS' REPORT
CONTINUED

Substantial interests

Information provided to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. The following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital.

	As at 31 December 2019*	As at 4 March 2020*	Nature of holding
Kempen Capital Management N.V.	7.03%	7.03%	Indirect
AXA Investment Managers	5.31%	5.31%	Indirect
Liontrust Investment Partners LLP	5.15%	5.15%	Direct
Blackrock Inc	-	5.01%	Indirect

* % holding based on total number of shares in issue at the time of respective notification.

The Company has not been notified of any other substantial interests in its securities. The Company's substantial shareholders do not have different voting rights. The Group, so far as is known by the Company, is not directly or indirectly owned or controlled by another corporation or by any government.

Change of control

The Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control of the Company following a takeover bid. However, the Group's Revolving Credit Facility Agreement and US Private Placement would terminate upon a change of control of the Company. The Company does not have agreements with any director or employee providing compensation for loss of office or employment that occurs because of a takeover bid, except for provisions in the rules of the Company's share schemes which result in options or awards granted to employees vesting on a takeover.

Political donations

No contributions were made to political parties during the year (2018: £Nil).

Whistleblowing procedure

A whistleblowing, ethics and fraud report is a standing item on the agenda at each Board meeting. Coats has a well-publicised whistleblowing procedure, which can be found on our website. This is designed to empower all employees, contractors and anyone else who is aware of, suspects, or is concerned about potential misconduct, illegal activities, fraud, abuse of assets or other violations of Company policy / Ethics Code to report these confidentially. 'Doing the right thing' and ways to raise concerns was covered as part of the Global Ethics Day, held each year in October.

During the course of the year ended 31 December 2019, there were 119 whistleblowing concerns raised (2018: 99). Of these concerns raised, following investigation 30% were upheld (2018: 40%). In the case of substantiated concerns, disciplinary action was taken whenever there was any evidence of misdemeanour and training and enhanced controls were implemented wherever appropriate.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement.

In addition, note 34 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Directors believe that the Group is well placed to manage its business risks successfully.

The Board expects to be able to meet any actual and contingent liabilities from existing resources. Further information on the net cash position of the Group is set out in note 30(f).

Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the Directors consider that the going concern basis of accounting is appropriate for the Company and the Group and the financial statements have been prepared on that basis.

Concern is raised via whistleblowing procedure

Investigated by a team independent of the relevant operational business or function

→

Findings are presented to an appropriate member of the GET

Appropriate remedial actions are determined

→

Reports and outcomes are reviewed by the Board and the Audit and Risk Committee

Remedial actions may be recommended

DIRECTORS' REPORT
CONTINUED

Results and dividends
The results of the Group are shown on page 105 and movements in reserves are set out in note 27 to the financial statements.

On 28 May 2019 a final dividend in respect of 2018 of 1.16 US cent per Ordinary Share was paid. In addition the Company paid an ordinary interim dividend per share of 0.55 US cents on 15 November 2019 to shareholders recorded on the register on 25 October 2019.

The Company recommends to shareholders payment of a final dividend of 1.30 US cents per share in respect of the year ended 31 December 2019 on 26 May 2020 to shareholders recorded on the register on 1 May 2020. The Ordinary Shares will become ex-dividend on 30 April 2020.

Environmental matters
The Group Risk Management Committee (GRMC) agreed during 2019 that climate change is included in the Group Risk Register as a Principal Risk. This means that it is a Board level issue and therefore that evaluation of risks and opportunities and decisions on appropriate strategies and actions have board oversight. The GRMC assesses risks and opportunities in detail and makes recommendations to the Board for review and decision.

The involvement of the Group in relation to the Lower Passaic River matter is reported in the Principal Risks section of this Annual Report and can be found on page 37. Further details are contained in note 28 to the financial statements.

Greenhouse gas emissions
For the year ended 31 December 2019, Coats reported the following emissions:

Global tonnes of CO2e[1,2]	2019	2018	2017
Scope 1, Direct (Gas, Oil, Coal)	58.3	64.5	71.8
Scope 2, Indirect (Electricity)	216.4	223.9	238.8

1. Based on IEA CO2 Emissions from Fuel Combustion location based factors for Scope 2 conversions, and the UK DEFRA GHG reporting guidance and factors for Scope 1 conversions.
2. Emissions reported are from energy consumption in our global operations, including continuing and discontinued operations for 2017. 2018 figures have been restated to remove the North America Crafts business (sale completed on 20 February 2019), and to include Gotex and Patrick Yarn Mills

This represents a decrease of 4.8% versus 2018 total emissions on a like-for-like basis.

The methodology for Scope 1 direct emissions is to convert fuel consumed in kWh to GHG equivalent using DEFRA published global conversion factors.

The methodology for Scope 2 indirect emissions is to convert the electricity or other purchased energy in each country from kWh to GHG equivalent using the country level conversion factors published by the IEA for all countries. Scope 2 emissions are therefore location based. The resultant figures are then consolidated globally.

Greenhouse gas emissions intensity per unit of production (kg per kg of dyed or finished product)

2019[1]	2018[3,4]	2017	2016	2015	2014	2013[2]	2012
3.3	3.4	4.3	4.6	4.5	5.1	5.3	5.6

Greenhouse gas emissions intensity per sales value (tonnes per million $ sales)

2019[1]	2018[3]	2017	2016	2015	2014	2013[2]	2012
198	204	206	219	208	201	212	226

1. 2014 – 2019 reported figures are based on IEA location based conversion factors for Scope 2 emissions.
2. Scope 2 emissions for 2012 – 2013 continue to be calculated using DEFRA country level figures derived from IEA data.
3. All 2018 numbers, including sales, used for these have been restated compared to the 2018 report to exclude discontinued operations, accordingly the North America Crafts business (sale completed on 20 February 2019) is excluded, and to include new acquisitions, Gotex and Patrick Yarns. 2019 and 2018 are therefore on a like-for-like basis
4. To reflect the increasing growth of the undyed yarn business in our company, from 2018 the production basis for these intensity calculations is based on finished production while for 2012-2017 it continues to be based on dyed production

Further details can be found in the Corporate Responsibility section on pages 27 to 30 and in the separate Sustainability Report which can be found on our website.

Auditor
A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2020 AGM. A statement in respect of the auditor, in accordance with Section 418 of the Companies Act 2006, has been included below.

Disclosure of information to the auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all reasonable steps to ascertain any relevant audit information and to ensure that the Company's auditor is aware of that information.

DIRECTORS' REPORT
CONTINUED

Other information
Other information relevant to this Directors' Report, and which is incorporated by reference, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4R, can be located as follows:

Subject matter	Page
Important events since the financial year-end	172
Likely future developments in the business	7
Research and development	8
Information on financial instruments	45
Employment of disabled persons	30
Employee involvement	25
Stakeholder engagement	19
Information on branches	181
Diversity policy	64 *

** - also on our website*

This Directors' Report was approved by order of the Board.

On behalf of the Board

Stuart Morgan

Company Secretary

4 March 2020

Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 4 March 2020 and is signed on its behalf by:

Rajiv Sharma

Group Chief Executive

4 March 2020

REMUNERATION COMMITTEE REPORT

Committee members

Name	Member since
David Gosnell (Chairman)	2015
Echo Lu	2017
Fran Philip	2016
Alan Rosling	2015

Key objectives of the Remuneration Committee

- Our main objectives are to have fair, equitable and competitive reward packages that support our vision and help ensure that rewards are performance-based and encourage long term shareholder value creation.

Key responsibilities

- Developing and approving the Remuneration Policy.
- Implementing the remuneration policy.
- Ensuring the competitiveness of reward.
- Designing the incentive plans.
- Setting incentive targets and determining award levels.
- Review workforce remuneration and related policies and the alignment of incentives and rewards with culture.

'THE REMUNERATION COMMITTEE REMAINS FIRMLY COMMITTED TO THE PRINCIPLE OF PAY FOR PERFORMANCE, ENSURING THAT REWARDS FOR THE SENIOR LEADERSHIP TEAM ARE ALIGNED WITH THE EXPERIENCE OF LONG-TERM SHAREHOLDERS.'

DAVID GOSNELL, CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to introduce the Directors Remuneration Report for 2019. This report consists of two sections. The first section is the Annual Report on Remuneration for 2019 and the second section is a revised Remuneration Policy. Both sections of the report will be the subject of a shareholder resolution at the AGM on 20 May 2020.

Overview of 2019

The Group continues to make excellent progress in its transformation and is creating a global platform for long term sustainable growth. The Group's second and third innovation hubs were opened in Turkey and China following the opening of the first hub in the United States in 2018. Coats' teams are working collaboratively with customers across the globe to develop pioneering value adding products and services. During 2019 the Group developed and launched its Sustainability Strategy and made a commitment to achieve stretching sustainability objectives by 2022. The sale of the Crafts North America business was completed during 2019 and the acquisition of Pharr HP was announced in line with the Group's continuing long term growth strategy.

Despite the, at times uncertain, global outlook the Group has performed well during 2019 and this is reflected in the annual bonus outcome for the Executive Directors which paid out at 84.1% and 77.1% for the Group Chief Executive and Chief Financial Officer respectively. The Long Term Incentive Plan award granted in 2017 will vest at 95.8% which reflects the Company's strong performance in Earnings Per Share growth, Free Cash Flow generation and Total Shareholder Return.

Outlook for 2020

During 2019 the Committee reviewed the Remuneration Policy which is subject to a regular three-year approval Resolution at the AGM in May 2020. Further details are provided in this report. The key changes in the policy are intended to ensure that the views of shareholders are reflected and that the Remuneration Policy remains fit for purpose in terms of enabling the Group to attract, retain and motivate the individuals that it needs to meet its objectives. The policy confirms our intention to introduce a post-termination two year Minimum Shareholding Requirement and to reflect the views of shareholders to align the pension benefits offered to UK based Executive Directors with those of the rest of the UK workforce. Any new Executive Director appointments will be offered a pension benefit in line with the average of the rest of the UK based employees (currently 12%) and the pension benefits for current Executive Directors will be frozen at their respective current monetary levels and aligned to the rest of the UK employees by May 2023.

Some of the key changes that we have made to the incentive arrangements for 2020, within the terms of the current Remuneration Policy, are to introduce a sales measure in the annual bonus to incentivise profitable growth and the introduction of a measure in the Long Term Incentive Plan award in 2020 that is linked to the long term goals published in our Sustainability Report.

REMUNERATION COMMITTEE REPORT
CONTINUED

The existing Remuneration Policy which was approved by shareholders in 2017 authorised an increase in maximum annual bonus for Executive Directors from 100% to 150% of salary. The Committee did not implement this change immediately and decided to manage any increase on a selective and phased basis. As I reported last year the maximum annual bonus for 2019 was increased to 125% for the CEO and to 115% for the CFO. The Committee is very mindful of shareholders concerns about any increase in variable pay for Executive Directors and accordingly the Committee have sought to manage any change on a limited and progressive basis over time. However, the Committee have concluded that it is in the best interests of shareholders to ensure that the Remuneration Policy will enable the company to attract and retain the executives that it needs to achieve its objectives. The external advice received from the Committee’s advisors was that the level of incentive compensation offered in practice may not be competitive enough to achieve this. Accordingly, the phased increase to the maximum permitted annual bonus of 150% for the CEO only will be completed in 2020. The mandatory deferral of any 2020 annual bonus for the CEO will be increased to one half of the bonus outcome so that effectively all of the potential increase would be awarded in deferred shares. LTIP awards are unchanged at 150% for both Executive Directors in 2020. Subject to shareholder approval of the new Remuneration Policy at the AGM in May 2020 the maximum permitted LTIP award will be increased from 150% to 175%. At this stage, subject to continuing strong company and personal performance, the award to the CEO in 2021 will be increased from 150% to 175% of salary.

Committee Membership
Mike Allen stepped down from the Committee following his planned resignation from the Board at the AGM in May 2019. I would particularly like to thank Mike for his valuable contribution as a member of the Remuneration Committee throughout my tenure as Committee Chairman and for many years before that.

Effectiveness of the Committee
An external evaluation of the Committee was undertaken during the year by Independent Audit. Further information can be found on page 48.

Response to 2018 UK Corporate Governance Code
During the year, the Committee discussed the 2018 Code. We have made good progress in implementing the remuneration related provisions of the 2018 Code, including recommending in our new policy the reduction in the pension benefit for any newly appointed Executive Directors, to provide the opportunity for additional discretion over remuneration outcomes and the introduction of a post-employment shareholding requirement. The Committee’s remit is already consistent with the 2018 Code, but we are exploring ways in which the Committee may have greater visibility of pay and policies for the wider workforce population. We will keep this under review and will report fully on this next year.

Shareholder engagement
The Committee considers investor feedback and the AGM voting results each year and we were pleased to receive a high level of support for the 2019 Remuneration Report with over 99% of votes cast in favour.

We undertook a consultation with our major shareholders and proxy advisors concerning the proposed Policy, soliciting their feedback on the proposals. I would like to thank those shareholders for their helpful input, which plays an important part in developing responsible pay practices.

I look forward to receiving your continued support at the AGM to be held in May.

David Gosnell

Chairman, Remuneration Committee

4 March 2020

REMUNERATION COMMITTEE REPORT
CONTINUED

REMUNERATION AT A GLANCE

The following is a summary of the key features of the Remuneration Policy that is subject to approval at the AGM on 20 May 2020. The policy is set out in full on pages 86 to 94. The policy that was approved at the Annual General Meeting held 17 May 2017 can be found at www.coats.com/governance

Components of remuneration

Salary	+	**Pension & benefits**	=	**Fixed total**
				+
Annual bonus	+	**LTIP**	=	**Variable total**
				=
				Total remuneration

Fixed components

		Policy
Annual base salary		Executive Directors' salaries are reviewed annually with effect from 1 July. Reference is made to market competitive levels of pay at relevant comparator companies, average salary increases applied elsewhere across the Group, individual performance and experience as well as any changes to the size and scope of the role.
Rajiv Sharma (CEO)	£612,000	
Simon Boddie (CFO)	£436,000	
Pension		Current Executive Directors receive defined contributions pensions (and/or cash in lieu thereof) of up to 20% of salary. With effect from 1 January 2020 the pension contributions will be fixed at their current level and will not increase with any subsequent salary increase. By May 2023 the pensions policy for current incumbents will be aligned to the benefits provided to the average of the rest of the UK workforce. Any new appointments will receive a benefit that is aligned to the average of the UK workforce. Other benefits may include the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for-car-allowance. In addition, the Company may provide assistance in connection with the relocation of an Executive Director and, in the event of an international transfer, may provide tax equalisation.
Rajiv Sharma (CEO)	20% of salary	
Simon Boddie (CFO)	20% of salary	

Short term component

Annual bonus		**Policy**
Maximum opportunities for 2020		*Maximum award opportunity: 150% of base salary* Any bonus awarded for the Group Chief Executive for 2020 is subject to mandatory deferral of 50% and a deferral of 40% for the Chief Financial Officer. Deferred bonuses are transferred into share awards and are released after a three year retention period. The performance measures, weightings and targets for the annual bonus are set by the Committee on an annual basis. Any bonuses paid are subject to malus and clawback.
Rajiv Sharma (CEO)	150% of salary	
Simon Boddie (CFO)	115% of salary	
Performance measures and weightings		
Sales	10%	
EBIT	50%	
Free Cash Flow	20%	
Individual objectives	20%	

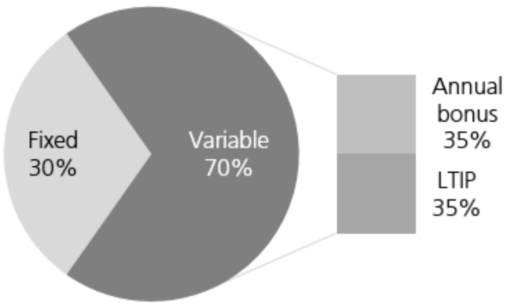
Long Term Incentive Plan (LTIP) variable component

LTIP		**Policy**
Maximum opportunities for 2020		*Maximum LTIP award opportunity: 175% of base salary (200% in exceptional circumstances)* Awards may be made annually; with vesting conditional on three-year performance conditions. Any shares vesting after three years are also subject to an additional two-year holding period. Performance measures and targets are determined by the Committee, taking into account the balance of strategic priorities for Coats for the upcoming three-year performance period. Any LTIP shares awarded are subject to malus and clawback.
Rajiv Sharma (CEO)	150% of salary	
Simon Boddie (CFO)	150% of salary	
Performance measures and weightings		
Sustainability	10%	
3-year EPS CAGR	40%	
3-year cumulative Free Cash Flow	30%	
TSR vs FTSE250 (ex. investment trusts)	20%	

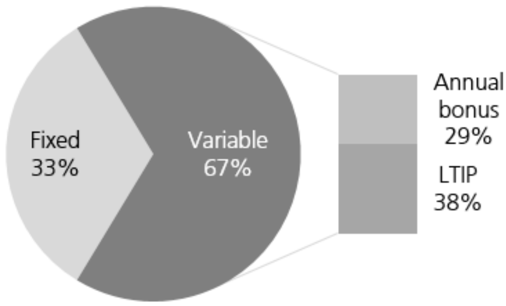
DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Pay at risk (% of total remuneration at maximum performance)

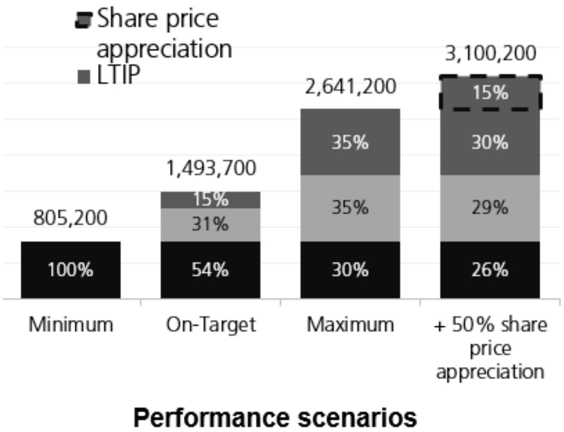
Rajiv Sharma (CEO)

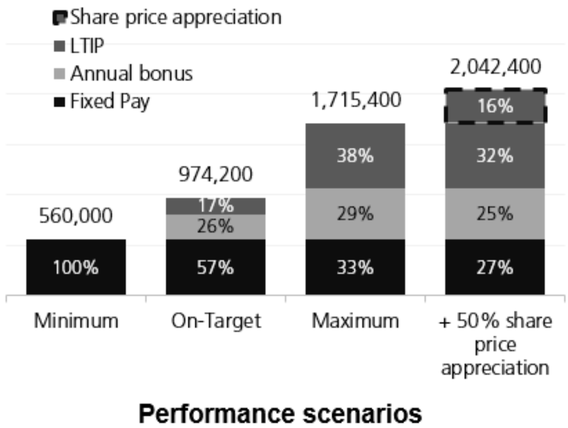


Simon Boddie (CFO)



Pay scenarios





Shareholding requirements

Rajiv Sharma (CEO)	200% of salary
Simon Boddie (CFO)	200% of salary

There is a requirement to maintain a shareholding following termination of employment of at least the lower of the in-post shareholding requirement and the executive's actual shareholding on termination of employment for a period of two years.

More details on our policies can be found at www.coats.com/governance

DIRECTORS' REMUNERATION REPORT
CONTINUED

ANNUAL REPORT ON REMUNERATION

This Annual Report on Remuneration has been prepared in accordance with the relevant provisions of the Companies Act 2006 and as prescribed in The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 (the Regulations). Where indicated data has been audited by Deloitte LLP.

The Annual Report on Remuneration will be subject to an advisory vote at the AGM on 20 May 2020. The current Remuneration Policy applicable to the year ended 31 December 2019 was approved by shareholders at the AGM on 17 May 2017 and can be found in the Corporate Governance section at www.coats.com/governance

Executive Directors
Two Executive Directors were employed during 2019. Rajiv Sharma, was originally appointed to the Board on 2 March 2015 and was appointed as Group Chief Executive with effect from 1 January 2017. Rajiv Sharma was based in Dubai during his previous tenure as Managing Director, Industrial Division and remained on secondment in Dubai until 31 May 2017. Details of the remuneration arrangements and relocation assistance offered to Rajiv on his appointment to the role of Group Chief Executive are detailed in this report and were originally previously disclosed to shareholders in the 2016 Annual Report on Remuneration. The relocation support was time limited and ceased in May 2019.

Single total figure for Executive Directors' remuneration for 2019 (audited information)

	Base salary £000		Benefits £000		Annual bonus (cash & shares) £000		LTIP £000		Pension £000		Total £000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Simon Boddie	**429.8**	417.8	**36.8**	30.5	**336.2**	279.3	**796.5**	1,198.5	**86.0**	83.6	**1,685.3**	2,009.7
Rajiv Sharma	**603.0**	586.0	**70.8**	155.0	**514.8**	396.2	**1,171.1**	2,102.3	**120.6**	117.2	**2,480.3**	3,356.7
Total	**1,032.8**	1,003.8	**107.6**	185.5	**851.0**	675.5	**1,967.6**	3,300.8	**206.6**	200.8	**4,165.6**	5,366.4

The figures in the table above have been calculated on the basis of the following:

- The benefits figures for Rajiv Sharma in 2019 and 2018 include the value of relocation support provided to him following his relocation to the UK. During 2019 this relocation support included a housing allowance of £5,000 net per month which ceased on 1 June 2019.
- Benefits: this is the value of all taxable benefits including a car allowance, private medical insurance and life insurance. A car allowance of £20,000 per annum is paid to Rajiv Sharma and an allowance of £15,000 is paid to Simon Boddie.
- Annual bonus (cash and shares): is the total value of the annual bonus that is attributable to 2019. Forty percent of any bonus outcome for 2019 is compulsorily awarded in shares under the terms of the Deferred Annual Bonus Plan that was approved by shareholders at the AGM in May 2014.
- Long Term Incentive Plan (LTIP): the value of any vested awards that were granted during a period as an Executive Director or which contained a performance period that ended during the year. The LTIP award value shown for 2019 reflects the vesting of the LTIP award that was granted to Rajiv Sharma and Simon Boddie in respect of the performance period 1 January 2017 to 31 December 2019. The values shown represent the number of shares that vest multiplied by the average mid-market share price in the last quarter of 2019 which was £0.7233. Compared to the share price used to calculate the number of shares granted (£0.5475), this represents a 32% share price increase since the grant date to the end of the performance period. The Committee is satisfied that the implied values vesting to Executive Directors and the overall single figures of remuneration for the year are appropriate taking into account the performance of the Company. No discretion has therefore been exercised for the change in share price. The LTIP values for 2018 have been re-stated to reflect the share price on the vesting dates of 1 March 2019 for Rajiv Sharma and 29 July 2019 for Simon Boddie. The 2019 LTIP values will be re-stated in next year's report to reflect the value on the vesting date of the awards. The value shown also reflects the cash value of notional dividend equivalents payable on vested shares which are awarded as additional shares on exercise.
- Pension: represents the value of all employer contributions to any pension plan or cash payments paid in lieu of a pension benefit. No Executive Director participates in any defined benefit pension arrangement.
- Rajiv Sharma is a Non-Executive Director of Senior plc and Simon Boddie is a Non-Executive Director of PageGroup plc. They received respectively fees of £51,500 and £69,500 during the year to 31 December 2019. The policy of the Board is that Directors are entitled to retain any fees in respect of external appointments.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Annual bonus outcome 2019 (audited information)

The annual bonus for 2019 was determined in accordance with the details provided in the 2018 Directors' Remuneration Report. Details of the bonus measures and opportunities are provided in the table below.

Annual bonus 2019	Weighting	Bonus opportunity (% of max bonus)			Performance achieved in 2019 (% of max bonus)	
Performance Measure		Threshold	Target	Maximum	Simon Boddie	Rajiv Sharma
Attributable Profit (AP)	25.0%	3.6%	12.5%	25.0%	12.5%	12.5%
Earnings Before Interest and Taxation (EBIT)	25.0%	5.4%	12.5%	25.0%	10.8%	10.8%
Free Cash Flow (adjusted) (FCF)	30.0%	0%	15.0%	30.0%	30.0%	30.0%
Individual objectives	20.0%	0%	10.0%	20.0%	13.8%	14.0%
Total	100.0%	9.0%	50.0%	100.0%	67.1%	67.3%
Maximum Bonus (% of salary)					115%	125%
Total (% of salary)					77.1%	84.1%

The measures were selected to incentivise a balance of outcomes that reflected the strategic priorities for the Group. In particular these were to increase the attributable profit (profit after tax) that was available for shareholders, to achieve strong growth in trading profit through continued efficiency and growth in EBIT performance, ensure consistent and increasing level of cash generation from operations through strong working capital management, and achieve certain key strategic objectives which are detailed on the next page that were specific for each Executive Director.

Annual bonus 2019	Weighting	Bonus targets			Performance achieved in 2019
Performance targets		Threshold	Target	Maximum	
AP (US$m)	25.0%	94.7	102.0	112.2	102.0
EBIT (US$m)	25.0%	190.6	202.0	222.2	199.2
FCF (adjusted)	30.0%	86.0	96.0	106.0	107.0
Individual objectives	20.0%		Strategic objective		See table above

The targets above were established on a basis which excludes the impact of certain exceptional items and the impact of any exchange rate fluctuations during the year. Targets are set in relation to budget for the upcoming financial year and the figures in the table above reflect the 2019 Plan exchange rates. For the 2019 annual bonus challenging individual objectives were established by the Committee for each Executive Director that reflected activities and initiatives intended to improve the performance of the Group. The objectives established and assessed for 2019 are reflected in the table on the next page.

Bonus Outcome

Reconciliation of bonus outcome to reported 2019 figures for continuing businesses. As noted above the bonus plan targets are subject to certain adjustments.
In order to assist shareholders the reconciliation of the actual performance reported in 2019 to the numbers used for bonus purposes is shown in the table below.

	Attributable Profit	EBIT	Free Cash Flow
Adjusted 2019 figures as per this report	100.6	198.0	106.8
FX rate movement (i.e. Plan vs Actuals)	0.6	1.2	0.2
Adjustments IAS19 interest variation vs Plan	0.8	-	-
Actuals for bonus purposes (US$m)	102.0	199.2	107.0.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Personal objectives linked to 2019 bonus outcome

Rajiv Sharma

No	Objective	Max %	Actual %
1	Deliver double digit organic sales growth in Performance Materials and deliver innovation sales per plan	6.25%	2.5%
2	Set up Coats Digital Services for long term success	6.25%	3.75%
3	Progress on implementing Board-approved acquisitions and divestments	6.25%	6.25%
4	Embed the new operating model and digital. Completion of Connecting for Growth (C4G) programme in 2019	6.25%	5.0%
Total (% salary)		**25%**	**17.5%**

Simon Boddie

No	Objective	Max %	Actual %
1	Progress on implementing Board-approved acquisitions and divestments	5.75%	5.75%
2	Ensure C4G savings in finance are delivered, treasury management system implemented and new simplified processes and ways of working are embedded within the function	5.75%	3.4%
3	Deliver an effective tax rate of 30% and successfully progress the APA process	5.75%	3.4%
4	Ensure a minimum of 80% Group Internal Audit (GIA) audits are rated at least "Good"	5.75%	3.25%
Total (% salary)		**23%**	**15.8.%**

When the Committee assesses the extent to which each objective is achieved, consideration is given to the manner in which the objective was achieved, the quality of delivery or execution and the personal leadership and impact demonstrated by the Executive relating to each task. In general, to achieve the maximum for each objective an exceptional level of performance is expected with actions taken that are consistent with the Group's values and culture of innovation and teamwork.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Long Term Incentive award vesting

On 27 February 2017 Rajiv Sharma and Simon Boddie were granted Long Term Incentive Plan awards in the form of nil cost options over shares in respect of the performance period 1 January 2017 to 31 December 2019 (referred to as LTIP 2017).

The performance measures were based upon the Total Shareholder Return Performance (TSR), compound annual growth (CAGR) in Earnings Per Share and cumulative Free Cash Flow relating to Coats Group plc. In considering the outcome the Committee considered the sale of the Crafts North America business which was divested in February 2019; EPS growth targets remained unchanged although Crafts North America was removed from the 2016 base year for the purposes of the EPS CAGR calculation and the cumulative Free Cash Flow target was adjusted downwards by $7.5m to reflect the removal of the discontinued business in 2019. Separately, the Committee increased the FCF target by $11m to reflect a lower than expected level of capital expenditure during the three year period.

The achievement of the Long Term Incentive Plan performance measures and the consequent vesting of the award is shown in the table below.

LTIP 2017: Performance period 1 January 2017 to 31 December 2019

Measure	Weighting	Threshold	Mid	Maximum	Actual
Compound Annual Growth in Attributable Profit	40.0%	5.0%	10.0%	15.0%	13.6%
Vesting % of total award		10.0%	25.0%	40.0%	35.8%
Cumulative Free Cash Flow over 3 years	40.0%	$231.5m	$261.5m	$291.5m	$299.0m
Vesting % of total award		10.0%	25.0%	40.0%	40.0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5 Percentile	Upper Quartile	87th Percentile
Vesting % of total award		5.0%	12.5%	20.0%	20.0%
Total	**100.0%**	**25.0%**	**62.5%**	**100.0%**	**95.8%**

Share awards granted in 2019 (audited information)

The following share awards were granted to Executive Directors during the financial year ended 31 December 2019.

The targets for achieving minimum performance for each measure, where these apply, are shown in the tables below.

Coats Group plc Long Term Incentive Plan

Executive Director	Date of grant	Number of options awarded	Face value at award date	Award value as a % of salary	Share price to calculate no of shares	% vesting for minimum performance	Performance period	Vesting date
Simon Boddie	4-Mar-19	779,447	£635,250	150%	£0.815	25%	1 Jan 2019 to 31 Dec 2021	4-Mar-22
Rajiv Sharma	4-Mar-19	1,093,251	£891,000	150%	£0.815	25%	1 Jan 2019 to 31 Dec 2021	4-Mar-22

Coats Group plc Deferred Bonus Plan

Executive Director	Date of grant	Number of options awarded	Face value at award date	Award deferred cash value as a % of salary	Share price to calculate no of shares	Performance period	Vesting date
Simon Boddie	4-Mar-19	114,231	£93,099	22.0%	£0.815	None	4-Mar-22
Rajiv Sharma	4-Mar-19	162,044	£132,066	22.2%	£0.815	None	4-Mar-22

The share price used to calculate the number of options awarded under the terms of the Coats Group plc Long Term Incentive Plan and the Coats Group plc Deferred Annual Bonus Plan is based on the mid-market closing price for the day immediately preceding the grant date, which was £0.815 for 4 March 2019.

Coats Group plc Long Term Incentive Plan

Awards were granted on 4 March 2019 as nil cost options under the terms of the Coats Group plc Long Term Incentive Plan that was approved by shareholders on 22 May 2014. The LTIP awards will vest, subject to the achievement of performance measures, on the third anniversary of the date of grant. For Executive Directors an additional two year holding period applies. The notional value of any dividends paid on any vested share during the period from grant to the end of the holding period is awarded as additional shares.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Coats Group plc Deferred Annual Bonus Plan
For all Executive Directors one third of the bonus outcome relating to the financial year 2018 was awarded in the form of nil cost options during the year. The awards were granted on 4 March 2019 under the terms of the Deferred Annual Bonus Plan that was approved by shareholders on 22 May 2014. Awards are not subject to additional performance measures but are subject to clawback in certain circumstances such as gross misconduct or a material misstatement of results.

Long Term Incentive Plan awards performance measures
The performance measures applicable to awards granted in respect of the three year performance period that commenced on 1 January 2019 (LTIP 2019) are shown below. The table on the previous page reflects the performance measures for the award that relates to the three year performance period that ended on 31 December 2019 (LTIP 2017).

LTIP 2019 Measures	Weighting	Threshold	Mid	Maximum
Compound Annual Growth (CAGR) in Earnings Per Share	40.0%	5.0%	10.0%	15.0%
Vesting % of total award		10.0%	25.0%	40.0%
Cumulative Free Cash Flow over 3 years	40.0%	$287.1m	$317.1m	$347.1m
Vesting % of total award		10.0%	25.0%	40.0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5 Percentile	Upper Quartile
Vesting % of total award		5.0%	12.5%	20.0%
Total	**100.0%**	**25.0%**	**62.5%**	**100.0%**

For this purpose, Earnings Per Share (EPS) growth is defined as the cumulative Compound Annual Growth Rate in the performance period. The Board will consider the growth in normalised EPS, adjusted to exclude the impact of exceptional costs such as property gains or losses and the impact of variation of the IAS19 (pensions finance) charge.

Free Cash Flow targets are based on cumulative Free Cash Flow generated for each year of the performance period after maintaining the Company's asset base i.e. operating cash flow minus capital expenditure, adjusted to reflect any exceptional items, disposals, acquisitions or property gains or losses. Targets are established on a basis that is before any UK pension scheme deficit repair contributions.

Total Shareholder Return is the total return to shareholders which includes share price growth and ordinary dividends (reinvested on the ex-dividend date). The performance measure is assessed against a comparator group consisting of the FTSE250, excluding investment trusts.

The Committee retains the discretion to consider whatever adjustments it considers are fair and reasonable when considering performance against the targets shown. The Committee may adjust the level of vesting if it considers that the performance measures do not reflect the overall performance of the Company during the performance period or if there has been a material event such as an acquisition or disposal during the course of the performance period.

Non-Executive Directors
In July 2019 the fee levels for the Chairman were reviewed by the Remuneration Committee and for the Non-Executive Directors by a sub-committee consisting of the Chairman and the Executive Directors. The Chairman's fee was not increased because the fee had been adjusted in 2017 to a level that was appropriate considering the company's scale and profile in comparison with other FTSE 250 companies. For other Non-Executive Directors no changes were proposed during 2019 and the base fees have remained at the same level since 1 October 2013. The fees for the Chairs of the Remuneration and Audit and Risk Committee remained unchanged at £12,500 per annum and the fee for the Senor Independent Director remained £10,000 per annum. Until May 2019 a fee of £20,000 per annum was paid to the Chair of the Pensions Sub-Committee; this sub-committee ceased in May 2019. Additional fees of £7,500 per annum are paid to the Non-Executive Directors who separately fulfil the roles of Chair of the Digital Advisory Council and act as the designated Director with responsibility for workforce engagement.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Single total figure for Non-Executive Directors' remuneration for 2019 (audited information)

Non-Executive Directors, excluding the Chairman, who are required to travel long haul (more than five hours one-way) to meetings are entitled to an additional travel allowance of £1,500 for each round-trip subject to a maximum of five trips per annum. Additional fees may be paid for additional duties and time commitments that are undertaken outside the terms of appointment.

	Base fee £000		Supplementary fee £000		Benefits[1] £000		Other fee[2] £000		Total £000		Comments
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	
Mike Clasper	**250.0**	250.0	**--**	--	**3.8**	0.9	**--**	--	**253.8**	250.9	
Mike Allen	**25.0**	60.0	**8.3**	20.0	**--**	--	**4.5**	7.5	**37.8**	87.5	Resigned 23 May-19
Nicholas Bull	**60.0**	60.0	**10.0**	10.0	**3.3**	1.1	**1.5**	1.5	**74.8**	72.6	
Anne Fahy	**60.0**	50.0	**12.5**	7.1	**0.3**	--	**1.5**	1.5	**74.3**	58.6	Appointed 1-Mar-18
David Gosnell	**60.0**	60.0	**12.5**	11.3	**3.2**	1.1	**1.5**	1.5	**77.2**	73.9	
Echo Lu	**60.0**	60.0	**--**	--	**0.4**	--	**1.5**	1.5	**61.9**	61.5	
Fran Philip	**60.0**	60.0	**7.5**	--	**--**	--	**7.5**	7.5	**75.0**	67.5	
Alan Rosling	**60.0**	60.0	**7.5**	2.5	**--**	--	**7.5**	7.5	**75.0**	70.0	
Total	**635.0**	660.0	**58.3**	50.9	**11.0**	3.1	**25.5**	28.5	**729.8**	742.5	

1 The figure under benefits for Non-Executive Directors relates to business expense re-imbursements which are deemed to be taxable in the UK and include the tax paid by the Company directly to HMRC.

2 Fees under Other Fee represent the £1,500 per trip travel fee payable for Directors (excluding the Chairman) who travel long-haul to attend Board meetings. The travel fee is capped at a maximum of £7,500 per annum.

The base fee paid by Coats Group plc is £60,000 per annum for Non-Executive Directors and £250,000 for the Chairman. A supplementary fee is paid to the Senior Independent Director (£10,000 per annum) and Chairs of the Audit and Risk Committee and Remuneration Committee (£12,500 per annum). Mike Allen received a supplementary fee of £20,000 per annum as Chair of the Pensions Committee until his resignation from the Board. Alan Rosling receives an additional fee of £7,500 per annum fulfilling a role as Chair of the Company's Digital Advisory Committee and Fran Philip receives £7,500 for undertaking additional responsibilities concerning employee engagement.

Payments to past Directors (audited information)

The following former Directors exercised options that were originally granted under the rules of the Coats Group Long Term Incentive Plan (LTIP) and Coats Group PLC Deferred Annual Bonus Plan (DABP). The value shown under gain represents the difference between the price paid for any option and the market value on exercise. For all of these awards appropriate values were disclosed in the Single Figure disclosure for each relevant former Director.

Name	Plan	Granted	Max no. of options	Exercise Price per share	Date of exercise	No. of options	MV per share on exercise	Gain (£000)
Paul Forman	Coats Group plc DABP	26-Feb-16	481,155	£0	1-Mar-19	481,155	£0.856520	£412.1
Paul Forman	Coats Group plc LTIP	26-Feb-16	773,881	£0	5-Mar-19	773,881	£0.831584	£643.5
Richard Howes	Coats Group plc DABP	26-Feb-16	336,692	£0	25-Mar-19	336,692	£0.807600	£271.9

No other payments were paid to former Directors.

Payments for loss of office

There have been no payments for loss of office during the year. Mike Allen resigned from the Board on 23 May 2019.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Statement of Directors' shareholding and share interests (audited information)

The interests of the Directors who held office during the year, and their closely associated persons (if any), in the shares, options and listed securities of Coats Group plc and its subsidiaries as at 31 December 2019, are set out below.

	Shareholding requirement in 2019			Shares beneficially owned		Deferred bonus shares subject to vesting period		LTIP share options (subject to performance conditions)		Share options (no performance conditions)	
	Number of Shares	Equivalent % of Salary[3]	Condition Met?	01-Jan-19[1]	31-Dec-19[2]	01-Jan-19[1]	31-Dec-19[2]	01-Jan-19[1]	31-Dec-19[2]	01-Jan-19[1]	31-Dec-19[2]
Executive Director											
Simon Boddie	1,100,000	200%	Yes	300,000	300,000	201,890	316,121	3,564,605	2,619,915	--	1,451,723
Rajiv Sharma	1,550,000	200%	Yes	400,000	400,000	845,142	557,800	5,489,635	3,674,815	2,845,065	5,743,046
Chairman and Non-Executive Directors											
Mike Clasper			N/A	1,490,000	1,490,000	–	–	–	–	–	–
Mike Allen			N/A	200,000	200,000	–	–	–	–	–	–
Nicholas Bull			N/A	400,000	500,000	–	–	–	–	–	–
Anne Fahy	–		N/A	–	–	–	–	–	–	–	–
David Gosnell			N/A	786,475	786,475	–	–	–	–	–	–
Echo Lu			N/A	15,000	15,000	–	–	–	–	–	–
Fran Philip	–		N/A	–	–	–	–	–	–	–	–
Alan Rosling	–		N/A	–	–	–	–	–	–	–	–

1. Or date of appointment, if later.
2. Or date of resignation, if earlier.
3. The target number of shares is based on the average share price for 2019 which was 78.9p.

The Executive Directors' shareholding requirement must be met within five years of their appointment to the Board (2 March 2020 for Rajiv Sharma and 4 July 2021 for Simon Boddie). There is no requirement for Non-Executive Directors. For the purposes of achieving this target the total number of shares beneficially owned by the Executive Director or a closely associated person is considered as well as the estimated post-tax number of vested but unexercised share options or deferred bonuses that are not subject to a performance condition. All Long Term Incentive Plan awards granted to Executive Directors from 29 July 2016 onwards include a requirement to retain any vested shares (save for any shares that may be sold to satisfy income tax liabilities) until a minimum of the fifth anniversary of the date of grant.

Details of Scheme Interests as at 31 December 2019 (audited information)

Rajiv Sharma

Award	Vesting Date	Retention Period	Expiry Date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP17	27-Feb-20	N/A	27-Feb-27	211,214	Unvested	No
DABP18	4 -Mar-21	N/A	4-Mar-28	184,542	Unvested	No
DABP19	4-Mar-22	N/A	4-Mar-29	162,044	Unvested	No
Sub-total				557,800		
LTIP share options (subject to performance conditions)						
LTIP17	5-Mar-20	27-Feb-22	27-Feb-27	1,536,986	Unvested	Yes
LTIP18	4-Mar-21	4-Mar-23	4-Mar-28	1,044,578	Unvested	Yes
LTIP19	4-Mar-22	4-Mar-24	4-Mar-29	1,093,251	Unvested	Yes
Sub-total				3,674,815		
Share options (no performance conditions)						
LTIP14	24-Feb-17	N/A	24-Feb-25	749,781	Vested	No
LTIP15	7-Apr-18	N/A	7-Apr-25	1,612,359	Vested	No
DABP15	7-Apr-18	N/A	7-Apr-25	482,925	Vested	No
LTIP16	2-Mar-19	N/A	26-Feb-26	2,448,595	Vested	No
DABP16	26-Feb-19	N/A	26-Feb-26	449,386	Vested	No
Sub-total				5,743,046		

DIRECTORS' REMUNERATION REPORT
CONTINUED

Simon Boddie

Award	Vesting Date	Retention Period	Expiry Date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP17	5-Mar-20	N/A	27-Feb-27	71,506	Unvested	No
DABP18	4-Mar-21	N/A	4-Mar-28	130,384	Unvested	No
DABP19	4-Mar-22	N/A	4-Mar-29	114,231	Unvested	No
Sub-total				316,121		
LTIP share options (subject to performance conditions)						
LTIP17	27-Feb-20	27-Feb-22	27-Feb-27	1,095,890	Unvested	Yes
LTIP18	4-Mar-21	4-Mar-23	4-Mar-28	744,578	Unvested	Yes
LTIP19	4-Mar-22	4-Mar-24	4-Mar-29	779,447	Unvested	Yes
Sub-total				2,619,915		
Share options (no performance conditions)						
LTIP16	29-Jul-19	29-Jul-21	29-Jul-26	1,451,723	Vested	No

No options have been exercised by any Director during the year or between the year end and the signing of this report.

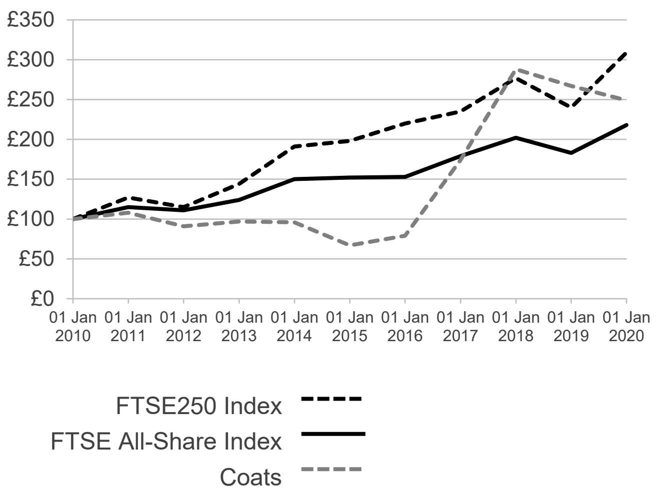
No other Directors have entered into any transactions since the year end.

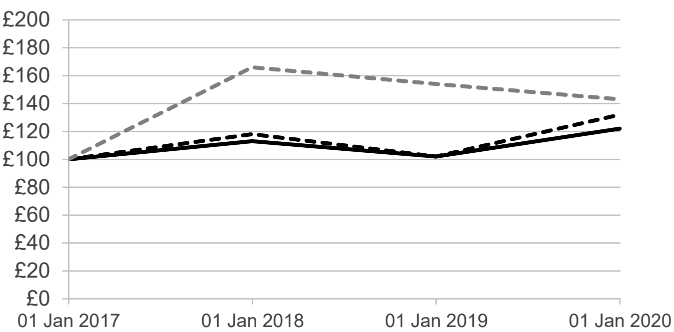
The middle market price of Coats Group plc shares at 31 December 2019 was 74.9 pence and the range during the year was 67.2 pence to 90.7 pence.

Review of performance

The graph (below left) shows the difference between investing £100 in the Company and the constituents of the FTSE All Share Index and FTSE 250 from 1 January 2010 to 31 December 2019. It is assumed dividends are reinvested over that period. The Board feels the FTSE All Share Index and the FTSE 250 each provide an appropriate comparator given the Company's market capitalisation and its presence on the London Stock Exchange.

To enable comparison with the LTIP performance period an additional graph (below right) is shown on the same basis that reflects the three year performance period ending 31 December 2019.





DIRECTORS' REMUNERATION REPORT
CONTINUED

Chief Executive total remuneration for the last 10 years[1]

Executive Director	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO single figure of remuneration (£k)	–	–	–	–	–	1,017.0	1,760.3	**2,566.9**	3,356.7	2,480.3
Annual Bonus as a % of maximum opportunity	–	–	–	–	–	87.1%	77.0%	**79.5%**	66.7%	67.3%
LTIP award as a % of maximum opportunity	–	–	–	–	–	–	43.6%	**60.0%**	84.2%	95.8%

Chief Executive Officer remuneration – percentage change from 2018 to 2019

Executive Director	Salary	Benefits[3]	Bonus
CEO Remuneration (Single Figure data)	2.9%	-54.3%	29.9%
Average of all employees[2]	3.5%	0%	-0.1%

1 The Company did not have an Executive Director who performed the role of CEO until 2 March 2015, when the Company completed its transition from Guinness Peat Group plc to Coats Group plc. The increase in CEO remuneration from 2015 to 2016 is therefore largely influenced by the 2015 single figure data being part year data. The CEO figures for 2017, 2018 and 2019 reflect the appointment of Rajiv Sharma and in particular the increase in benefits reflect the relocation and expatriate support that was offered to him following his appointment as CEO on 1 January 2017.

2 The average of all employees reflects the total number of employees based in the UK. The UK has been chosen as the most appropriate comparator group because the CEO is based in the UK and the majority of Coats employees who are employed outside the UK are working in locations with very different inflationary and market pressures. The UK employee population includes employees across all levels of the organisation.

3. The significant decrease for benefits in 2019 for the CEO arises because of the level of one-time relocation related benefits provided in 2018. The increase in bonus for the CEO is a consequence of the increase in maximum bonus opportunity from 100% of salary to 125% of salary.

Relative importance of spend on pay
The table below shows the total pay for all of the Company's employees compared to other key financial indicators.

	Year to 31 December 2019	Year to 31 December 2018	% change
Employee costs (US$m)	**303.0**	305.9	(1)%
Distributions to shareholders[1] (US$m)	**24.4**	21.1	16%
Average number of employees	**16,876**	17,881	(6%)
Revenues from continuing operations (US$m) – CER basis	**1,388.7**	1,374.3	1%
Operating profit pre-exceptional (US$m) – CER basis	**198.0**	189.0	5%

1. By way of dividends.

Additional information on number of employees, total revenues and profit has been provided for context. The figures for employee costs, average number of employees, revenues and operating profit in 2019 and 2018 have been stated on the basis of continuing operations only. Information for 2019 includes acquisitions made during the year. The figures for revenues and operating profit are on a constant exchange rate (CER) basis with amounts for 2018 restated at 2019 exchange rates.

CEO pay ratio
Coats is not required to publish a CEO pay ratio as the Group employs less than 250 employees in the UK. However, as disclosed in last year's report the company intends to publish a disclosure on a voluntary basis.

Financial year	Calculation Method		CEO Pay Ratio		
			P25	P50	P75
			Lower Quartile	Median	Upper Quartile
2019	A	Base	1:21	1:12	1:8
		Base and bonus	1:37	1:20	1:11
		Total remuneration	1:64	1:40	1:21

DIRECTORS' REMUNERATION REPORT
CONTINUED

The lower quartile, median and upper quartile employees were identified on the basis of full time equivalent total remuneration and benefits in the twelve-month period ending 31 December 2019 (this is referred to as methodology A according to the reporting Regulations). This calculation methodology was selected as it was the closest comparative methodology to the basis on which the remuneration for the CEO is disclosed for the year ended 31 December 2019. Considering the relatively low number of UK based employees compared to our total global workforce this data was not administratively difficult to obtain nor calculate.

The Committee has considered the pay data for the three individuals identified and believes that is fairly reflects the remuneration levels for the relevant quartiles among the UK based employees. Specifically the data was compared to the average of five individuals above and below their remuneration in terms of total compensation and mix of pay for the year to 31 December 2019. No adjustments have been made to the remuneration other than to ensure that the remuneration is equivalent to a full-time employee and where a performance bonus is relevant an assumption, based on the average attainment for the element linked to personal performance has been assumed. The Committee is satisfied that any assumptions do not have a material impact on the selected reference employee nor on the calculated ratio. The remuneration details for the individuals are shown below.

	CEO	P25	P50	P75
Base Pay	£603,000	£27,938	£50,583	£78,090
Base and bonus	£1,117.8	£29,750	£53,713	£97,461
Total remuneration	£2,480.3	£38,722	£61,944	£117,250

The Committee notes that the selected individuals are not participants in the Company's Long Term Incentive Plan. A significant proportion of the CEO's remuneration is appropriately linked to the Company's performance and share price movements over time which may fluctuate materially over time. To enable a comparison to be made which reflects this element of variable pay a ratio has been calculated which reflects base pay and base pay and bonus.

Corporate Governance Code requirements

In order to satisfy Provision 40 of the Corporate Governance Code the Directors also reviewed the operation of the policy and considered the consistency of the Remuneration Policy with the remuneration policies elsewhere in the Group. The Committee reviewed the incentive pay structures operated throughout the Group and were satisfied that the design of the arrangements sought to achieve an acceptable balance between the overall financial performance of the group, the various operating businesses and, where appropriate individual performance. The Remuneration Committee and the full Board is made aware of, and consulted on, the company's Human Resources strategy and takes seriously its obligations to have a greater degree of oversight on the operation of fair pay policies elsewhere in the Group. In particular, the Committee has established additional time to proactively support company projects such as the development and implementation of a global Living Wage policy in response to a very constructive dialogue with one of the Company's shareholders. One of the Committee's members, Fran Philip, is the designated Director with responsibility for wider employee engagement and her influence will assist in developing this wider support.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Statement of implementation of Remuneration Policy for 2020

Base salaries for Executive Directors and fees for the Chairman and Non-Executive Directors will be reviewed on 1 July 2020.

Rajiv Sharma will receive a base salary of £612,000 per annum, a fixed pension allowance of £122,400, a car allowance of £20,000 per annum, medical insurance, life insurance and income replacement insurance.

Simon Boddie will receive a base salary of £423,500 per annum, a fixed pension allowance of £84,700, a car allowance of £15,000 per annum, medical insurance, life insurance and income replacement insurance.

The 2020 annual bonus opportunities and Long Term Incentive Plan award grants will be implemented in accordance with the limits of the current Remuneration Policy. The LTIP opportunity for the Chief Executive Officer and Chief Financial Officer will be 150% and the annual bonus opportunity for the Chief Executive Officer will be increased from 125% to 150%. The Chief Financial Officer bonus opportunity will be 115%. The compulsory three-year deferral into shares of the 2020 bonus outcome will be increased from 40% to 50% of the annual bonus outcome for the Chief Executive Officer and will remain at 40% for the Chief Financial Officer. In addition the Company has introduced a post termination minimum shareholding requirement to apply for two years following termination of employment based on 100% of the MSR or shareholding at termination. Although the Group Chief Executive bonus opportunity is being increased in 2020, this is still within the limits approved by the Remuneration policy approved by shareholders at the AGM in 2017.

Annual bonus

Measure	Weighting
Sales	10%
Earnings Before Interest and Taxation	50%
Free Cash Flow	20%
Individual objectives	20%

Long Term Incentive

Measure	Weighting
Earnings Per Share CAGR	40%
Free Cash Flow	30%
Total Shareholder Return	20%
Sustainability	10%

Annual bonus targets are based on adjusted operating profit and adjusted free cash flow excluding the impact of any exchange rate fluctuations. The Company does not publish annual bonus targets in advance but will do so at the time the bonus award is disclosed.

The Long Term Incentive Plan awards granted in 2020 are subject to the following targets:

Measure	Threshold	Mid	Maximum
EPS CAGR over three years	5%	10%	15%
Vesting % for EPS measure	25%	62.5%	100%
Cumulative Free Cash Flow (US$m) over three years	$296m	$326m	$356m
Vesting % for FCF measure	25%	62.5%	100%
Total Shareholder Return vs FTSE250 excluding investment trusts	Median	62.5 Percentile	Upper Quartile
Vesting % of each measure for TSR measure	25%	62.5%	100%

Straight line vesting occurs between Threshold, Mid and Maximum.

The cumulative Free Cash Flow target is subject to adjustment and is calculated before dividends and before any deficit repair contributions to UK pension schemes. EPS growth is based on EPS growth adjusted to exclude the impact of any variation in the pension finance charge.

The Committee has recognised the importance of reflecting the concerns of shareholders regarding responsibilities to Environmental, Social and Governance issues. Sustainability targets have been reflected in the Long Term Incentive measures to address these concerns and to emphasise the importance of delivering the Company's 2022 objectives outlined in the 2018 Sustainability Report which was published in 2019. Specifically these targets will be based on reduction in water usage, sourcing renewable energy, management of hazardous waste, sustainability sourcing in our supply chain and delivering on employee engagement and community support activities. Further details regarding the Sustainability targets will be published in next year's Annual Report on Remuneration or can be viewed in our Sustainability Report which is available at www.coats.com/sustainability

DIRECTORS' REMUNERATION REPORT
CONTINUED

Consideration by the Directors of matters relating to Directors' remuneration
The members of the Committee were: David Gosnell (Chairman), Mike Allen (until May 2019), Echo Lu, Fran Philip and Alan Rosling.

In reviewing remuneration arrangements the Committee considers the terms and conditions of employees across the Group. In this regard, Fran Philip, as a member of the Committee is able to provide insight and support from her role as the designated director responsible for wider employee engagement.

The responsibilities of the Committee are set out in the Corporate governance section of the Annual Report. The Committee also received assistance from Stuart Morgan (who also acted as Secretary to the Committee), Monica McKee (Group HR Director) and Brendan Fahey (Reward Director). No Directors are involved in deciding their own remuneration.

The Company received advice from Herbert Smith Freehills LLP in relation to legal matters relating to the Group's incentive plans. Mercer | Kepler provided independent advice to the Company principally in relation to the design and performance targets set for the Group's incentive plans, benchmarking of Executive Directors pay, review of the Directors' Remuneration Report and regulatory developments in remuneration governance and practice. Mercer | Kepler were paid fees of £75,780 for time spent and materials used in providing advice to the Company during the period to 31 December 2019. Mercer | Kepler provide no other advice to the Company or any of the Directors and the Committee is satisfied that the advice provided was fair and objective. Mercer | Kepler were appointed because of their extensive knowledge of Coats' strategy and operations when the Company was a subsidiary business of the Guinness Peat Group.

Statement of voting at the General Meeting
At the AGM of the Company on 23 May 2019 the results of the vote regarding Resolution 2 (to approve the Annual Report on Remuneration) were:

Votes for Number	Votes for %	Votes against Number	Votes against %	Votes Total	Votes Withheld
1,144,133,854	99.3	8,503,589	0.7	1,152,637,443	57,136

At the AGM of the Company on 17 May 2017 the results of the vote regarding Resolution 3 (to approve the Directors Remuneration Policy were):

Votes for Number	Votes for %	Votes against Number	Votes against %	Votes Total	Votes Withheld
1,048,569,448	99.9	153,415	0.01	1,048,722,863	150,924

A copy of the Remuneration Policy will be made available at www.coats.com/governance

Assessment of the effectiveness of the Committee
This year the Board undertook an externally-facilitated effectiveness review of the effectiveness of the Board and Board Committees, including the Committee, in accordance with the requirements under the Code. The review was undertaken by Independent Audit Ltd and involved a questionnaire of all of the Committee members and regular presenters to the Board. The overall conclusion is that the Committee is working well and is covering its remit with relatively few areas for improvement highlighted.

The Remuneration Report was approved by a Committee of the Board of Directors on 4 March 2020 and signed on its behalf by:

David Gosnell

Chairman, Remuneration Committee

4 March 2020

DIRECTORS' REMUNERATION REPORT
CONTINUED

Remuneration Policy Report
The Remuneration Policy was last approved by shareholders at the AGM on 17 May 2017. This updated policy will be subject to a binding shareholder Resolution at the AGM on 20 May 2020. If approved, the policy will apply for a period of three years from the date of approval.

Directors' Remuneration Policy
The Remuneration Committee has responsibility for determining remuneration for the Company's Directors including the Chairman but excluding the Non-Executive Directors. The remuneration for Non-Executive Directors (excluding the Chairman) is determined by a Committee chaired by the Group Chairman and which also includes the Executive Directors. The Committees take into account the need to recruit and retain Directors who have the suitable skills and experience to perform in the interests of the Company and its shareholders, while paying no more than is necessary.

The Remuneration Committee will need to ensure that any incentive compensation for Executive Directors is suitably motivational and will encourage any such Executive Directors to meet stretching performance targets within an acceptable degree of risk.

The Committee's policy is that remuneration and benefit levels should be sufficiently competitive, having regard to remuneration practice in the industry and the countries in which the Group operates, to attract, incentivise, reward and retain Directors and senior executives.

The Remuneration Policy set out below applies to all Directors who are appointed to the Board during the life of this policy.

Non-Executive Directors
The Chairman and Non-Executive Directors receive an annual fee (paid in monthly instalments). Non-Executive Directors (excluding the Chairman) may also receive an additional fee in respect of travel if over five hours of one-way flight time is required to attend a Board meeting, up to an annual cap. The fee for the Chairman is set by the Remuneration Committee and the fees for the Non-Executive Directors are approved by the Board, on the recommendation of the Chairman. In determining the appropriate level of fees the Committee and the Chairman consider advice from external sources and data on the fee levels in other similar companies. No individual is present when his or her own level of remuneration is discussed.

For Non-Executive Directors, the remuneration arrangements will be in line with those set out in the relevant Section below.

Non-Executive Directors' Remuneration Policy table

Element	Purpose and link to strategy	Operation
Fees	To attract and retain a high-calibre Chairman and Non-Executive Directors by offering market competitive fee levels.	The Chairman is paid an all-inclusive fee for all Board responsibilities. The other Non-Executive Directors receive a basic Board fee, with supplementary fees payable for additional Board responsibilities and travel (if appropriate). The fee levels are reviewed on a periodic basis and may be increased taking into account factors such as the time commitment of the role and market levels in companies of comparable size and complexity. Additional payments may be made above the basic Board fee if duties significantly exceed expectations.
Supple-mentary fees		Supplementary fees may be payable to the Senior Independent Director, Chair of the Audit and Risk Committee, and Chair of the Remuneration Committee.
Travel fees	The Board benefits from the diverse global business experience of its Non-Executive Directors, some of whom do not reside in the UK. However, the increasingly global nature of our business means that our Non-Executive Directors are required to travel, with recent meetings held in Brazil, China, Sri Lanka, the USA and Vietnam. The Board wishes to recognise the additional time commitment required for Non-Executive Directors (excluding Chairman) in travelling to Board meetings.	An additional fee may be payable to any Non-Executive Director (excluding the Chairman) who is required to travel for more than a specified length of time to attend a Board meeting. The maximum total fees for travel will be subject to an annual cap. For 2020, a travel fee will be payable for any journey longer than 5 hours of one-way flight time and the maximum fee will be capped at the equivalent of 5 trips. The length of journey and maximum cap will be reviewed annually to ensure their continued relevance and appropriateness.

No benefits or other remuneration will be provided to Non-Executive Directors. However in some cases reimbursement of business travel, entertaining and accommodation expenses claimed in accordance with the UK expenses policy may be deemed taxable benefits under UK tax rules. The Company pays the resulting tax liability. In addition, professional fees may be paid to assist a non-UK tax resident Director submit appropriate UK income tax returns; the cost of these fees may be regarded as a taxable benefit

DIRECTORS' REMUNERATION REPORT
CONTINUED

In determining the level of fees for a new Non-Executive Director, the Committee will take into account all factors it determines to be relevant, including the skills and experience of the individual and the need to attract Non-Executive Directors of the appropriate calibre. The Committee will also take into account the level of fees offered by equivalent companies

Terms of appointment
Under their respective Non-Executive Director appointment letters, all of the Non-Executive Directors are entitled to receive an annual fee.

Term and termination provisions
None of the appointment letters contains a set term of office.

None of the appointment letters contains a notice period. Removal of the Non-Executive Directors would be governed by the Articles of Association of the Company.

All Non-Executive Director letters of appointment are available for inspection at the Company's registered office during normal hours of business, and will also be available at the Company's AGM.

Policy on payment for loss of office
There are no provisions in the Non-Executive Directors' letters of appointment that would give rise to any compensation payments for loss of office.

Executive Directors
The policy that applies to the appointment of any Executive Director is shown below. The remuneration package may include the components of remuneration described below in the Executive Directors' Remuneration Policy table subject to the relevant limits as set out in the following tables.

Executive Directors' Remuneration Policy table
Fixed remuneration

Purpose and link to strategy	Operation and opportunity
Salary	
To attract and retain the key talent that the Company needs to achieve its objectives.	Salaries for new Executive Directors will be set by the Board taking into account such factors as it determines to be necessary, as discussed above. Following recruitment, salaries will be reviewed annually with effect from 1 July. Salary reviews take account of factors including the market competitive level of pay in other companies, average salary increases applied elsewhere across the Group, the performance of the Company, the relative skills, performance and talent of the individual and any increase in the scope and/or responsibility of the individual's role. The Committee's approach will consider the median level of salary of similar positions in the FTSE250 (excluding financial services), as well as companies in similar sectors and of a similar international scope and size to Coats, for UK based roles to reflect the global scope and dimensions of the Group's operations and the sector in which it operates. External benchmark data is considered only as a reference point and the median figure will not be regarded as a target level of remuneration.
Pension	
To provide a market competitive level of retirement provision.	In the case of an external appointment or a promotion, the Executive Director will either be entitled to participate in a defined contribution scheme, on a non-contributory basis, with an employer contribution of up to a maximum of the average of the UK workforce which is currently 12% of salary, or will be provided with a cash alternative in lieu of any pension benefits of up to 12% of salary. The benefit levels for current incumbents will remain at the current level of 20% of salary as at 1 January 2020 but will not be applied to any subsequent salary increase. The overall benefit value will be aligned to the rest of the UK workforce by May 2023.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Purpose and link to strategy	Operation and opportunity
Benefits	
To provide a market competitive level of benefits.	Benefit provision to Executive Directors will be determined by the Committee taking into account such factors as it determines to be necessary, with the aim of creating a competitive overall package. Benefits may include the provision of private medical insurance, ill-health protection and/or life insurance and a cash-for- car-allowance. In addition, the Company may provide assistance in connection with the relocation of an Executive Director and, in the event of an international transfer, may provide tax equalisation arrangements. Executive Directors may also participate in any all-employee incentive plan operated by the Company from time to time, up to the same limit for participation as applies for other employees.

Variable remuneration

Purpose and link to strategy	Operation and opportunity	Performance
Annual bonus, Cash bonus and deferral into shares under the rules of the Deferred Bonus Plan		
Annual bonus incentivises key individuals to achieve the objectives of the annual business plan. The deferred element ensures that the final value of the annual incentive is linked to the longer term value of the Group.	Annual bonuses will be determined by reference to performance, measured over one financial year. The maximum annual bonus that may be awarded to any executive director will be 150% of salary. Any bonuses awarded will be subject to a mandatory deferral established by the Committee. Deferred bonuses will be transferred into shares, to be held for a three year retention period, under the terms of the Deferred Bonus Plan. Deferral may operate so that shares will be held beneficially by the Executive Director during this period, in which case dividends will be payable on shares during such period. The deferral may alternatively be achieved by the grant of a share award or nil cost option in lieu of the deferred portion of the bonus, in which case an additional payment in cash or shares may be made to reflect dividends that may have been earned during the period from grant to vesting. The annual bonus including cash paid or deferred element of the bonus may be subject to malus or clawback in cases of personal misconduct or a restatement of results that mean the annual bonus awarded was greater than it should have been.	The performance measures, weightings and targets for the annual bonus will be set by the Committee on an annual basis. Performance measures will normally include tests of both business and individual performance. The weighting for each objective will be determined annually by the Committee to reflect the strategic importance of each objective for the year ahead. The Target or Budget level of performance will result in a payment of 50% of the maximum award. The Committee will determine the Target/Budget level of remuneration on a basis that it feels is stretching and challenging. Below Target, payment will increase between nil (below Threshold performance) and Target payout, on a straight- line basis. Above Target, payment will increase on a straight-line basis up to 100% for Maximum performance. The Committee will have the discretion to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. All annual bonus payments and awards are made at the discretion of the Committee and the terms of the awards may be amended by the Committee at any time provided that they remain within the terms of this policy.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Purpose and link to strategy	Operation and opportunity	Performance
Long Term Incentive Plan		
To incentivise key individuals to achieve key long term objectives, in line with the Group's long-term strategy. To create alignment between executives and shareholders. To retain key individuals. Performance will be assessed over a period of not less than three years. A further 2 year holding period applies to any vested awards.	Awards will be made annually, conditional on the achievement of three-year performance conditions. Any vested shares will be subject to an additional two-year holding period. Award levels for any Director will be up to a maximum of 175% of salary. Awards may be made to other senior executives within the Group. Larger awards may be made in exceptional circumstances, but in no case to exceed 200% of salary. Awards will normally be made in the form of nil cost options, exercisable between the third and the tenth anniversary of grant (subject to the additional two-year holding period), although awards may be made in other forms. An additional payment in cash or shares may be made to reflect dividends that may have been earned on the proportion of the award that vests during the period from grant to the end of the holding period. Awards will be subject to malus and clawback provisions. The malus provisions give the Committee discretion to reduce the level of an award prior to vesting in the event of personal misconduct or if events have happened that caused the Committee to determine the grant level was not appropriate. The Committee will have discretion to claw back vested awards in the event that personal misconduct prior to vesting is discovered or if within three years of vesting there is a restatement of results that means awards vested at too high a level. The Long Term Incentive Plan was approved by shareholders at the 2014 AGM.	In future years the performance measures used, the weighting on each measure, the definition of the measures and the performance targets, will be determined by the Committee considering the balance of strategic priorities for the Company for the upcoming three-year performance period. In addition, the Committee may consider setting an underpin condition which must be satisfied prior to vesting of an award. No awards will vest for performance below Threshold, 25% of each element will vest for achieving Threshold performance, increasing on a straight-line basis to 100% for Maximum performance. The Committee will be able to reduce vesting levels if it determines the result of the performance targets does not accurately reflect the financial health of the Company. Following grant of an award, the Committee will have power to amend performance measures and targets if events happen that mean they are no longer a fair test of performance, but not so as to make the assessment of performance materially less onerous.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Amendments to the approved Remuneration Policy
There are no proposed increases to the maximum annual bonus opportunity which remains 150% of salary. The Committee has applied the maximum bonus level of 150% from 2020 for the Group Chief Executive only. The minimum deferral of any bonus earned will be established by the Committee. The revised Policy would increase the normal proportion of bonus deferred for the Group Chief Executive to 50% from 2020 and for the Chief Financial Officer to 40%.

The maximum face value for an LTIP award allowed by the Policy would be increased from 150% to 175% of salary. However the maximum level granted in 2020 will remain at 150%. The maximum LTIP award that may be granted in exceptional circumstances (typically recruitment) would be reduced from 250% to 200%.

The revised Policy would also introduce a requirement for share ownership guidelines to apply for two years post termination of employment on the basis of the lower of the minimum guideline (currently 200%) or the shareholding at termination of employment.

The revised Policy would reduce the pension benefit for any new external Director appointment from 20% to a level that equates to the average of the UK workforce; for the year ending 31 December 2020 this is a maximum of 12%. The pension benefit levels for incumbent Executive Directors will be frozen at their current monetary levels ie no longer a percentage of salary and will be aligned to the UK workforce by the end of the validity of this policy i.e. May 2023.

Decision-making process for the determination of the policy
The Committee reviewed the operation of all aspects of the previous Remuneration Policy by commissioning Mercer | Kepler to conduct a structured interview process with all Directors to assess their views on the effective operation of the policy and the extent to which the objectives of the Policy were met. The scope of the review included an assessment of the current and potentially alternative performance measures and whether these were aligned to the Group's strategy. In addition, Mercer | Kepler advised the Committee on the developing view of shareholders on various aspects of the Remuneration Policy and the extent to which amendments should be made to reflect these. The conclusions of the review were discussed by all of the Non-Executive Directors and then detailed proposals were finalised by the Remuneration Committee. In December 2019 the Committee chairman wrote to all shareholders with more than 1% of issued share capital and several corporate governance advisors to seek their views. Some amendments were made to the proposals as a consequence of this consultation and have been reflected in this revised Remuneration Policy.

Performance measure selection and target-setting
The measures used under the annual bonus are selected annually to reflect the most important measures for the upcoming year and include both business and individual performance objectives. Performance targets are set taking into account the objectives for the business for the year ahead and the need to successfully progress the execution of the Group's long term growth strategy. Targets are also established on the basis that they should be stretching within an acceptable degree of risk.

The Committee believes that for the 2020-22 period total shareholder return, earnings per share, free cash flow and the delivery of commitments made to sustainability targets are the most appropriate measures of long-term performance for the business. TSR performance is measured against the FTSE 250 (excluding investment trusts) and provides strong alignment between Executive Directors and shareholders, EPS growth maintains management focus on strong financial performance and free cash flow underpins the importance of maintaining cash reserves for Coats' long-term business performance. Sustainability measures and goals are based on the commitments outlined in the Company's stakeholder report published in 2019. Performance targets are set taking into account the sector in which the Group operates and the acceptable risk profile of the Group. The Committee considers a range of reference points, including broker forecasts and the Company's strategic plan to ensure targets are challenging.

Differences between Executive Director and general employee remuneration
The structure of remuneration for Coats' senior management team is consistent with that for the Executive Directors. Senior executives participate in annual bonus and long-term incentive arrangements based on the same performance measures as Executive Directors.

The remuneration arrangements for other employees reflect the local market practice appropriate for each role and may therefore vary from those set out in this report for senior executives and Executive Directors.

Legacy matters in respect of future Executive Directors
In the event that an executive of the Group is promoted to the Board, the Company retains discretion to honour any existing remuneration commitments. In particular, any long term awards, both cash and share awards, will continue to be capable of vesting on their existing terms. This would include awards previously granted under legacy Group incentive plans. This would also include any awards granted under the Long Term Incentive Plan or Deferred Bonus Plan prior to the individual being appointed as a Director (although it would be intended that any such awards would in any event comply with the Policy as set out above).

Shareholding target
Executive Directors will be required to attain a shareholding, over a five-year period, equivalent to 200% of salary. This requirement will apply for a two year period post termination of employment based on the lower of the in-post requirement and the Executive Director's actual shareholding on termination of employment.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Recruitment Policy
When appointing an Executive Director, including a promotion to the Board of an executive from within the Group, the Committee will offer the recruit a remuneration package that it believes is appropriate, taking into account the skills and experience of the individual and the need to attract, retain and motivate individuals of the appropriate calibre. In determining the remuneration package that may be offered to a new Executive Director, the Committee may also take into account external and internal comparisons and relevant market factors, as well as any other factors which the Board determines to be relevant.

External appointment
In the cases of hiring or appointing a new Executive Director from outside the Company, the Committee may make use of all the existing components of remuneration, as follows:

Component	Approach	Maximum annual grant value
Base salary	Salaries for new appointees will be determined by reference to the relative skills and experience of the individual, the market competitive level of pay in other companies and any other relevant external or internal comparisons.	
Benefits	New appointees will be eligible to receive benefits which may include (but are not limited to) the provision of private medical insurance, ill-health protection and/or life insurance and a cash- for-car-allowance, and, where appropriate, relocation, international transfer or tax equalisation arrangements.	
Pension	New appointees will receive pension contributions or cash alternative in lieu of any pension benefit.	12% of salary if UK based
Annual bonus	The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal element will be tailored to each Executive Director.	150% of salary
LTIP	New appointees will be granted awards under the LTIP on the same terms as other Executive Director's, as described in the policy table.	200% of salary in exceptional circumstances

For external appointment, the Committee may determine that there may be exceptional circumstances where it would be appropriate, in order to secure the right candidate, to compensate for lost awards incurred by an individual as a result of leaving their former employer. In the case of any long term incentive awards, save where such awards are close to vesting, any such award on appointment would normally be granted as a share based award, subject to such vesting and/or performance conditions as the Committee determines to be appropriate, either under a one-off arrangement or under the terms of the Long Term Incentive Plan (as described below). In determining the terms of any such awards, the Committee would take account of the vesting schedule and conditions attached to the forfeited awards, but also other factors that it determines to be relevant, including the need to suitably incentivise and retain the individual during the initial years of their applicable appointment.

Internal promotion
In cases of appointing a new Executive Director by way of internal promotion, the Committee and Board will be consistent with the policy for external appointees detailed above.

In the event that an executive of the Group is promoted to the Board, the Company retains power to honour any existing remuneration commitments. In particular, any long term awards, both cash and share awards, will continue to be capable of vesting on their existing terms. This would include awards previously granted under legacy Group incentive plans. This would also include any awards granted under the Long Term Incentive Plan or Deferred Bonus Plan prior to the individual being appointed as a director (although it would be intended that any such awards would in any event comply with the Policy as set out above).

DIRECTORS' REMUNERATION REPORT
CONTINUED

Service contracts for Executive Directors
The Committee's policy is for service contracts for Executive Directors to reflect the Committee's understanding of best corporate practice for listed companies. However, in the event that an executive of the Group is promoted to the Board, the Committee may include terms in any new service contract which are consistent with that individual's existing service contract and legacy arrangements.

Subject to this, the key elements of a service contract offered to a UK based Executive Director appointment are:

Notice period	The notice period is no more than 12 months (in the case of notice being given by the Company or the Executive Director). An Executive Director may be placed on garden leave during some or all of the notice period.
Payment in lieu of notice ('PILON')	Save in circumstances justifying summary termination, employment may be terminated without notice by paying a PILON comprising basic salary and contractual benefits. Subject to any legacy terms, the Company will have discretion to pay on a phased basis, which will normally be subject to mitigation.
Pension	The service contract may include entitlement to pension benefits, subject to the provisions and any limits set out in this Policy and the pension scheme rules or an annual allowance. The entitlement to pension benefits may continue during any notice period.
Benefits	The service contract may include entitlement to other benefits, subject to the provisions and limits set out in this Policy. The entitlement to benefits may continue during any notice period.
Incentive plans	The Executive Director will be eligible to be considered (at the Committee's discretion) to participate in the annual bonus and long term incentive arrangements operated from time to time, subject to the provisions and limits set out in this Policy. The terms of such arrangements would apply in the event of a cessation of office or employment, as set out in the table below.

Service contracts offered to non-UK based, external appointments will generally be in line with the provisions set out above, subject to any local law requirements.

Executive Directors will be able to accept non-executive appointments outside the Company (as long as this does not lead to a conflict of interest) with the consent of the Board, as such appointments can enhance their experience and add value to the Company. Any fees received (excluding positions where the Executive Director is appointed as the Company's representative) may be retained by the Executive Director.

All Executive Director letters of appointment are available for inspection at the Company's registered office during normal hours of business, and will also be available at the Company's AGM.

Policy on payment for loss of office of Executive Directors
In the case of an executive of the Group who is promoted to the Board, the terms on cessation of office or employment would be governed by the terms of the individual's existing employment agreement. In addition, the terms of any incentive awards made to the individual prior to being appointed as an Executive Director, and the terms of any pre-existing participation in a pension scheme, would govern the treatment of such arrangements.

Notice periods, salary and contractual rights
The notice periods and contractual rights on termination that would be included in a service contract offered to an external recruit are set out above. In addition, the Executive Director would be entitled to accrued but untaken holiday.

In respect of any awards made to an Executive Director under any all-employee share plan, the same leaver conditions will apply as apply in respect of employees generally.

Discretions
In considering the exercise of its discretions under the incentive arrangements, as referred to above, or otherwise in connection with the cessation of office or employment of an Executive Director, the Committee will take into account all relevant circumstances, having regard to their duties as Directors.

In doing so, factors that the Committee may take into account shall include, but not be limited to, considering the best interests of the Company, whether the Executive Director has presided over an orderly handover, the contribution of the Executive Director to the success of the Company during their tenure, the need to ensure continuity, the need to compromise any claims that the Executive Director may have, whether the Executive Director received a PILON and whether, had the Executive Director served out their notice, a greater proportion of the outstanding award may have vested.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Other
The Company may enter into new contractual and financial arrangements with a departing Executive Director in connection with the cessation of office or employment, including (but not limited to) in respect of settlement of claims, confidentiality, restrictive covenants and/or consultancy arrangements, where the Committee determines it necessary or appropriate to do so. Appropriate disclosure of any such arrangement would be made.

Corporate actions
On a corporate action affecting the Company, the rules of the Long Term Incentive Plan and Deferred Bonus Plan will apply. In summary, on a change of control awards will vest, subject to the performance conditions and, unless the Committee determines otherwise, time pro-rating.

Deferred shares awarded under the terms of the Deferred Bonus Plan, which represent deferrals of previously earned bonus, will vest in full. Under the Long Term Incentive Plan and Deferred Bonus Plan, the Committee may determine that a demerger or similar event shall constitute a corporate action.

On a variation of share capital or similar event, the Committee may make such adjustment to awards under the Long Term Incentive Plan and the Deferred Bonus Plan as the Committee considers appropriate.

Incentive plans

	Good leavers	Other leavers
Annual bonus	The Company does not consider it appropriate to set defined 'good leaver' and 'bad leaver' conditions in respect of the annual bonus arrangements. Instead, where an Executive Director has ceased to hold office or employment with the Group, or is under notice, other than due to personal misconduct, the Committee will determine whether or not the individual will be eligible to receive any annual bonus. If the Committee determines that a departing Executive Director is eligible to receive a bonus, the amount of the bonus will be assessed by reference to the performance targets set for that financial year. The deferral requirement in respect of any bonus awarded will continue to apply if the Committee so determines. The amount of any bonus will be pro-rated for time, provided that the Committee has discretion to waive time pro-rating.	Where the reason for cessation of office or employment is personal misconduct no bonus will be payable. In other cases, unless the Committee determines that the departing Executive Director is eligible to receive a bonus, no bonus will be payable.
Long Term Incentive Plan	A departing Executive Director will be a 'good leaver' on ceasing employment due to retirement, injury, disability, ill-health, death, redundancy or the sale of a business or subsidiary out of the Group. Awards held by 'good leavers' will normally vest on the normal vesting date (i.e. the third anniversary of grant) to the extent that the performance conditions are met, and be pro-rated for time. Any awards that the Committee determines to have vested will ordinarily be subject to the additional two-year holding period, unless the Committee determines in its discretion to accelerate vesting to the date of cessation. The Committee also will have discretion to waive the time pro-rating requirement.	Unvested awards will lapse in full where the cessation of office or employment is on grounds of personal misconduct. In other cases, the Committee will have discretion to determine that unvested awards will vest (in which case the terms applicable to 'good leavers' will apply). Unless this discretion is exercised, unvested awards lapse in full.
Deferred Bonus Plan	Unvested deferred shares (which represent deferrals of earned bonus) will vest in full on the normal vesting date (i.e. the third anniversary of grant), provided that the Committee will have discretion to accelerate vesting to the date of cessation.	Where the reason for cessation of office or employment is personal misconduct unvested deferred shares will lapse in full.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Development of this policy
Statement of consideration of employment conditions elsewhere in the Company
When reviewing executive director pay the Committee takes into account the impact on and comparison with pay arrangements throughout the Company. The Committee does not directly consult with employees when determining remuneration policy.

Statement of consideration of shareholder views
The Committee remains committed to shareholder dialogue and takes an active interest in voting outcomes. The Committee sought the views of our major shareholders before submitting this Policy for shareholder approval at the 2020 AGM.

The Committee may, without seeking shareholder approval, make minor changes to this Policy that do not have a material advantage to Directors.

A copy of the Remuneration Policy will be made available at www.coats.com/governance

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements of Coats Group plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows;
- the Notes to the Financial Statements 1 to 37;
- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the Notes to the Company Financial Statements 1 to 6.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Lower Passaic River Study Area litigation provision; • material assumptions underlying retirement benefit obligations; and • uncertain tax positions. The key audit matters are the same as the prior year. We have expanded the key audit matter relating to uncertain tax provisions as noted below.
Materiality	The materiality that we used for the Group financial statements was $8.2 million which was determined on the basis of 5% of adjusted profit before tax. The basis is consistent with the prior year.
Scoping	Coats Group plc was subject to a full statutory audit by the Group auditor. Due to the widespread nature of the Group, the audit is subject to scoping decisions on overseas components. Our full-scope audit of components provided coverage of 75% of the Group's net assets, 77% of the Group's revenue and 79% of the Group's profit before tax from profit making components.
Significant changes in our approach	In our audit of the 2018 financial statements, we focused our key audit matter in respect of uncertain tax positions to transfer pricing on incremental management recharges. We have expanded this to be focused on the valuation of the central tax provision.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's and the Company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Principal risks and viability statement
Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 31-39 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 33 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 39 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Lower Passaic River Study litigation provision	
Key audit matter description	Along with other textile manufacturers, and chemical producers, the Group is subject to ongoing litigation proceedings by the US Environmental Protection Agency (EPA) in regard to environmental damage caused by historic operations of the group in the Lower Passaic River Study Area. In March 2016, EPA issued a Record of Decision providing a basis for management to estimate a provision in respect of remediation and legal costs which amounts to $14.6 million, net of insurance proceeds, at 31 December 2019. This is currently considered by management to be the best estimate of the future liability, given the information available. Judgement is required to estimate what, if any, the Group's share of the total remediation costs is likely to be. The carrying value of the provision and background information to the matter is included in note 28 of the financial statements and management discuss the matter as a significant financial and reporting issue in the Audit and Risk Committee Report on page 61.
How the scope of our audit responded to the key audit matter	We evaluated management's assumptions, including a review of evidence used in estimating the Group's share of total remediation costs for the Lower Passaic River Study Area, both in terms of appropriateness of recognition and the valuation thereof. We verified the material cash outflows relating to the utilisation of the legal provision and made enquiries of management to confirm whether any further correspondence had been received in connection with this matter. We evaluated the competence of management's external legal advisers. We considered the legal advice management had obtained in relation to litigation and directly challenged management's judgements through discussion with key external legal advisers and our internal environmental specialist.
Key observations	There were no material developments during 2019 that would result in a remeasurement of the underlying remediation provision. Management has properly taken into account the latest information available from their third party legal advisors.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC CONTINUED

Material assumptions underlying retirement benefit obligations	
Key audit matter description	The retirement benefit obligations recognised in the statement of financial position in respect of defined employee benefits are the present values of the defined benefit obligations at the year-end less the fair value of any associated assets. The gross actuarial value of scheme liabilities of Coats Group plc at 31 December 2019 was $3,276 million. The assumptions used in the valuation are relatively sensitive to small changes and can result in a material difference in the net deficit recognised of $181 million. Key assumptions involved in the determination of the present values of the UK and US defined benefit obligations include discount rates, mortality and inflation rates. The carrying values of the Group's pension obligations as well as a sensitivity analysis relating to the Group's major defined benefit pension arrangements are included in note 10 of the financial statements. Management identify UK retirement benefit obligations as a key source of estimation uncertainty in note 1 of the financial statements and discuss the matter as a significant financial and reporting issue in the Audit and Risk Committee Report on page 61.
How the scope of our audit responded to the key audit matter	We worked with our own pension specialists to challenge the assumptions underlying management's calculation of the Group defined benefit scheme. We have compared the key assumptions to industry benchmarks and prior year rates. We evaluated the competence of the experts that management engaged to calculate the defined benefit pension obligations, by checking they are qualified and affiliated with the appropriate industry body; and we evaluated the sensitivity of the pension scheme liabilities to differences between our independent reasonable range for key assumptions and the key assumptions determined by management, both individually and in aggregate.
Key observations	The key assumptions used in the calculation of the retirement benefit obligations were within our reasonable ranges.

Uncertain tax positions	
Key audit matter description	The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local tax authorities and consequently agreement may not be reached for a number of years. Given the global operations of Coats, the Group is exposed to a large number of tax jurisdictions and this exposure gives rise to a number of judgemental taxation positions, particularly in respect of cross-border transactions. The Group's uncertain tax provisions at 31 December 2019 amount to $14 million. There is a risk that there are matters excluded from the gross exposure calculation and there is judgement required to determine the amount to be provided against known exposures. We have therefore identified a key audit matter relating to the valuation of the central tax provision. The Group's effective tax rate reconciliation is provided in note 9 and the matter is discussed as a significant financial and reporting issue in the Audit and Risk Committee Report on page 61.
How the scope of our audit responded to the key audit matter	We worked with our tax specialists, including transfer pricing tax specialists, in key jurisdictions to evaluate and challenge the appropriateness of judgements and assumptions made by management with respect to their assessment and valuation of the central tax provision. This included a review of applicable third party evidence and inspection of correspondence with tax authorities to assess the adequacy of the associated provision and disclosures.
Key observations	We are satisfied that the provisions raised in respect of the potential taxation exposures are appropriate.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

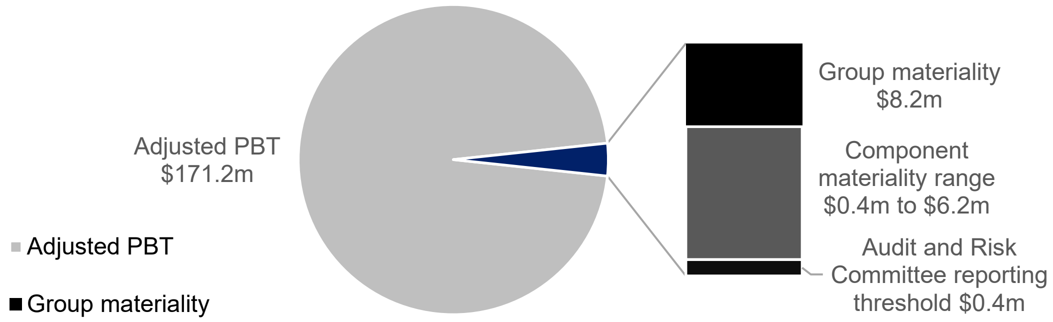
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	$8.2 million (2018: $8.5 million)	$7.4 million (2018: $7.2 million)
Basis for determining materiality	5% of adjusted profit before tax. This is consistent with the prior year.	Parent Company materiality equates to 0.6% of net assets, having been capped at 90% (2018: 85%) of Group materiality.
Rationale for the benchmark applied	Profit before tax has been adjusted in determining materiality to exclude items which, due to their variable financial impact and/or expected infrequency of the underlying events, are not considered indicative of continuing operations of the Group. These items do not form part of the Group's internally or externally monitored primary key performance indicators, and which if included, would distort materiality year-on-year. Adjusted profit before tax is a key measure used by Coats Group plc in reporting their results and is determined to be the most appropriate basis for determining materiality.	The parent Company is primarily an investment holding company and net assets is considered the most appropriate benchmark.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED



Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered our history of auditing the entity, including the lack of significant deficiencies and errors identified in previous years.

Error reporting threshold
We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $0.4 million (2018: $0.4 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Coats Group plc was subject to a full statutory audit by the Group auditor. Due to the geographically widespread nature of the Group, the audit is subject to scoping decisions on overseas components. We focused our Group audit scope on 11 (2018: 11) overseas components spread across four continents which were subject to full audits. Our involvement in their audits is as follows:

- For all components, we held planning calls, maintained regular contact throughout the audit process, directed the audit procedures performed and reviewed the risk assessment and work of overseas component auditors.
- We continued to follow a programme of regular on-site meetings with components that has been designed so that the Senior Statutory Auditor or another senior member of the Group audit team periodically meets with local management and the component audit team on a rotational basis. During 2019, the Senior Statutory Auditor visited Coats operations in Vietnam and Indonesia, and met with the respective component audit team. Senior members of the engagement team also visited the operations in India, Sri Lanka and USA.

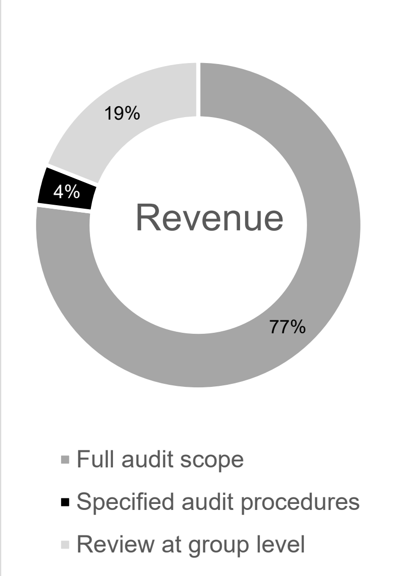
Our audit work at these components was executed at levels of materiality set by the Group engagement team which were lower than the Group materiality and range from $0.4 million to $6.2 million (2018: $0.5 million to $5.1 million).

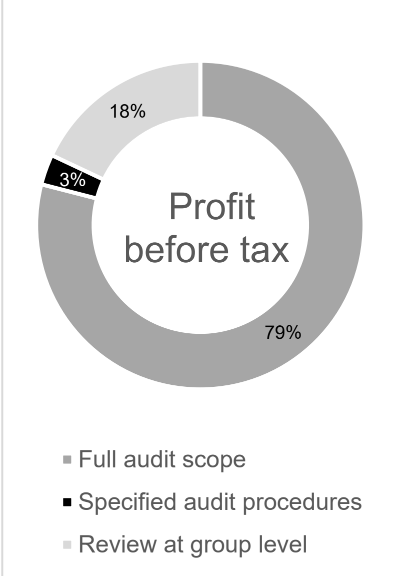
The 11 overseas components and UK components subject to full scope audits account for 75% of the Group's net assets (2018: 76%), 77% of the Group's revenue (2018: 75%) and 79% of the Group's profit before tax within the Group's profit making components (2018: 79%).

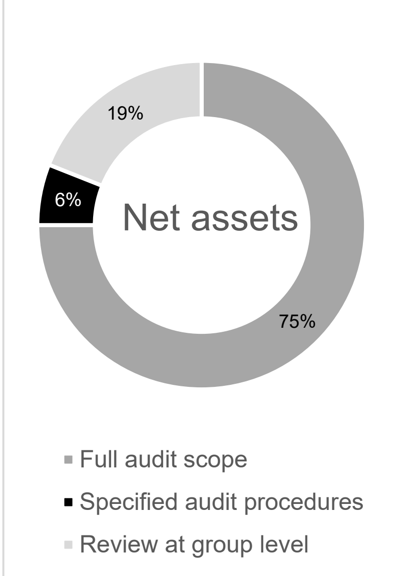
Additionally, four components were subject to specified audit procedures. These components were selected in order to provide an appropriate basis for undertaking the audit work to address the risks of material misstatement identified above. Our oversight of these components was the same as for components subject to full audits, maintaining regular contact throughout the audit process, although the group engagement team did not visit these components.

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED







Coverage of the group's profit before tax is shown as a percentage of profit making components.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, Group Internal Audit and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams, and involving relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: the valuation of accrued customer rebates in relation to revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

In addition, we considered provisions of other laws and regulations, such as environment legislation, that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

Audit response to risks identified
As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit and Risk Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with tax and licensing authorities;
- in addressing the risk of fraud in revenue recognition, we have substantively tested a sample to assess whether both the global and local rebates recognised are accurate and complete; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure
Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Directors on 17 June 2003 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2003 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit and Risk Committee
Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Edward Hanson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
4 March 2020

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2019 Before exceptional and acquisition related items US$m	2019 Exceptional and acquisition related items (see note 4) US$m	2019 Total US$m	2018 Before exceptional and acquisition related items US$m	2018 Exceptional and acquisition related items (see note 4) US$m	2018 Total US$m
Continuing operations:							
Revenue	2,3	**1,388.7**	**–**	**1,388.7**	1,414.7	–	1,414.7
Cost of sales		**(898.1)**	**0.4**	**(897.7)**	(901.9)	(4.4)	(906.3)
Gross profit		**490.6**	**0.4**	**491.0**	512.8	(4.4)	508.4
Distribution costs		**(135.9)**	**(2.8)**	**(138.7)**	(142.7)	(4.5)	(147.2)
Administrative expenses		**(156.7)**	**(7.5)**	**(164.2)**	(176.0)	(38.9)	(214.9)
Other operating income		**-**	**2.9**	**2.9**	0.8	–	0.8
Operating profit	2,4,5	**198.0**	**(7.0)**	**191.0**	194.9	(47.8)	147.1
Share of profits of joint ventures	16	**1.1**	**-**	**1.1**	0.1	–	0.1
Finance income	6	**1.7**	**2.6**	**4.3**	1.7	–	1.7
Finance costs	7	**(29.6)**	**-**	**(29.6)**	(26.1)	–	(26.1)
Profit before taxation	5	**171.2**	**(4.4)**	**166.8**	170.6	(47.8)	122.8
Taxation	9	**(50.5)**	**-**	**(50.5)**	(53.8)	4.8	(49.0)
Profit from continuing operations		**120.7**	**(4.4)**	**116.3**	116.8	(43.0)	73.8
Profit/(loss) from discontinued operations	32	**0.1**	**(0.6)**	**(0.5)**	2.8	(18.4)	(15.6)
Profit for the year		**120.8**	**(5.0)**	**115.8**	119.6	(61.4)	58.2
Attributable to:							
Equity shareholders of the company		**100.7**	**(5.0)**	**95.7**	100.4	(61.2)	39.2
Non-controlling interests		**20.1**	**-**	**20.1**	19.2	(0.2)	19.0
		120.8	**(5.0)**	**115.8**	119.6	(61.4)	58.2
Earnings per share (cents):	11						
Continuing operations:							
Basic				**6.66**			3.85
Diluted				**6.60**			3.78
Continuing and discontinued operations:							
Basic				**6.63**			2.76
Diluted				**6.57**			2.70
Adjusted earnings per share	37(d)	**6.97**			6.87		

Notes on pages 111 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2019 US$m	2018 US$m
Profit for the year	**115.8**	58.2
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on retirement benefit schemes	**(31.1)**	(21.8)
Tax on items that will not be reclassified	**7.3**	1.2
	(23.8)	(20.6)
Items that may be reclassified subsequently to profit or loss:		
Gains/(losses) on cash flow hedges arising during the year	**4.8**	(1.0)
Transferred to profit or loss on cash flow hedges	**(0.3)**	(0.6)
Exchange differences on translation of foreign operations	**(7.7)**	(20.5)
	(3.2)	(22.1)
Other comprehensive income and expense for the year	**(27.0)**	(42.7)
Net comprehensive income and expense for the year	**88.8**	15.5
Attributable to:		
Equity shareholders of the company	**69.0**	(2.7)
Non-controlling interests	**19.8**	18.2
	88.8	15.5

Notes on pages 111 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Notes	2019 US$m	2018 US$m
Non-current assets:			
Intangible assets	13	**291.0**	284.2
Property, plant and equipment	14	**276.3**	282.2
Right-of-use assets	15	**63.4**	-
Investments in joint ventures	16	**11.4**	10.6
Other equity investments	16	**6.1**	6.1
Deferred tax assets	17	**16.2**	19.2
Pension surpluses	10	**13.8**	42.6
Trade and other receivables	19	**20.1**	21.4
		698.3	666.3
Current assets:			
Inventories	18	**172.5**	185.4
Trade and other receivables	19	**261.2**	253.8
Other equity investments	16	**0.1**	0.6
Pension surpluses	10	**4.7**	6.1
Cash and cash equivalents	30(f)	**177.4**	135.7
Assets of disposal group and non-current assets classified as held for sale	32(c)	**1.5**	51.4
		617.4	633.0
Total assets		**1,315.7**	1,299.3
Current liabilities:			
Trade and other payables	21	**(284.4)**	(302.7)
Current income tax liabilities		**(17.8)**	(15.5)
Bank overdrafts and other borrowings	23	**(43.8)**	(20.3)
Lease liabilities	15	**(14.1)**	-
Retirement benefit obligations:			
- Funded schemes	10	**(27.5)**	(16.0)
- Unfunded schemes	10	**(6.2)**	(6.0)
Provisions	25	**(12.8)**	(16.3)
Liabilities of disposal group classified as held for sale	32(c)	**-**	(17.9)
		(406.6)	(394.7)
Net current assets		**210.8**	238.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
CONTINUED

31 December	Notes	2019 US$m	2018 US$m
Non-current liabilities:			
Trade and other payables	21	**(18.2)**	(23.1)
Deferred tax liabilities	24	**(8.2)**	(10.5)
Borrowings	23	**(283.5)**	(338.1)
Lease liabilities	15	**(50.9)**	-
Retirement benefit obligations:			
- Funded schemes	10	**(71.6)**	(99.5)
- Unfunded schemes	10	**(94.5)**	(95.5)
Provisions	25	**(30.7)**	(39.0)
		(557.6)	(605.7)
Total liabilities		**(964.2)**	(1,000.4)
Net assets		**351.5**	298.9
Equity:			
Share capital	26	**89.6**	88.5
Share premium account	27	**10.5**	10.4
Own shares	26, 27	**(5.7)**	(6.8)
Translation reserve	27	**(75.9)**	(68.5)
Capital reduction reserve	27	**59.8**	59.8
Other reserves	27	**248.7**	244.2
Retained loss	27	**(5.9)**	(56.7)
Equity shareholders' funds		**321.1**	270.9
Non-controlling interests	27	**30.4**	28.0
Total equity		**351.5**	298.9

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 4 March 2020
Company Registration No.103548

Notes on pages 111 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2018	87.5	7.7	(7.7)	(48.8)	59.8	245.8	(58.6)	285.7	24.6	310.3
Profit for the year	–	–	–	–	–	–	39.2	39.2	19.0	58.2
Other comprehensive income and expense for the year	–	–	–	(19.7)	–	(1.6)	(20.6)	(41.9)	(0.8)	(42.7)
Dividends (see note 12)	–	–	–	–	–	–	(21.1)	(21.1)	(14.8)	(35.9)
Issue of ordinary shares	1.0	2.7	–	–	–	–	(0.7)	3.0	–	3.0
Movement in own shares	–	–	0.9	–	–	–	–	0.9	–	0.9
Share based payments	–	–	–	–	–	–	7.4	7.4	–	7.4
Deferred tax on share schemes	–	–	–	–	–	–	(2.3)	(2.3)	–	(2.3)
Balance as at 31 December 2018	88.5	10.4	(6.8)	(68.5)	59.8	244.2	(56.7)	270.9	28.0	298.9
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**95.7**	**95.7**	**20.1**	**115.8**
Other comprehensive income and expense for the year	**-**	**-**	**-**	**(7.4)**	**-**	**4.5**	**(23.8)**	**(26.7)**	**(0.3)**	**(27.0)**
Dividends (see notes 12 and 27)	**-**	**-**	**-**	**-**	**-**	**-**	**(24.4)**	**(24.4)**	**(17.4)**	**(41.8)**
Issue of ordinary shares (see note 26)	**1.1**	**0.1**	**-**	**-**	**-**	**-**	**(1.1)**	**0.1**	**-**	**0.1**
Movement in own shares	**-**	**-**	**1.1**	**-**	**-**	**-**	**(0.2)**	**0.9**	**-**	**0.9**
Share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**6.1**	**6.1**	**-**	**6.1**
Deferred tax on share schemes	**-**	**-**	**-**	**-**	**-**	**-**	**(1.5)**	**(1.5)**	**-**	**(1.5)**
Balance as at 31 December 2019	**89.6**	**10.5**	**(5.7)**	**(75.9)**	**59.8**	**248.7**	**(5.9)**	**321.1**	**30.4**	**351.5**

Notes on pages 111 to 175 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2019 US$m	2018 US$m
Cash inflow from operating activities:			
Cash generated from operations	30(a)	**205.4**	171.1
Interest paid		**(15.2)**	(19.1)
Taxation paid	30(b)	**(46.3)**	(50.1)
Net cash generated by operating activities		**143.9**	101.9
Cash outflow from investing activities:			
Investment income	30(c)	**0.3**	1.6
Net capital expenditure and financial investment	30(d)	**(39.1)**	(45.6)
Acquisitions and disposals of businesses	30(e)	**25.8**	(0.1)
Net cash absorbed in investing activities		**(13.0)**	(44.1)
Cash outflow from financing activities:			
Receipts from exercise of share options		**0.2**	3.0
Dividends paid to equity shareholders		**(24.1)**	(21.1)
Dividends paid to non-controlling interests		**(17.4)**	(14.8)
Payment of lease liabilities		**(17.3)**	-
Net decrease in borrowings		**(52.3)**	(20.4)
Net cash absorbed in financing activities		**(110.9)**	(53.3)
Net increase in cash and cash equivalents		**20.0**	4.5
Net cash and cash equivalents at beginning of the year		**115.7**	116.8
Foreign exchange gains/(losses) on cash and cash equivalents		**0.2**	(5.6)
Net cash and cash equivalents at end of the year	30(f)	**135.9**	115.7
Reconciliation of net cash flows to movements in net debt			
Net increase in cash and cash equivalents		**20.0**	4.5
Net decrease in other borrowings		**52.3**	20.4
Change in net debt resulting from cash flows (free cash flow)		**72.3**	24.9
Increase in lease liabilities on adoption of IFRS 16	1	**(57.7)**	-
Net movement in lease liabilities during the period following the adoption of IFRS 16		**(6.8)**	-
Other non-cash movements		**(0.7)**	(0.7)
Foreign exchange gains/(losses)		**0.7**	(5.4)
Decrease in net debt		**7.8**	18.8
Total net debt at the start of the year		**(222.7)**	(241.5)
Total net debt at the end of the year	30(f)	**(214.9)**	(222.7)

Notes on pages 111 to 175 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies
The following are the principal accounting policies adopted in preparing the financial statements.

Critical accounting judgements and key sources of estimation uncertainty
The principal accounting policies adopted by the Group are set out in this note to the consolidated financial statements. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible over time the actual results could differ from the estimates based on the assumptions and judgements used by the Group. Due to the size of the amounts involved, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the year and/or the carrying values of assets and liabilities in the consolidated financial statements:

Critical judgements in applying the Group's accounting policies
In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations (which are dealt with separately below) that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

UK retirement benefit obligations
The UK retirement benefit obligations recognised in the consolidated statement of financial position are the present values of the defined benefit obligations at the year end less the fair value of any associated assets. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and inflation rates. Changes in any or all of these assumptions could materially change the employee benefit obligations recognised in the consolidated statement of financial position. The carrying values of the Group's pension obligations as well as a sensitivity analysis relating to changes in discount rates, beneficiary mortality and inflation rates are included in note 10.

During the year ended 31 December 2019 critical accounting judgements and key sources of estimation uncertainty were reassessed. Classification of exceptional and acquisition related items (note 4) are no longer considered a critical judgement in applying the Group's accounting policies as the total impact of these on profit before taxation was reduced in 2019. The classification of the North America Crafts business as held for sale (note 32) is no longer a critical accounting judgement after its disposal during the year. Provisioning for Lower Passaic River environmental matters (note 28) is not considered a key source of estimation uncertainty at 31 December 2019 as, whilst there remains an estimation uncertainty in the longer term, there is not a significant risk of a material adjustment to this provision before 31 December 2020.

a) Accounting convention and format
The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulations. The financial statements are prepared under the historical cost convention except for investments and derivatives which are stated at fair value, disposal groups which are held at fair value less costs to sell and retirement benefit obligations which are valued in accordance with IAS 19 Employee Benefits.

Except for the changes arising from the adoption of new accounting standards (as detailed in note 1), and the changes to operating segments (as detailed in note 2) the same accounting policies, presentation and methods of computation have been followed in these consolidated financial statements as applied in the Group's annual financial statements for the year ended 31 December 2018.

b) Basis of preparation
Subsidiaries
Subsidiaries are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate, or the subsidiary meets the criteria to be classified as held for sale. The effective date is when control passes to or from the Group. Control is achieved when the Group has the power over the investee and is exposed, or has the rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control. Where necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by the Group.

Where subsidiaries are not 100% owned by the Group, the share attributable to outside shareholders is reflected in non-controlling interests. Non-controlling interests are identified separately from the Group's equity, and may initially be measured at either fair value or at the non-controlling interests' share of the fair value of the subsidiary's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Changes in the Group's interests in subsidiaries, that do not result in a loss of control, are accounted for as equity transactions. Where control is lost, a gain or loss on disposal is recognised through the consolidated income statement, calculated as the difference between the fair value of consideration received (plus the fair value of any retained interest) and the Group's previous share of the former subsidiary's net assets. Amounts previously recognised in other comprehensive income in relation to that subsidiary are reclassified and recognised through the income statement as part of the gain or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Joint ventures
Joint ventures are entities in which the Group has joint control, shared with a party outside the Group. The Group reports its interests in joint ventures using the equity method.

Discontinued operations
In January 2019 the Group announced the agreement to sell the North America Crafts business to Spinrite Acquisition Corp and the sale was completed on 20 February 2019, the date which control passed to the acquirer. The North America Crafts business was classified as held for sale at 31 December 2018 and its results presented as a discontinued operation in the financial statements of the Group for the year ended 31 December 2018. Note 32 provides further details on the results of North America Crafts.

Going concern
Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis. Further detail is contained in the corporate governance section on page 60.

c) Functional currency
The functional currency of Coats Group plc continued to be United States dollars ('USD') during the year ended 31 December 2019.

d) Foreign currencies
Foreign currency translation
The Group's presentation currency is USD. Transactions of companies within the Group are recorded in the functional currency of that company. Currencies other than the functional currency are foreign currencies.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the period end. All currency differences on monetary items are taken to the consolidated income statement with the exception of currency differences that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Group companies
Assets and liabilities of subsidiaries whose presentation currency is not USD are translated into the Group's presentation currency at the rates of exchange ruling at the period end and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of such an entity, the deferred cumulative amount recognised in equity since 1 January 2004 relating to that particular operation is recycled through the consolidated income statement. Translation differences that arose before the date of transition to IFRS in respect of all such entities are not presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of such operations are regarded as assets and liabilities of the particular operation, expressed in the currency of the operation and recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

The principal exchange rates (to the US dollar) used in preparing these financial statements are as follows:

		2019	2018
Average	Sterling	**0.79**	0.75
	Euro	**0.90**	0.85
	Brazilian Real	**3.95**	3.65
	Chinese Renminbi	**6.91**	6.62
	Indian Rupee	**70.41**	68.41
	Turkish Lira	**5.78**	4.84
Period end	Sterling	**0.75**	0.78
	Euro	**0.89**	0.87
	Brazilian Real	**4.02**	3.87
	Chinese Renminbi	**6.96**	6.88
	Indian Rupee	**71.35**	69.77
	Turkish Lira	**5.95**	5.29

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

e) Operating segments
Operating segments are components of the Group about which separate financial information is available that is evaluated by the Coats Group plc Group Executive Team in deciding how to allocate resources and in assessing performance. The reportable segments were changed in 2019 to Apparel & Footwear and Performance Materials and therefore comparative information for the year ended 31 December 2018 has been restated on a consistent basis. Previously the reportable segments for the year ended 31 December 2018 comprised the continuing industrial thread business and the discontinued North America Crafts business which was sold in February 2019. See note 2 for further details.

f) Operating profit
Operating profit is stated before the share of results of joint ventures, investment and interest income, finance costs and foreign exchange gains and losses from cash and cash equivalents used in investing activities.

g) Exceptional and acquisition related items
The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, gains or losses arising from significant one off changes to the assumptions underlying the defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration. Please see note 4 for further details on why management consider these items to be exceptional.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

h) Property, plant and equipment
Owned assets
Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

Subsequent expenditure
Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years to 100 years
Leasehold improvements	10 years to 50 years or over the term of the lease if shorter
Plant and equipment	3 years to 20 years
Vehicles and office equipment	2 years to 10 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

i) Intangible assets
Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and tested for impairment at least annually. Any impairment is recognised immediately in the income statement. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. CGUs represent the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Negative goodwill is recognised immediately in the income statement.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The estimated useful lives (other than the Coats Brand) are as follows:

Brands and trade names	5 years to 20 years
Technology	4 years to 10 years
Customer relationships	9 years to 14 years

The useful life of the Coats Brand is considered to be indefinite.

Other intangibles
Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

Intellectual property, comprising trademarks, designs, patents and product development which have a finite useful life, are carried at cost less accumulated amortisation and impairment charges. Amortisation is calculated using the straight-line method to allocate the cost over the assets' useful lives, which vary from 5 to 10 years.

The amortisation charge for both acquired and other intangibles assets is included within the distribution costs and administrative expense lines in the consolidated income statement.

Impairment of property, plant and equipment and intangible assets excluding goodwill
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

Research and development
All research costs are expensed as incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be separately identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

j) Leases
The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. The details of accounting policies under IAS 17 are disclosed separately.

Policy applicable from 1 January 2019
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as assets with a value of US$5,000 or less when new). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

Policy applicable before 1 January 2019
In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

k) Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant financial instrument.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Financial assets

(i) Investments in equity securities

Investments in equity securities are recognised and derecognised on a trade date basis and are initially measured at fair value, plus directly attributable transaction costs and are remeasured at subsequent reporting dates at fair value, with movements recorded in other comprehensive income. Listed investments are stated at market value. Unlisted investments are stated at fair value based on directors' valuation, which is supported by external experts' advice or other external evidence.

(ii) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iii) Trade and other receivables

Trade receivables are recognised at fair value (which ordinarily reflects the invoice amount) and carried at amortised cost, less an allowance for expected lifetime losses as permitted under the simplified approach in IFRS 9. Fully provided balances are not written off from the balance sheet until the Group has decided to cease enforcement activity.

Financial liabilities

(i) Trade payables

Trade payables are not interest-bearing and are recognised at fair value, and measured subsequently at amortised cost.

(ii) Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of direct issue costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised over the period of the relevant liabilities.

(iii) Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument, and this amount is recorded as a liability at amortised cost. The equity component is the fair value of the compound instrument as a whole less the amount of the liability component, and is recognised in equity, net of income tax effect, without subsequent remeasurement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value being recognised in the income statement.

(iv) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is regulated by the Board or that of the relevant operating subsidiary in accordance with their respective risk management strategies. Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the income statement.

Derivative financial instruments are initially measured at fair value at contract date and are remeasured at each reporting date.

The Group designates hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of interest rate risk are accounted for as cash flow hedges.

At the inception of each hedge transaction the issuing entity documents the relationship between the hedging instrument and the hedged item and the anticipated effectiveness of the hedge transaction, and monitors the ongoing effectiveness over the period of the hedge. Hedge accounting is discontinued when the issuing entity revokes the hedging relationship, the hedge instrument expires, is sold, exercised or otherwise terminated, and the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

(v) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised immediately through the income statement, together with any changes in the fair value of the related hedged items due to changes in the hedged risks. On discontinuation of the hedge the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the consolidated income statement from that date.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

(vi) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. Once the related hedged item is recognised in the income statement, the amounts deferred in equity are recycled through the consolidated income statement. The gain or loss arising from any ineffective portion of the hedge is recognised immediately through the consolidated income statement.

(vii) Hedges of net investments in foreign operations
Gains and losses on hedging instruments relating to the effective portion of such hedges are recognised through the translation reserve, and recycled through the consolidated income statement on disposal of the respective foreign operations. The gain or loss arising from any ineffective portion of such hedges is recognised immediately through the consolidated income statement.

l) Revenue
Revenue comprises the fair value of the sale of goods and services, net of sales tax and discounts and rebates, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised in revenue at a single point in time when control of the goods has been transferred to the buyer. The point in time at which control is deemed to have transferred varies depending on the commercial terms agreed with the buyer.

(ii) Sales of services
Sales of services are recognised in the period in which the services are rendered, as follows:

- Software implementation and licensing income – performance obligations are satisfied over a period of time and therefore revenue is recognised by reference to the stage of completion at the period end. The Group uses labour hours expended to assess the stage of completion as it is deemed to be the most appropriate basis to measure progress.
- Maintenance income – performance obligations are satisfied evenly over a fixed period of time and therefore revenue is recognised on a straight line basis over the maintenance period.

Advances received from customers are included within contract liabilities.

(iii) Income from sales of property
Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

m) Inventories
Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials are valued at cost on a first-in, first-out basis.

The costs of finished goods and work in progress include direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving and defective inventories.

n) Employee benefits
(i) Retirement and other post-employment obligations
For retirement and other post-employment benefit obligations, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period by independent actuaries.

Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to the consolidated statement of comprehensive income in the period in which they occur. Remeasurement recorded in the consolidated statement of comprehensive income is not recycled.

Current and past service costs, along with the impact of any settlements or curtailments, are charged to the consolidated income statement. The net interest expense on pension plans' liabilities and the expected return on the plans' assets is recognised within finance expense in the consolidated income statement.

In addition, pension scheme administrative expenses including the Pension Protection Fund (PPF) levy and actuary, audit, legal and trustee charges are recognised as administrative expenses.

The retirement benefit and other post employment benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes and refunds expected from the schemes to fund other Group defined benefit schemes, in accordance with relevant legislation.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation
Cash-settled
Cash-settled share-based payments are measured at fair value (excluding the effect of non market based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled
The Group operates an equity-settled Long Term Incentive Plan for executives and senior management. Awards under this Plan are subject to both market-based and non-market-based vesting criteria.

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. The fair value is charged to the consolidated income statement on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non market-based performance conditions and forfeitures. The corresponding credit is to equity shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust over the vesting period.

(iii) Non-share-based long-term incentive schemes
The anticipated present value cost of non-share-based incentive schemes is charged to the consolidated income statement on a straight-line basis over the period the benefit is earned, based on remuneration rates that are expected to be payable.

(iv) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the period end are discounted to present value.

o) Taxation
The tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the period end.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying values of deferred tax assets are reviewed at each period end.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

p) Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

q) Provisions
A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

r) Onerous contracts
A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

s) Restructuring
A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

t) Assets held for sale and discontinued operations
Non-current assets and businesses which are to be sold ('disposal groups') classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets (and disposal groups) are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when such a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are classified as held for sale from the date these conditions are met, and such assets are no longer depreciated.

Discontinued operations are classified as held for sale and are either a separate business segment or a geographical area of operations that is part of a single coordinated plan to sell. Once an operation has been identified as discontinued, or is reclassified as discontinued, the comparative information in the Income Statement is restated.

New IFRS accounting standards, interpretations and amendments adopted in the year
During the year, the Group has adopted the following standards, interpretations and amendments:

- IFRS 16 ('Leases');
- Amendments to IFRS 9 ('Prepayment features with negative compensation and modifications of financial liabilities');
- Amendments to IAS 19 ('Plan amendments, curtailments or settlements');
- Amendments to IAS 28 ('Long-term interests in Associates and Joint Ventures');
- Annual Improvements to IFRS's 2015 – 2017 cycle;
- IFRIC 23 Uncertainty over Income Tax Treatments; and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

The adoption of these standards has not had a material impact on the financial statements of the Group, except for the adoption of IFRS 16 'Leases' as set out below.

IFRS 16 'Leases'
In the current year, the Group, for the first time, has applied IFRS 16 'Leases'. The date of initial application of IFRS 16 for the Group is 1 January 2019.

This standard provides a single model for lessees which recognises a right-of-use asset and lease liability for all leases, exemptions can be applied to low value and short-term leases. The distinction between finance and operating leases for leases is removed.

Details of the impact of adopting IFRS 16 is set out below. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Approach to IFRS 16 transition
The Group has adopted the modified retrospective approach from the transitional date, and therefore comparatives have not been restated. This involved calculating the right-of-use asset and lease liability based on the present value of remaining lease payments on all applicable lease contracts as at the transition date. IFRS 16 also has a number of practical expedients for first time adoption.

The Group has utilised the following practical expedients at the transition date:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of the right-of-use asset on transition;
- Use hindsight to determine the term;
- Use onerous contract assessment under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' immediately before transition instead of performing an impairment review under IAS 36 'Impairment of Assets';
- For leases with a remaining term of less than 12 months at 1 January 2019, the short-term lease exemption in IFRS 16 was taken; and
- Leases comprising of both an asset and a non-lease service component will not be separated and both asset and service cost will be included in the calculation of the initial asset and liability.

The Group also considered the implications of IFRS 16 on other, more judgmental, contractual arrangements such as solar panels, biomass generators and other manufacturing contracts. Of the contractual arrangements reviewed those relating to biomass generators and solar panels were determined to be leases. However, the lease payments for the solar panels vary with output of the underlying asset and are therefore expensed under IFRS 16.

Financial impact of the adoption of IFRS 16
The adoption of IFRS 16 had the following impact on the Group's consolidated statement of financial position at 1 January 2019:

Consolidated statement of financial position	**1 January 2019 US$m**
Increase in right-of-use assets	**58.5**
Increase in lease liabilities	**(57.7)**
Decrease in property, plant and equipment	**(0.2)**
Decrease in provisions	**1.3**
Decrease in prepayments	**(1.9)**

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019. When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 6%.

	1 January 2019 US$m
Operating lease commitments disclosed under IAS 17 at 31 December 2018 (as restated)[1]	**82.8**
Short term and low value lease commitments straight-line expensed under IFRS 16	**(2.9)**
Payments due in periods covered by extension options that are included in the lease term	**11.0**
Effect of discounting	**(19.4)**
Lease liabilities recognised at 1 January 2019	**71.5**
Less: Liabilities relating to discontinued North America Crafts business (classified as held for sale on 31 December 2018)	**(13.8)**
Lease liabilities from continuing operations recognised at 1 January 2019	**57.7**

1. Subsequent to the 2018 year end the Group identified as part of its IFRS 16 assessment operating lease commitments of $2.4 million which were omitted from the 2018 disclosure and as such have now been included in the operating lease commitments disclosed under IAS 17 at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The adoption of IFRS 16 has had the following impact on the Group's results from continuing operations for the year ended 31 December 2019:

Consolidated income statement	**2019 US$m**
Increase in operating profit	**2.3**
Decrease in profit before tax	**(1.4)**
Decrease in profit after tax	**(1.0)**
Consolidated cash flow statement	
Increase in cash flows from operating activities	**17.3**
Decrease in cash flows from financing activities	**(17.3)**

Following the adoption of IFRS 16 'Leases', payments of obligations under leases from 1 January 2019 are reported within cash flows from financing activities and are deducted in arriving at free cash flow. For the year ended 31 December 2018 before the adoption of IFRS 16 there were immaterial amounts of payments under finance leases included within cash flows from financing activities.

As lease liabilities are included within net debt, the transition to IFRS 16 has resulted in an increase in net debt of $64.1 million as at 31 December 2019. For the definition and calculation of net debt see note 30 (f). For financial covenant purposes, the Group's leverage remains calculated on the basis without the impact of IFRS 16.

New IFRS accounting standards and interpretations not yet adopted

The following published standards and amendments to existing standards, which have not yet all been endorsed by the EU, are expected to be effective as follows:

From the year beginning 1 January 2020:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3); and
- Definition of Material (Amendments to IAS 1 and IAS 8).

From the year beginning 1 January 2021:

- IFRS 17 Insurance Contracts.

The directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future periods, although the full assessment is not complete.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

2 Segmental analysis
Operating segments are components of the Group's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Group Executive Team). The Group's customers are grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

The reportable segments were changed in 2019 to Apparel & Footwear and Performance Materials and therefore comparative information for the year ended 31 December 2018 has been restated on a consistent basis.

Previously the reportable segments for the year ended 31 December 2018 comprised the continuing industrial thread business and the discontinued North America Crafts business which was sold in February 2019. The results of the discontinued North America Crafts business is set out in Note 32.

Following its integration with the wider Latin America business, the smaller Latin America Crafts business is reported within the Apparel & Footwear segment.

a) Segment revenue and results

Year ended 31 December 2019	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Revenue	**1,063.1**	**325.6**	**1,388.7**
Segment profit	**156.3**	**41.7**	**198.0**
Exceptional and acquisition related items (note 4)			**(7.0)**
Operating profit			**191.0**
Share of profits of joint ventures			**1.1**
Finance income			**4.3**
Finance costs			**(29.6)**
Profit before taxation from continuing operations			**166.8**
Year ended 31 December 2018 (Restated)	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Revenue	1,083.0	331.7	1,414.7
Segment profit	148.1	46.8	194.9
Exceptional and acquisition related items (note 4)			(47.8)
Operating profit			147.1
Share of profits of joint ventures			0.1
Finance income			1.7
Finance costs			(26.1)
Profit before taxation			122.8

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Exceptional and acquisition related items are not allocated to segments. In addition no measures of total assets and total liabilities are reported for each reportable segment as such amounts are not regularly provided to the chief operating decision maker.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 1.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

b) Geographic information

Year ended 31 December	Revenue by origin 2019 US$m	Revenue by origin 2018 US$m	Revenue by destination 2019 US$m	Revenue by destination 2018 US$m	Non-current assets 2019 US$m	Non-current assets 2018 US$m
Europe, Middle East & Africa (EMEA)						
UK	**11.3**	11.3	**13.0**	14.0	**264.4**	261.7
Rest of EMEA	**254.5**	263.9	**239.6**	249.5	**77.1**	74.1
Americas						
USA	**145.1**	145.5	**147.0**	145.2	**57.1**	50.5
Rest of Americas	**178.1**	203.1	**185.6**	206.6	**45.9**	43.0
Asia & Rest of World						
India	**168.5**	171.1	**164.1**	166.7	**58.1**	42.2
China and Hong Kong	**177.9**	182.3	**164.9**	155.8	**51.9**	37.4
Vietnam	**202.0**	184.0	**182.3**	166.8	**35.6**	32.8
Other	**251.3**	253.5	**292.2**	310.1	**74.9**	62.5
	1,388.7	1,414.7	**1,388.7**	1,414.7	**665.0**	604.2

Non-current assets excludes derivative financial instruments, pension surpluses and deferred tax assets.

3 Revenue
An analysis of the Group's revenue is as follows:

Year ended 31 December	2019 US$m	2018 US$m
Continuing operations:		
Goods transferred at a point in time	**1,376.6**	1,403.4
Software solutions services transferred over time	**12.1**	11.3
	1,388.7	1,414.7
Other operating income	**2.9**	0.8
Finance income	**4.3**	1.7
	1,395.9	1,417.2
Discontinued operations:		
Goods transferred at a point in time	**14.0**	121.8
Other operating income	**1.6**	3.6
	15.6	125.4
	1,411.5	1,542.6

The elimination of revenue from continuing operations to North America Crafts discontinued operations of $0.8 million for the period to the date of disposal on 20 February 2019 (year ended 31 December 2018: $5.7 million) is presented within discontinued operations.

The software solutions business is included in the Apparel & Footwear segment.

The Group had no revenue from a single customer, which accounts for more than 10% of the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Disaggregation of revenue
The following table shows revenue disaggregated by primary geographic markets which reconciles with the Group's reportable segments:

Year ended 31 December	2019 US$m	2018 US$m
Continuing operations:		
Asia	**799.7**	790.9
Americas	**323.2**	348.6
EMEA	**265.8**	275.2
	1,388.7	1,414.7
Continuing operations:		
Apparel & Footwear	**1,063.1**	1,083.0
Performance Materials	**325.6**	331.7
	1,388.7	1,414.7

4 Exceptional and acquisition related items

The Group's consolidated income statement format includes results before and after exceptional and acquisition related items. Adjusted results exclude exceptional and acquisition related items to reflect the underlying performance of the business and to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 37.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

Total exceptional and acquisition related items charged to operating profit for the year ended 31 December 2019 were $7.0 million (2018: $47.8 million) comprising exceptional items for the year ended 31 December 2019 of $4.8 million (2018: $40.5 million) and acquisition related items for the year ended 31 December 2019 of $2.2 million (2018: $7.3 million).

Exceptional items
Exceptional items charged/(credited) to operating profit during the year ended 31 December 2019 are set out below:

Year ended 31 December	2019 US$m	2018 US$m
Exceptional items:		
Connecting for Growth programme reorganisation costs:		
- Cost of sales	**3.1**	4.4
- Distributions costs	**2.8**	4.5
- Administrative costs	**5.3**	13.9
	11.2	22.8
Profit from sale of property:		
- Other operating income	**(2.9)**	-
Total Connecting for Growth programme exceptional items	**8.3**	22.8
Cost of sales:		
Brazil indirect taxes	**(3.5)**	-
Administrative expenses:		
US environmental costs	**-**	8.0
UK pension scheme consolidation	**-**	(0.5)
UK Guaranteed Minimum Pension Equalisation	**-**	10.2
Total exceptional items charged to operating profit from continuing operations	**4.8**	40.5

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Connecting for Growth programme – Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation, whilst enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age. The programme has now finished. The programme focused on simplification across many aspects of the organisation and included transitioning from market-focused support functions to realigned globally integrated support functions, redesigning the way the Group services a number of its peripheral markets and moving from a business operated by individual local management teams to scalable clusters. Exceptional reorganisation costs of $11.2 million have been incurred in the year ended 31 December 2019 (2018: $22.8 million) comprising severance costs of $7.4 million (2018: $20.5 million), fixed asset disposals and write offs of $2.2 million (2018: $0.6 million) and closure and other one-off costs of $1.6 million (2018: $1.7 million).

Connecting for Growth programme – property disposals - During the year ended 31 December 2019 a profit of $2.9 million (2018: $nil) was made from the sale of properties in peripheral markets in connection with the Connecting for Growth Programme.

Brazil indirect taxes – During the year ended 31 December 2019 a final and unappealable Supreme Court decision was received by one of the Group's subsidiary companies in Brazil relating to payments of indirect taxes dating back to 2005. This Supreme Court decision grants the company the right to exclude Brazilian ICMS (indirect tax on goods and services) from the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes. As a result, estimated refunds have been recognised in the results for the year ended 31 December 2019 with an exceptional credit of $3.5 million included in cost of sales of and exceptional interest income recognised of $2.6 million (see note 6).

Legal filings have been advanced in respect of the Group's other subsidiary in Brazil in respect of the same matter which dates back approximately 15 years but the Supreme Court ruling has not yet been received. This represents a contingent asset and no amounts have been recognised in the results for the year ended 31 December 2019 for this. At this stage it is not practicable to quantify the potential amount of this contingent asset.

Exceptional items in the year ended 31 December 2018 also included the following:

US environmental costs – In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. An additional provision of $8.0 million was made during the year ended 31 December 2018 to cover legal and professional fees in respect of this matter (see note 28).

UK pension scheme consolidation – Following agreement with the UK Pension Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the Coats UK, Brunel and Staveley schemes (the Previous Schemes) were transferred to a single new scheme (named the Coats UK Pension Scheme). The Previous Schemes were wound-up and as part of this process a number of the Previous Schemes' members with small pension entitlements were given the option to exchange their pension entitlement for a cash lump sum. This process resulted in an exceptional credit of $1.8 million during the year ended 31 December 2018. Costs incurred in connection with the UK pension scheme consolidation were $1.3 million and as a result the net credit for the year was $0.5 million.

UK Guaranteed Minimum Pension Equalisation – During the year ended 31 December 2018 an estimated past service charge of $10.2 million was recognised following the Lloyds Banking Group judgement in October 2018 and the requirement for all UK pension schemes to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions. This represented an increase of approximately 0.35% of pension scheme liabilities.

Exceptional items: Discontinued operations – During the year ended 31 December 2019 exceptional charges in relation to discontinued operations were $0.6 million (2018: $18.4 million). See note 32 for further details.

Acquisition related items
Acquisition related items are set out below:

Year ended 31 December	2019 US$m	2018 US$m
Acquisition related items:		
Administrative expenses:		
Contingent consideration	**(1.7)**	4.3
Acquisition transaction costs	**1.0**	0.7
Amortisation of acquired intangible assets	**2.9**	2.3
Total acquisition related items before taxation	**2.2**	7.3

The Group has made acquisitions with earn-outs to allow part of the consideration to be based on the future performance of the businesses acquired and to lock in key management. Where consideration paid or contingent consideration payable in the future is employment linked, it is treated as an expense and part of statutory results. However, all consideration of this type is excluded from adjusted operating profit and adjusted earnings per share as in management's view, these items are part of the capital transaction.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Acquisition transaction costs and amortisation of intangible assets acquired through business combinations are not included within adjusted earnings. These costs are acquisition related and management consider them to be capital in nature and they do not reflect the underlying trading performance of the Group.

Excluding amortisation of intangible assets acquired through business combinations and recognised in accordance with IFRS 3 'Business Combinations' from adjusted results also ensures that the performance of the Group's acquired businesses is presented consistently with its organically grown businesses. It should be noted that the use of acquired intangible assets contributed to the Group's results for the years presented and will contribute to the Group's results in future periods as well. Amortisation of acquired intangible assets will recur in future periods. Amortisation of software is included within adjusted results as management consider these costs to be part of the underlying trading performance of the business.

5 Profit for the year (including discontinued operations)

Year ended 31 December	2019 US$m	2018 US$m
Profit for the year is stated after charging/(crediting):		
Amortisation of intangible assets	**8.0**	9.2
Depreciation of owned property, plant and equipment	**29.9**	31.2
Depreciation of right-of-use assets	**15.2**	-
Profit on disposal of property, plant and equipment	**(2.9)**	(6.7)
Fees charged by Deloitte LLP		
Group audit fees:		
- Fees payable for the audit of the Company's annual accounts	**0.6**	0.6
- Fees payable for the audit of the Company's subsidiaries	**1.5**	1.6
Other Deloitte services:		
- Taxation services	**0.3**	0.3
- Other services	**0.2**	0.1
Total fees charged by Deloitte LLP	**2.6**	2.6
Operating lease rentals:		
- Plant and equipment	**-**	10.4
- Other	**-**	13.7
Research and development expenditure	**5.6**	3.0
Bad and doubtful debts	**0.2**	1.2
Net foreign exchange (gains)/losses	**(0.8)**	2.5
Rental income from land and buildings	**(0.2)**	(0.4)
Inventory as a material component of cost of sales	**555.5**	599.5
Inventory write-downs to net realisable value	**2.8**	4.6

Operating lease rentals relating to short term and low value leases are detailed in note 15.

6 Finance income

Year ended 31 December	2019 US$m	2018 US$m
Income from investments	**0.1**	0.1
Other interest receivable and similar income	**4.2**	1.6
	4.3	1.7

Other interest receivable and similar income for the year ended 31 December 2019 includes exceptional income of $2.6 million (2018: $nil) relating to Brazil PIS/COFINS refunds (see note 4 for further details).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

7 Finance costs

Year ended 31 December	2019 US$m	2018 US$m
Interest on bank and other borrowings	**14.5**	15.9
Interest expense on lease liabilities	**3.7**	-
Net interest on pension scheme assets and liabilities	**5.5**	3.8
Other finance costs including unrealised gains and losses on foreign exchange contracts	**5.9**	6.4
	29.6	26.1

8 Staff costs
The average monthly number of employees was:

Year ended 31 December	2019	2018
Continuing operations:		
Manufacturing	**13,430**	14,171
Other staff	**3,446**	3,710
	16,876	17,881
Discontinued operations[1]	**555**	563
Total number of employees	**17,431**	18,444
Comprising:		
UK	**187**	192
Overseas	**17,244**	18,252
	17,431	18,444
The total numbers employed at the end of the year were:		
Continuing operations:		
UK	**184**	185
Overseas	**16,957**	17,453
	17,141	17,638
Discontinued operations	**-**	550
Total number of employees	**17,141**	18,188

1. The 2019 average number of employees for the discontinued North America Crafts business are for the period until disposal on 20 February 2019 (see note 32).

Year ended 31 December	2019 US$m	2018 US$m
Employee aggregate remuneration comprised (including directors)[2]:		
Continuing operations:		
Wages and salaries	**267.3**	269.7
Social security costs	**27.8**	27.8
Other pension costs (note 10)	**7.9**	8.4
	303.0	305.9
Discontinued operations	**4.8**	37.7
	307.8	343.6

2. This does not include any contingent consideration on acquisitions that is treated as an expense, due to it being linked to continued employment (see note 4).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

9 Tax on profit from continuing operations

Year ended 31 December	2019 US$m	2018 US$m
UK Corporation tax at 19% (2018: 19%)	–	–
Overseas tax charge	(48.3)	(53.0)
Deferred tax (charge)/credit	(2.2)	4.0
Total tax charge	(50.5)	(49.0)

The tax charge for the year can be reconciled as follows:

Year ended 31 December	2019 Underlying US$m	2019 Exceptional and acquisition related items US$m	2019 Other adjustments[1] US$m	2019 Total US$m	2018 Underlying US$m	2018 Exceptional and acquisition related items US$m	2018 Other adjustments[1] US$m	2018 Total US$m
Profit before tax	176.7	(4.4)	(5.5)	166.8	174.4	(47.8)	(3.8)	122.8
Expected tax charge/(credit) at the UK statutory rate of 19% (2018: 19%)	33.6	(0.8)	(1.0)	31.8	33.1	(9.1)	(0.7)	23.3
Differences between overseas and UK taxation rate	4.2	(1.1)	(0.3)	2.8	7.0	(1.7)	(0.1)	5.2
Non-deductible expenses	2.6	0.8	–	3.4	6.3	0.5	–	6.8
Non-taxable income	(0.1)	(0.6)	–	(0.7)	(0.4)	–	–	(0.4)
Local tax incentives	(0.6)	–	–	(0.6)	(0.9)	–	–	(0.9)
Utilisation of unrecognised deferred tax assets	(6.4)	–	–	(6.4)	(7.1)	–	–	(7.1)
Recognition of previously unrecognised deferred tax assets	-	–	–	-	(2.8)	–	–	(2.8)
Potential deferred tax assets not recognised	3.6	1.7	0.9	6.2	1.8	5.5	0.7	8.0
Impact of changes in tax rates	(1.8)	–	–	(1.8)	(1.5)	–	–	(1.5)
Prior year adjustments	1.4	–	–	1.4	(0.3)	–	–	(0.3)
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	14.4	–	–	14.4	18.7	–	–	18.7
Income tax expense/(credit)	50.9	-	(0.4)	50.5	53.9	(4.8)	(0.1)	49.0
Effective tax rate	29%	0%	7%	30%	31%	10%	3%	40%

1. Other adjustments consist of net interest on pension scheme assets and liabilities of $5.5 million (2018: $3.8 million).

The Group's underlying effective tax rate is higher than the blended rate of the countries we operate in primarily due to the impact of unrelieved tax losses in countries where we are not currently able to recognise deferred tax assets in respect of those losses and the impact of withholding taxes on the repatriation of earnings and royalties to the UK.

Excluding exceptional and acquisition related items and the impact of IAS19 finance charges, the underlying effective rate on pre-tax profits reduced by 200bps to 29% (2018: 31%). The lower tax rate was driven by a reduction in withholding taxes, a favourable change in profit mix for the period and the impact of a reduction in the headline India corporation tax rate during the year.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Uncertain tax positions

The Group's current tax liability includes a number of tax provisions, which although individually are relatively small, together they total $14.1 million (2018: $15.7 million). These provisions relate to management's estimate of the amount of tax payable on open tax returns yet to be agreed with the local tax authorities. The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local Tax Authorities and consequently agreement may not be reached for a number of years. Primarily the tax items for which a provision has been made relate to the interpretation of transfer pricing legislation and practices across the jurisdictions in which the Group operates.

The final outcome on resolution of open issues with the relevant local Tax Authorities may vary significantly due to the uncertainty associated with such tax items and the continual evolution and development of local Tax Authorities. There is a wide range of possible outcomes and any variances in the final outcome to the provided amount will affect the tax financial results in the year of agreement. However, it is not expected that a material adjustment would be required to these provisions within the next year.

The amount provided for uncertain tax positions has been made using the best estimate of the tax expected to be ultimately paid, taking into account any progress on the discussions with local Tax Authorities, together with expert in-house and third-party advice on the potential outcome and recent developments in case law, Tax Authority practices and previous experience.

Taxation paid

During the year the Group made Corporate Income Tax payments in respect of continuing operations (including withholding and dividend distribution taxes) of $46.3 million (2018: $51.4 million). The amount of tax paid in each jurisdiction is as follows:

Year ended 31 December	**2019 US$m**	2018 US$m
UK	**11.7**	11.5
Vietnam	**12.7**	11.0
India	**5.7**	7.0
Indonesia	**3.2**	5.7
Singapore	**1.8**	1.3
Bangladesh	**1.7**	1.6
Turkey	**1.5**	3.0
China	**1.5**	1.4
USA	**1.3**	(0.2)
Sri Lanka	**1.1**	0.3
Colombia	**0.7**	1.1
Poland	**0.7**	0.3
Thailand	**0.7**	0.5
Pakistan	**0.6**	1.9
Hong Kong	**0.1**	0.7
Egypt	**0.1**	0.6
Mexico	**0.1**	1.1
Others (17 countries each less than $0.5 million)	**1.1**	2.6
Total Corporate Income Tax paid	**46.3**	51.4

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The taxes paid in the UK and Singapore are primarily withholding taxes on royalties, group charges and dividends, deducted and paid at source in the following jurisdictions:

	2019 US$m	2018 US$m
India	**2.3**	1.8
Bangladesh	**2.4**	1.8
Indonesia	**2.8**	1.8
Vietnam	**1.5**	1.3
China	**1.0**	1.1
Thailand	**0.2**	0.6
Pakistan	**0.1**	0.6
Colombia	**0.6**	0.6
Turkey	**0.4**	0.4
Sri Lanka	**0.3**	0.2
Others (each less than $0.5 million)	**1.9**	2.6
Total withholding taxes paid	**13.5**	12.8

10 Retirement and other post-employment benefit arrangements
a) Pension and other post-employment costs

Pension and other post-employment costs charged to operating profit for the year were (continuing and discontinued operations):

		US$m	**Year ended 31 December 2019 US$m**	US$m	Year ended 31 December 2018 US$m
Defined contribution schemes			**3.0**		3.6
Defined benefit schemes –					
	Coats US funded	**1.9**		3.5	
	Other funded and unfunded	**3.4**		3.9	
			5.3		7.4
Past service (credit)/cost			**(3.2)**		10.6
Settlements			**0.1**		(1.9)
Administrative expenses for defined benefit schemes			**5.5**		7.9
			10.7		27.6

Included in the table above are $0.7 million (2018: $10.2 million) of past service costs and $Nil (2018: $1.8 million) settlement gains that have been presented as exceptional items in the Consolidated Income Statement (see note 4). Also included in the table above is a $1.8 million past service credit (non-cash) on the US post-retirement medical scheme relating to the discontinued NA Crafts business (see note 32).

b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits. The total cost relating to discontinued operations is $0.1 million (2018: $0.7 million).

c) Defined benefit schemes

The Coats UK Pension Scheme is administered by a trustee and holds assets held in funds that are legally separated from the Group and are subject to UK legislation with oversight from the Pensions Regulator. The trustee board is composed of representatives of both the Group and scheme members together with two independent trustees. The trustee board is required by law and the scheme's rules to act in the interest of the scheme's members and other stakeholders in the scheme (for example the Group). The trustee board is responsible for setting the scheme's investment policy following consultation with the Group.

The sponsor of the Coats UK Pension Scheme is Coats Limited and the Company provides a guarantee to the Coats UK Pension Scheme.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

In addition, the Group has the Coats North America Pension Plan ('Coats US') which is a defined benefit scheme the assets of which are held in funds that are legally separated from the Group. During the year the Group agreed to amend the Plan to close to new hires from 1 January 2020, and to cease future accrual for current employees from 1 January 2022. The amendment resulted in a $2.6 million past service credit in 2019.

Finally, the Group also operates various other pension and other post-retirement arrangements in most of the countries in which it operates (most significantly in Germany). Detailed disclosures in respect of the UK plans and the Coats US plan are given in this note as the defined benefit obligations under these schemes represent around 96% of all defined benefit obligations.

The Coats UK Pension Scheme operates an investment policy whereby a portion of the fund is invested in assets (Bonds and derivatives) that broadly match movements in the value of the scheme's liabilities and a portion in assets that are anticipated to deliver a return in excess of the change in value of the liabilities.

The following disclosures do not include information in respect of schemes operated by joint ventures.

i) Principal risks

The Group is exposed to actuarial and investment risks, the principal risks are:

Risk	Description	Commentary
Interest rate risk	The present value of the defined benefit plan liabilities is calculated using a discount rate determined by reference to bond yields. A decrease in bond yield rates will increase defined benefit obligations.	The impact of the movement in discount rates are shown on page 138. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. Following consolidation of the UK schemes and completion of the 2018 actuarial valuation, the Coats UK Pension Scheme is currently over 80% (2018: 80%) hedged against interest rate movements by reference to the Technical Provisions liability.
Inflation	The present value of the defined benefit liabilities are calculated by reference to assumed future inflation rates. An increase in inflation rates will increase defined benefit obligations.	The impact of the movement in inflation rates are shown on page 138. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds, derivatives and real assets. Following consolidation of the UK schemes and completion of the 2018 actuarial valuation, the Coats UK Pension Scheme is currently over 80% (2018: 80%) hedged against inflation rate movements by reference to the Technical Provisions liability.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of member life expectancies. An increase in life expectancy will increase liabilities.	The impact of an increase in life expectancy is shown on page 138. Currently this is not a risk that is hedged by the Group's pension schemes.
Investment risk	The scheme assets are shown on a mark-to-market basis. A decrease in asset values at a relevant measurement date, to the extent assets do not hedge liabilities, would lead to an increased disclosed deficit or reduced surplus.	The UK funded scheme is diversified by asset class, at individual securities level; geography; and by investment managers. To the extent that any assets are not Sterling denominated the scheme hedges the majority of this currency exposure back to Sterling. The US scheme is fully funded and has a significant proportion of fixed income. The fixed income is invested directly to protect the funded status of the scheme. Trustees work with fixed income managers to consider the liabilities (including key period durations, credit spread duration and convexity) and have created a custom fix income benchmark to match the liabilities and protect the funded status. In addition the schemes' investment policies recognise the need to generate cash flows to meet members' benefits as they fall due.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

ii) UK funding commitments
The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2019.

On 6 March 2019 Coats Limited and the Trustee of the Coats UK Pension Scheme agreed the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date. This agreement resulted in ongoing annual deficit recovery payments of £20 million ($27 million) per annum increasing annually by the increase in the Retail Prices Index (first increase in January 2020) based on a Technical Provisions deficit of £252 million ($334 million). As before the Group will also meet Scheme administrative expenses and levies estimated in future at £4 million ($5 million) per annum (i.e. total ongoing payments of $32 million per annum). The new deficit recovery payments were effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous UK schemes.

The actuarial valuation deficit above is used to determine the level of deficit repair contributions that the Group is required to pay into the Coats UK Pension Scheme. The actuarial valuation is different to the IAS 19 accounting valuation (set out below), which is based on accounting rules concerning employee benefits and shown on the consolidated statement of financial position. The actuarial valuations are generally based on the more prudent 'Technical Provisions' basis than that used for accounting purposes and as a result the actuarial deficits are generally higher than the accounting deficits. It should also be noted that the accounting deficit figures are calculated as at the balance sheet date of 31 December 2019.

The most recent actuarial valuation for the Coats UK pension scheme had a 1 July 2018 effective date and the most recent actuarial valuation for the Coats US scheme was 1 January 2019.

iii) Principal assumptions
The principal assumptions for the UK and US schemes are as follows:

Principal assumptions at 31 December 2019	**Coats UK Pension Scheme %**	**Coats US %**	**Other %**
Rate of increase in salaries	**-**	**3.0**	**5.1**
Rate of increase for pensions in payment	**Various**	**-**	**3.5**
Discount rate	**2.0**	**3.2**	**3.9**
Inflation assumption	**3.1**	**2.2**	**4.1**
Principal assumptions at 31 December 2018	Coats UK Pension Scheme %	Coats US %	Other %
Rate of increase in salaries	–	3.0	5.2
Rate of increase for pensions in payment	Various	–	3.7
Discount rate	2.8	4.2	4.5
Inflation assumption	3.3	2.5	3.9

The rate of increase for pensions in payment for members of the combined Coats UK Pension Scheme vary in accordance with each member's former scheme category and period of membership. For former Coats UK plan members the increases for pensions in payment are assumed to be at a rate of 3.0% (2018: 3.1%). For former Staveley scheme members, the majority of the increases for pensions in payment fall within the range 2.5%-3.0% (2018: 2.4%-3.1%). For former Brunel scheme members, the majority of the increases for pensions in payment fall within the range 3.0%-4.0% (2018: 3.1%-4.0%).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The assumed life expectancy on retirement is:

	Year ended 31 December 2019		Year ended 31 December 2018	
	Coats UK Pension Scheme Years	**Coats US Years**	Coats UK Pension Scheme Years	Coats US Years
Retiring today at age 60:				
Males	**25.6**	**24.8**	26.1	24.9
Females	**27.7**	**27.0**	28.2	27.1
Retiring in 20 years at age 60:				
Males	**27.1**	**26.6**	27.6	26.7
Females	**29.3**	**28.7**	29.8	28.8

iv) Amounts recognised in the consolidated income statement
Amounts recognised in income in respect of these defined benefit schemes are as follows (both continuing and discontinued operations):

Year ended 31 December 2019	**Coats UK Pension Scheme US$m**	**Coats US US$m**	**Other US$m**	**Group US$m**
Current service cost	**-**	**(1.9)**	**(3.4)**	**(5.3)**
Past service credit	**-**	**2.6**	**0.6**	**3.2**
Settlements	**-**	**-**	**(0.1)**	**(0.1)**
Administrative expenses	**(4.6)**	**(0.8)**	**(0.1)**	**(5.5)**
	(4.6)	**(0.1)**	**(3.0)**	**(7.7)**
Interest on defined benefit obligations – unwinding of discount	**(73.2)**	**(4.7)**	**(5.2)**	**(83.1)**
Interest income on pension scheme assets	**70.6**	**7.4**	**1.3**	**79.3**
Effect of asset cap	**-**	**(1.2)**	**(0.5)**	**(1.7)**
	(2.6)	**1.5**	**(4.4)**	**(5.5)**

Year ended 31 December 2018	Coats UK Pension Scheme US$m	Coats US US$m	Coats UK US$m	Staveley US$m	Brunel US$m	Other US$m	Group US$m
Current service cost	–	(3.5)	–	–	–	(3.9)	(7.4)
Past service cost	(10.2)	–	–	–	–	(0.4)	(10.6)
Settlements	–	–	1.6	0.1	0.1	0.1	1.9
Administrative expenses	(3.7)	(0.8)	(2.2)	(0.7)	(0.4)	(0.1)	(7.9)
	(13.9)	(4.3)	(0.6)	(0.6)	(0.3)	(4.3)	(24.0)
Interest on defined benefit obligations – unwinding of discount	(34.6)	(5.2)	(28.4)	(4.0)	(2.8)	(5.0)	(80.0)
Interest income on pension scheme assets	33.6	8.1	27.5	4.1	2.5	1.5	77.3
Effect of asset cap	–	(0.8)	–	–	–	(0.3)	(1.1)
	(1.0)	2.1	(0.9)	0.1	(0.3)	(3.8)	(3.8)

Included in the table above is a current service cost for the year ended 31 December 2019 of $0.3 million (2018: $1.9 million) which has been included in discontinued operations relating to the disposed North America Crafts business.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

v) Amounts recognised in the consolidated statement of comprehensive income

Actuarial gains and losses were as follows:

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Effect of changes in demographic assumptions	**50.7**	(37.4)
Effect of changes in financial assumptions	**(308.1)**	172.0
Effect of experience adjustments	**(1.4)**	(36.5)
Remeasurement on assets (excluding interest income)	**278.9**	(125.5)
Adjustment due to surplus cap	**(51.2)**	5.6
Included in the statement of comprehensive income	**(31.1)**	(21.8)

vi) Amounts recognised in the consolidated statement of financial position

The amounts included in the consolidated statement of financial position arising from the Group's defined benefit arrangements are as follows:

Year ended 31 December 2019	**Coats UK Pension Scheme US$m**	**Coats US US$m**	**Other US$m**	**Total US$m**
Cash and cash equivalents	**118.2**	**7.3**	**4.5**	**130.0**
Equity instruments:				
US	**119.1**	**30.7**	**0.8**	**150.6**
UK	**10.3**	**3.4**	**-**	**13.7**
Eurozone	**30.8**	**9.1**	**-**	**39.9**
Other regions	**47.1**	**15.0**	**4.7**	**66.8**
Debt instruments:			**-**	
Corporate bonds (Investment grade)	**1,014.7**	**108.1**	**4.9**	**1,127.7**
Corporate bonds (Non-investment grade)	**272.4**	**1.4**	**-**	**273.8**
Government/sovereign instruments	**901.5**	**65.5**	**-**	**967.0**
Global real estate	**267.4**	**-**	**0.2**	**267.6**
Derivatives:				
Total return, interest and inflation swaps	**(34.8)**	**0.1**	**-**	**(34.7)**
Assets held by insurance company:				
Insurance contracts	**6.7**	**0.5**	**1.1**	**8.3**
Diversified investment fund	**72.6**	**-**	**7.1**	**79.7**
Other	**113.2**	**(35.1)**	**0.2**	**78.3**
Total market value of assets	**2,939.2**	**206.0**	**23.5**	**3,168.7**
Actuarial value of scheme liabilities	**(3,030.8)**	**(118.3)**	**(126.5)**	**(3,275.6)**
Net (liability)/asset in the scheme	**(91.6)**	**87.7**	**(103.0)**	**(106.9)**
Adjustment due to surplus cap	**-**	**(69.8)**	**(4.6)**	**(74.4)**
Recoverable net (liability)/asset in the scheme	**(91.6)**	**17.9**	**(107.6)**	**(181.3)**

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Year ended 31 December 2018	Coats UK Pension Scheme US$m	Coats US US$m	Other US$m	Total US$m
Cash and cash equivalents	34.2	2.3	3.9	40.4
Equity instruments:				
US	249.4	25.4	1.0	275.8
UK	26.3	2.4	–	28.7
Eurozone	43.8	4.0	–	47.8
Other regions	118.2	15.8	5.0	139.0
Debt instruments:				
Corporate bonds (Investment grade)	792.7	111.3	5.4	909.4
Corporate bonds (Non-investment grade)	130.6	1.4	–	132.0
Government/sovereign instruments	651.6	39.0	–	690.6
Global real estate	236.3	–	0.2	236.5
Derivatives:				
Total return, interest and inflation swaps	(20.3)	–	–	(20.3)
Assets held by insurance company:				
Insurance contracts	2.4	0.5	1.2	4.1
Diversified investment fund	290.5	–	6.1	296.6
Other	84.3	(9.7)	0.3	74.9
Total market value of assets	2,640.0	192.4	23.1	2,855.5
Actuarial value of scheme liabilities	(2,748.6)	(127.7)	(126.1)	(3,002.4)
Net (liability)/asset in the scheme	(108.6)	64.7	(103.0)	(146.9)
Adjustment due to surplus cap	–	(16.6)	(4.8)	(21.4)
Recoverable net (liability)/asset in the scheme	(108.6)	48.1	(107.8)	(168.3)

The amounts are presented in the consolidated statement of financial position as follows:

Year ended 31 December	**2019 US$m**	2018 US$m
Non-current assets:		
Funded	**13.8**	42.6
Current assets:		
Funded	**4.7**	6.1
Current liabilities:		
Funded	**(27.5)**	(16.0)
Unfunded	**(6.2)**	(6.0)
Non-current liabilities:		
Funded	**(71.6)**	(99.5)
Unfunded	**(94.5)**	(95.5)
	(181.3)	(168.3)

The schemes disclosed as part of the 'other' column in the tables above include surplus positions of $0.4 million (2018: $0.4 million).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(3,002.4)**	(3,389.3)
Current service cost	**(5.3)**	(7.4)
(increase)/decrease in liabilities on settlements	**(0.1)**	28.7
Past service credit/(cost)	**3.2**	(10.6)
Interest on defined benefit obligations – unwinding of discount	**(83.1)**	(80.0)
Actuarial (losses)/gains on obligations	**(258.8)**	98.1
Contributions from members	**(0.1)**	(0.2)
Benefits paid	**183.8**	187.4
Other adjustments to defined benefit obligation	**-**	(0.5)
Exchange difference	**(112.8)**	171.4
At 31 December	**(3,275.6)**	(3,002.4)

Movements in the fair value of scheme assets were as follows:		
At 1 January	**2,855.5**	3,252.7
Interest income on scheme assets	**79.3**	77.3
Remeasurement on assets (excluding interest income)	**278.9**	(125.5)
Assets distributed on settlements	**-**	(26.8)
Contributions from members	**0.1**	0.2
Contribution from sponsoring companies	**28.5**	26.7
Benefits paid	**(183.8)**	(187.4)
Administrative expenses paid from plan assets	**(0.9)**	(0.9)
Exchange difference	**111.1**	(160.8)
At 31 December	**3,168.7**	2,855.5

Administrative expenses paid from plan assets excludes those expenses paid directly by the Group.
The reconciliation of the effect of the asset ceiling is as follows:

Unrecognised surplus at 1 January	**21.4**	26.6
Interest cost on unrecognised surplus	**1.7**	1.1
Changes in the effect of limiting a net defined benefit asset to the asset ceiling (excluding interest)	**51.2**	(5.6)
Exchange difference	**0.1**	(0.7)
Unrecognised surplus at 31 December	**74.4**	21.4

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

vii) Assets without a quoted price in an active market
For the Coats UK Pension Scheme, all assets in the table above, except for cash and cash equivalents, do not have a quoted price in an active market.

For the Coats US scheme, included in the tables above are $0.4 million (2018: $0.2 million) of US equity instruments, $108.1 million (2018: $111.3 million) of corporate bonds (Investment grade), $1.4 million (2018: $1.4 million) of corporate bonds (Non-investment grade), government/sovereign instruments of $24.2 million (2018: $12.9 million), $0.5 million (2018: $0.5 million) of insurance contracts and $35.0 million (2018: $12.2 million) of other liabilities without a quoted price in an active market. All other assets have a quoted price in an active market.

viii) Basis of asset valuation
Under IAS 19, plan assets must be valued at the bid market value at the balance sheet date. For the main asset categories:

- Equities and bonds listed on recognised exchanges are valued at closing bid prices;
- Other bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves;
- Global real estate assets are valued on either a fair value approach as provided by the investment manager or notional bid valuations provided by the investment managers due to investments being held within a single priced pooled investment vehicle. Valuations are prepared in accordance with the current RICS Valuation – Global Standards (1 July 2017) and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015);
- Certain unlisted investments, for example derivatives and insurance contracts, are valued using a model based valuation such as a discounted cash flow; and
- Diversified investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.

ix) Recoverability of plan surplus
The recoverable surplus on the Coats US scheme has been recognised in line with the benefit from contribution holidays, plus annual refunds expected from the scheme to fund the US post-retirement medical scheme in accordance with relevant US legislation. Following the disposal of North America Crafts, Coats retains the previously incurred pension obligations from the business. The pension scheme was in a surplus position of $87.7 million at 31 December 2019 of which a recoverable surplus of $17.9 million is recognised on the Balance Sheet. This recoverable surplus has reduced from $48.1 million at 31 December 2018 as a result of fewer serving employees remaining in the Group following disposal of North America Crafts and the amendment to close the scheme to future accrual (see note 32).

For the Coats UK Pension Scheme, which is in IAS 19 deficit, committed contributions to the plan at the balance sheet date are expected to put the scheme into an IAS 19 surplus position. The Group notes that in the event that a surplus emerges in the Coats UK Pension Scheme, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of the liabilities over time and therefore no additional minimum funding requirement has been recognised.

x) Duration of plan liabilities
The weighted average duration of benefit obligations is 15 years (2018: 15 years) for the Coats UK scheme and 8 years (2018: 8 years) for the Coats US scheme.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

xi) Sensitivities
Sensitivities regarding the discount rate, inflation (which also impacts the rate of increases in salaries and rate of increase for pension in payments assumptions for the UK scheme) and mortality assumptions used to measure the liabilities of the principal schemes, along with the impact they would have on the scheme liabilities, are set out below. Interrelationships between assumptions might exist and the analysis below does not take the effect of these interrelationships into account:

	Year ended 31 December 2019 +0.25% US$m	**Year ended 31 December 2019 -0.25% US$m**	Year ended 31 December 2018 +0.25% US$m	Year ended 31 December 2018 -0.25% US$m
Coats UK Pension Scheme discount rate	**(113.6)**	**112.9**	(97.2)	102.8
Coats US discount rate	**(2.4)**	**2.5**	(2.6)	2.7
Coats UK Pension Scheme inflation rate	**82.3**	**(90.2)**	65.9	(65.9)
Coats US inflation rate	**-**	**-**	0.1	(0.1)

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by $142.3 million (2018: $128.1 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by $3.9 million (2018: $3.2 million), however, there would be no overall impact on the recoverable surplus.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

	Year ended 31 December 2019 +1% US$m	**Year ended 31 December 2019 -1% US$m**	Year ended 31 December 2018 +1% US$m	Year ended 31 December 2018 -1% US$m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	**0.1**	**(0.1)**	0.1	(0.1)
Effect on defined benefit obligation of other schemes	**1.4**	**(1.2)**	2.0	(1.8)

xii) Expected contributions for 2020
The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2020 financial year (excluding administrative expenses paid by the Company) is $31.3 million.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

11 Earnings per ordinary share

The calculation of basic earnings per ordinary share from continuing operations is based on the profit from continuing operations attributable to equity shareholders and the weighted average number of Ordinary Shares in issue during the year, excluding shares held by the Employee Benefit Trust but including shares under share incentive schemes which are not contingently issuable.

The calculation of basic earnings per ordinary share from continuing and discontinued operations is based on the profit attributable to equity shareholders. The weighted average number of ordinary shares used for the calculation of basic earnings per ordinary share from continuing and discontinued operations is the same as that used for basic earnings per ordinary share from continuing operations.

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential Ordinary Shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

Year ended 31 December	2019 US$m	2018 US$m
Profit from continuing operations attributable to equity shareholders	**96.2**	54.8
Profit from continuing and discontinued operations attributable to equity shareholders	**95.7**	39.2

Year ended 31 December	2019 Number of shares m	2018 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,443.8**	1,420.1
Adjustment for share options and LTIP awards	**13.7**	27.3
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,457.5**	1,447.4

Year ended 31 December	2019 cents	2018 cents
Continuing operations:		
Basic earnings per ordinary share	**6.66**	3.85
Diluted earnings per ordinary share	**6.60**	3.78
Continuing and discontinued operations:		
Basic earnings per ordinary share	**6.63**	2.76
Diluted earnings per ordinary share	**6.57**	2.70

12 Dividends

Year ended 31 December	2019 US$m	2018 US$m
2019 interim dividend paid – 0.55 cents per share	**7.8**	-
2018 final dividend paid – 1.16 cents per share	**16.6**	-
2018 interim dividend paid – 0.50 cents per share	**-**	7.0
2017 final dividend paid – 1.00 cents per share	**-**	14.1
	24.4	21.1

The proposed final dividend of 1.30 cents per ordinary share for the year ended 31 December 2019 is not recognised as a liability in the consolidated statement of financial position in line with the requirements of IAS 10 Events after the Reporting Period and, subject to shareholder approval, will be paid on 26 May 2020 to ordinary shareholders on the register on 1 May 2020.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

13 Intangible assets

		Acquired intangibles					
Cost	**Goodwill US$m**	**Brands & trade names US$m**	**Technology US$m**	**Customer relationships US$m**	**Total acquired US$m**	**Computer software US$m**	**Total US$m**
At 1 January 2018	26.0	244.8	13.9	7.0	265.7	87.9	379.6
Currency translation differences	(1.1)	(0.1)	(0.6)	(0.3)	(1.0)	(2.0)	(4.1)
Additions	–	–	–	–	–	3.2	3.2
Disposals	–	(0.8)	–	–	(0.8)	(1.7)	(2.5)
At 31 December 2018	**24.9**	**243.9**	**13.3**	**6.7**	**263.9**	**87.4**	**376.2**
Currency translation differences	**-**	**-**	**(0.1)**	**-**	**(0.1)**	**(0.4)**	**(0.5)**
Additions	**1.0**	**0.1**	**3.8**	**-**	**3.9**	**2.8**	**7.7**
Reclassifications	**-**	**-**	**-**	**-**	**-**	**7.4**	**7.4**
Disposals	**-**	**(1.3)**	**-**	**-**	**(1.3)**	**(2.6)**	**(3.9)**
At 31 December 2019	**25.9**	**242.7**	**17.0**	**6.7**	**266.4**	**94.6**	**386.9**
Cumulative amounts charged							
At 1 January 2018	–	2.4	2.4	0.9	5.7	81.0	86.7
Currency translation differences	–	–	(0.1)	(0.1)	(0.2)	(1.9)	(2.1)
Amortisation charge for the year	–	0.3	1.4	0.6	2.3	6.9	9.2
Disposals	–	(0.8)	–	–	(0.8)	(1.0)	(1.8)
At 31 December 2018	**–**	**1.9**	**3.7**	**1.4**	**7.0**	**85.0**	**92.0**
Currency translation differences	**-**	**0.1**	**-**	**-**	**0.1**	**(0.4)**	**(0.3)**
Reclassifications	**-**	**-**	**-**	**-**	**-**	**0.1**	**0.1**
Amortisation charge for the year	**-**	**0.2**	**2.2**	**0.5**	**2.9**	**5.1**	**8.0**
Disposals	**-**	**(1.3)**	**-**	**-**	**(1.3)**	**(2.6)**	**(3.9)**
At 31 December 2019	**-**	**0.9**	**5.9**	**1.9**	**8.7**	**87.2**	**95.9**
Net book value at 31 December 2019	**25.9**	**241.8**	**11.1**	**4.8**	**257.7**	**7.4**	**291.0**
Net book value at 31 December 2018	24.9	242.0	9.6	5.3	256.9	2.4	284.2

The carrying value of Coats brands at 31 December 2019 and 31 December 2018 is $239.6 million. There is no foreseeable limit to the net cash inflows from royalties, which are generated from continued sales of thread resulting from the Coats brands, and those brands are therefore assessed as having indefinite useful lives. The recoverable amount of these brands has been estimated using the relief from royalty method to calculate the fair value and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on the latest budget and medium-term plan approved by the Board, covering the period to 31 December 2022, applying a pre-tax discount rate of 10.0% (2018: 9.8%) and long-term growth of 2.8% (2018: 2.9%). Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. Following the acquisition of ThreadSol in February 2019, the software solutions business was relaunched as Coats Digital. The aim of this was to bring together all of the Group's software solutions under a new single brand which more closely describes and aligns with the offering to customers. As the cash inflows of Fast React Systems, GSD and ThreadSol are complementary and inter-dependent, the Group considers goodwill arising from these acquisitions to be allocated to the single CGU of Coats Digital. This is consistent with the information used by the Board to monitor the goodwill arising from these acquisitions for impairment. Comparative information for the year ended 31 December 2018 has been restated on a consistent basis. The carrying amount of goodwill has been allocated as follows:

Year ended 31 December	**2019 US$m**	2018 US$m
Gotex	**12.9**	13.1
Patrick Yarn	**2.3**	2.3
Coats Digital	**8.6**	7.4
Other	**2.1**	2.1
	25.9	24.9

The carrying value of the goodwill allocated to the CGUs has been tested for impairment during the year by comparing the carrying value of the CGU to their value in use. The value in use calculations were based on projected cash flows, derived from the latest budgets approved by the Board and factoring in the most recent trading activity. Projected cash flows are, discounted at CGU specific, risk adjusted, discount rates to calculate the net present value.

The calculation of 'value in use' is most sensitive to the following assumptions:

- CGU specific operating assumptions that are reflected in the budget and medium-term plan periods for the financial year to December 2022;
- discount rates; and
- growth rates used to extrapolate risk adjusted cash flows beyond the medium-term period.

CGU specific operating assumptions are applicable to the cash flows for the years 2020 to 2022 and relate to revenue forecasts, expected project outcomes and forecast operating margins. A short-term growth rate is applied to the December 2022 plan to derive the cash flows arising in 2023–2024 and a long-term rate is applied to 2024 to determine a terminal value.

The discount rate is based on estimations of the assumptions that market participants operating in similar sectors to Coats would make, using the Group's economic profile as a starting point and adjusting appropriately. Directors do not currently expect any significant change in the present pre-tax base discount rate of 10.0% (2018: 9.8%). The base discount rate has been adjusted for economic risks that are not already captured in the specific operating assumptions. This results in the impairment testing using a 13.0% to 16.8% (2018: 15.4% to 16.4%) pre-tax discount rates.

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any of the above CGUs to materially exceed their recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

14 Property, plant and equipment

Cost	Land and buildings US$m	Plant and equipment US$m	Vehicles and office equipment US$m	Total US$m
At 1 January 2018	174.4	616.0	103.9	894.3
Currency translation differences	(7.1)	(29.9)	(3.3)	(40.3)
Additions	13.9	29.4	1.7	45.0
Transfer to non-current assets held for sale	(15.1)	(47.2)	(6.0)	(68.3)
Disposals	(8.8)	(11.0)	(2.6)	(22.4)
At 31 December 2018	**157.3**	**557.3**	**93.7**	**808.3**
Currency translation differences	**(0.5)**	**(8.6)**	**(1.0)**	**(10.1)**
Subsidiaries bought externally	**-**	**0.1**	**-**	**0.1**
Additions	**7.2**	**27.0**	**4.4**	**38.6**
Transfer to non-current assets held for sale	**(2.4)**	**-**	**-**	**(2.4)**
Reclassifications	**(0.2)**	**(1.3)**	**(7.4)**	**(8.9)**
Disposals	**(1.1)**	**(11.9)**	**(3.5)**	**(16.5)**
At 31 December 2019	**160.3**	**562.6**	**86.2**	**809.1**

Cumulative amounts charged				
At 1 January 2018	84.0	433.0	80.0	597.0
Currency translation differences	(3.3)	(21.6)	(2.5)	(27.4)
Depreciation charge for the year	4.5	23.0	3.7	31.2
Transfer to non-current assets held for sale	(10.2)	(41.3)	(5.4)	(56.9)
Disposals	(4.0)	(11.2)	(2.6)	(17.8)
At 31 December 2018	**71.0**	**381.9**	**73.2**	**526.1**
Currency translation differences	**(0.9)**	**(5.2)**	**(1.0)**	**(7.1)**
Depreciation charge for the year	**4.3**	**21.6**	**4.0**	**29.9**
Impairment charge	**-**	**1.2**	**0.1**	**1.3**
Transfer to non-current assets held for sale	**(0.9)**	**-**	**-**	**(0.9)**
Reclassifications	**(0.1)**	**(1.1)**	**(0.1)**	**(1.3)**
Disposals	**(1.0)**	**(11.3)**	**(2.9)**	**(15.2)**
At 31 December 2019	**72.4**	**387.1**	**73.3**	**532.8**
Net book value at 31 December 2019	**87.9**	**175.5**	**12.9**	**276.3**
Net book value at 31 December 2018	86.3	175.4	20.5	282.2

Assets charged as security for borrowings:				
31 December 2019	**-**	**-**	**-**	**-**
31 December 2018	–	0.1	–	0.1

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Analysis of net book value of land and buildings 31 December	2019 US$m	2018 US$m
Freehold	**72.6**	71.2
Leasehold improvements:		
Over 50 years unexpired	**2.0**	1.1
Under 50 years unexpired	**13.3**	14.0
	87.9	86.3

15 Leases

The Group leases several assets including buildings, plants, vehicles and office equipment. The average lease term is 3 years. The Group's consolidated balance sheet includes the following amounts relating to leases:

Right-of-use assets

Net carrying amount	Land and buildings US$m	Plant and equipment US$m	Vehicles and office equipment US$m	Total US$m
At 1 January 2019	38.8	12.6	7.1	58.5
At 31 December 2019	**47.5**	**9.8**	**6.1**	**63.4**
Depreciation expense for the year ended				
31 December 2018	-	-	-	-
31 December 2019	**9.3**	**2.5**	**3.4**	**15.2**

Additions to the right-of-use assets during the year ended 31 December 2019 were $22.2 million.

Lease liabilities

Year ended 31 December	2019 US$m
Current	**14.1**
Non-current	**50.9**
	65.0
Maturity analysis	
Payable within one year	**14.1**
Payable between one and five years	**33.5**
Payable after more than five years	**17.4**
	65.0

Following the adoption of IFRS 16, lease liabilities of $57.7 million were recognised at 1 January 2019. The net increase in lease liabilities during the year ended 31 December 2019 was $7.3 million which includes foreign exchange gains on lease liabilities of $0.4 million. The total cash outflow for leases in the year ended 31 December 2019 was $17.3 million.

The Group's consolidated income statement includes the following amounts relating to leases:

Year ended 31 December	2019 US$m
Depreciation expense	**15.2**
Interest expense on lease liabilities	**3.7**
Expenses relating to short term leases	**3.0**
Expenses relating to leases of low value assets	**0.1**
Expense relating to variable lease payments not included in the measurement of the lease liability	**0.3**
Income from subleasing right-of-use assets	**(0.2)**

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The Group subleases some of its right-of-use assets. At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

Year ended 31 December	2019 US$m	2018 US$m
Receivable within one year	**0.2**	0.2
Receivable between one and five years	**0.2**	0.4
	0.4	0.6

16 Non-current investments

Year ended 31 December	2019 US$m	2018 US$m
Interests in joint ventures (see below)	**11.4**	10.6
Investments in equity securities:		
Unlisted investments	**6.1**	6.1
	17.5	16.7

Other investments included within current assets were $0.1 million at 31 December 2019 (2018: $0.6 million).

Interests in joint ventures	US$m
At 1 January 2019	10.6
Dividends receivable	(0.3)
Share of profit after tax	1.1
At 31 December 2019	**11.4**

Year ended 31 December	2019 US$m	2018 US$m
Share of net assets on acquisition	**10.6**	10.6
Share of post-acquisition retained profits	**0.8**	–
Share of net assets	**11.4**	10.6

The following table provides summarised financial information on the Group's share of its joint ventures, relating to the period during which they were joint ventures, and excludes goodwill:

Year ended 31 December	2019 US$m	2018 US$m
Summarised income statement information:		
Revenue	**25.1**	22.9
Profit before tax	**1.4**	–
Taxation	**(0.3)**	(0.1)
Profit/(loss) after tax	**1.1**	(0.1)

Year ended 31 December	2019 US$m	2018 US$m
Summarised balance sheet information:		
Non-current assets	**5.9**	6.4
Current assets	**13.9**	11.2
	19.8	17.6
Liabilities due within one year	**(8.4)**	(7.0)
Net assets	**11.4**	10.6

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

17 Deferred tax assets

Year ended 31 December	**2019 US$m**	2018 US$m
Deferred tax assets	**16.2**	19.2

The Group's deferred tax assets are included within the analysis in note 24.

The movements in the Group's deferred tax asset during the year were as follows:

	2019 US$m	2018 US$m
At 1 January	**19.2**	24.6
Currency translation differences	**(0.4)**	(0.9)
Acquisition/disposal of subsidiaries	**(0.7)**	-
Reclassified from deferred tax liability	**2.8**	–
Transfer to current tax	**(0.3)**	-
Charged to the income statement	**(3.4)**	(2.2)
Credited to other comprehensive income and expense	**0.5**	–
Charged to equity	**(1.5)**	(2.3)
At 31 December	**16.2**	19.2

18 Inventories

Year ended 31 December	**2019 US$m**	2018 US$m
Raw materials and consumables	**75.1**	84.5
Work in progress	**29.8**	29.2
Finished goods and goods for resale	**67.6**	71.7
	172.5	185.4

19 Trade and other receivables

Year ended 31 December	**2019 US$m**	2018 US$m
Non-current assets:		
Income tax assets	**1.5**	3.7
Trade receivables	**0.7**	-
Other receivables	**14.6**	17.4
Derivative financial instruments	**3.3**	0.3
	20.1	21.4
Current assets:		
Trade receivables	**208.7**	203.5
Current income tax assets	**5.5**	3.1
Prepayments and accrued income	**6.9**	10.9
Derivative financial instruments	**0.9**	2.6
Other receivables	**39.2**	33.7
	261.2	253.8

The fair value of trade and other receivables is not materially different to the carrying value.

The average credit period taken on sale of goods (including discontinued operations) is 57 days (2018: 53 days). Interest charged in respect of overdue trade receivables is immaterial.

Included within trade receivables is $5.8 million (2018: $6.9 million) relating to software solutions revenue contracts, for which performance obligations are fulfilled over a period of time (see note 21).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. Credit risk is minimised due to the quality and short-term nature of the Group's trade receivables as well as the fact that the exposure is spread over a large number of customers. An allowance has been made for expected losses on trade receivables of $8.1 million (2018: $9.6 million).

The Group monitors receivables for any significant increases in credit risk, and fully provides for trade receivables which are more than 6 months overdue, unless there are specific circumstances which would indicate otherwise. For all other trade receivables, when determining expected losses, the Group takes into account the historical default experience and the financial position of the counterparties, as well as the future prospects considering various sources of information. The loss allowance has been determined as follows:

	Current	**1-3 months past due**	**3-6 months past due**	**6 + months past due**	**Total 2019**
Expected loss rate	**Nil**	**0%**	**8%**	**96%**	
Gross carrying amount (US$m)	**183.0**	**23.9**	**2.5**	**8.1**	**217.5**
Loss allowance provision (US$m)	**-**	**0.1**	**0.2**	**7.8**	**8.1**

	Current	1-3 months past due	3-6 months past due	6 + months past due	Total 2018
Expected loss rate	Nil	1%	15%	93%	
Gross carrying amount (US$m)	183.4	29.9	2.6	9.7	225.6
Loss allowance provision (US$m)	–	0.2	0.4	9.0	9.6

Included within the 2018 analysis is gross receivables of $12.7 million and a loss allowance of $0.2 million relating to the North America Crafts disposal group that was presented as held for sale as at 31 December 2018 (see note 32).

The movements in the expected loss allowance are analysed as follows:

	2019 US$m	2018 US$m
At 1 January	**9.6**	10.4
Currency translation differences	**(0.4)**	(1.0)
Charged to the income statement	**0.2**	1.2
Amounts written off during the year	**(1.3)**	(1.0)
At 31 December	**8.1**	9.6

20 Derivative financial instruments – assets

Derivative financial instruments within non-current and current assets comprise:

Year ended 31 December	**2019 US$m**	2018 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**2.9**	1.6
Fair value hedges through the statement of comprehensive income:		
Interest rate swap contracts	**1.3**	1.3
	4.2	2.9
Amounts shown within non-current assets	**3.3**	0.3
Amounts shown within current assets	**0.9**	2.6

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

21 Trade and other payables

Year ended 31 December	2019 US$m	2018 US$m
Amounts falling due within one year:		
Trade payables	**170.7**	192.0
Amounts owed to joint ventures	**16.2**	11.6
Other tax and social security payable	**5.6**	6.0
Other payables	**35.8**	32.9
Accruals	**37.7**	40.4
Contract liabilities	**5.8**	6.6
Derivative financial instruments	**0.3**	1.3
Employee entitlements (excluding pensions)	**12.3**	11.9
	284.4	302.7
Amounts falling due after more than one year:		
Other payables	**15.0**	18.2
Contract liabilities	**0.5**	0.8
Employee entitlements (excluding pensions)	**1.5**	1.2
Derivative financial instruments	**1.2**	2.9
	18.2	23.1

The fair value of trade and other payables is not materially different to the carrying value.

Interest paid to suppliers in respect of overdue trade payables is immaterial.

Contract liabilities amounting to $6.6 million (2018: $5.7 million) which were outstanding at 31 December 2018 were released to revenue during the year ended 31 December 2019, with the remainder expected to be released in 2020.

22 Derivative financial instruments – liabilities

Derivative financial instruments within non-current and current liabilities comprise:

Year ended 31 December	2019 US$m	2018 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**1.5**	0.7
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**-**	3.5
	1.5	4.2
Amounts shown within non-current liabilities	**1.2**	2.9
Amounts shown within current liabilities	**0.3**	1.3

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

23 Borrowings

Year ended 31 December	2019 US$m	2018 US$m
Bank overdrafts	**41.5**	20.0
Borrowings repayable within one year	**2.3**	0.3
Due within one year	**43.8**	20.3
Borrowings repayable between one and two years	**0.3**	0.2
Borrowings repayable between two and five years	**183.2**	112.9
Due after more than five years	**100.0**	225.0
Due after more than one year	**283.5**	338.1
Bank overdrafts	**41.5**	20.0
Series A and Series B Senior Notes	**225.0**	225.0
Bank and other borrowings	**60.8**	113.4
	327.3	358.4

On 6 December 2017 the Group issued $125.0 million of 3.88% Series A Senior Notes due 6 December 2024 and $100.0 million of 4.07% Series B Senior Notes due 6 December 2027 in a US private placement. Interest is payable semi-annually in arrears on 6 June and 6 December of each year beginning on 6 June 2018. The Senior Notes are unsecured and rank equally with all the Group's other unsecured and unsubordinated indebtedness.

On 6 December 2017 the Group also entered into a $350.0 million five year bank facility. The facility bears interest at LIBOR plus a margin.

The currency and interest rate profile of the Group's borrowings is included in note 34 on page 166.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

24 Deferred tax liabilities

	2019 US$m	2018 US$m
At 1 January	**10.5**	17.9
Currency translation differences	**(0.2)**	(0.6)
Acquisition/disposal of subsidiaries	**(0.3)**	-
Transferred to held for sale	**-**	(0.5)
Reclassified from deferred tax assets	**2.8**	–
Transfer to current tax	**3.4**	1.1
Credited to the income statement	**(1.2)**	(6.2)
Credited to other comprehensive income and expense	**(6.8)**	(1.2)
At 31 December	**8.2**	10.5

	2019		2018	
	Provided/ (recognised) US$m	**Unprovided/ (unrecognised) US$m**	Provided/ (recognised) US$m	Unprovided/ (unrecognised) US$m
The Group's net deferred tax liabilities/(assets) are analysed as follows:				
Accelerated tax depreciation on tangible fixed assets	**14.4**	**(10.2)**	16.1	(9.9)
Other temporary differences	**(9.0)**	**3.7**	(15.1)	(11.4)
Revenue losses carried forward	**(13.8)**	**(303.7)**	(18.5)	(294.1)
Capital losses carried forward	**-**	**(254.1)**	–	(248.8)
Investment in subsidiaries	**7.5**	**5.7**	8.3	4.3
Brands	**40.7**	**-**	40.7	–
Retirement benefit obligations offset against brands	**(40.7)**	**-**	(40.7)	–
Retirement benefit obligations	**(7.1)**	**(3.5)**	0.5	(4.5)
	(8.0)	**(562.1)**	(8.7)	(564.4)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Deferred tax assets (note 17)	**(16.2)**	(19.2)
Deferred tax liabilities	**8.2**	10.5
	(8.0)	(8.7)

At the year end, the Group had approximately $1.5 billion (2018: $1.5 billion) of unused gross income tax losses and approximately $1.4 billion (2018: $1.4 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of $13.8 million (2018: $18.5 million) has been recognised in respect of $50.5 million (2018: $68.0 million) of such income tax losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The Group's income tax losses can be analysed as follows:

	2019 US$m	2018 US$m
Expiring within 5 years	**33.0**	38.1
Expiring in more than 5 years	**15.5**	16.6
Available indefinitely	**1,481.4**	1,427.0
	1,529.9	1,481.7

At 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $5.7 million (2018: $4.3 million). Deferred tax on distribution of these profits has not been provided on the grounds that the Group is able to control the timing of the reversal of the remaining temporary differences and it is probable that they will not reverse in the foreseeable future.

25 Provisions

Year ended 31 December	2019 US$m	2018 US$m
Provisions are included as follows:		
Current liabilities	**12.8**	16.3
Non-current liabilities	**30.7**	39.0
	43.5	55.3

Provisions are analysed as follows:

Year ended 31 December	2019 US$m	2018 US$m
Property related provisions	**2.2**	4.0
Other provisions	**41.3**	51.3
	43.5	55.3

	Property related provisions US$m	Other provisions US$m	Total US$m
At 1 January 2019	**4.0**	**51.3**	**55.3**
Currency translation differences	**0.1**	**(0.2)**	**(0.1)**
Onerous lease provision reclassified to right-of-use assets	**(1.3)**	**-**	**(1.3)**
Utilised in year	**(0.1)**	**(21.9)**	**(22.0)**
(Credited)/charged to the income statement	**(0.5)**	**12.1**	**11.6**
At 31 December 2019	**2.2**	**41.3**	**43.5**

Following the adoption of IFRS 16 'Leases', the Group applied the practical expedient in the standard which permits the use of onerous contract assessment under IAS 37 immediately before transition instead of performing an impairment review under IAS 36 Impairment. As such on 1 January 2019 the onerous lease provision of $1.3 million within property related provisions above was reclassified to adjust the right-of-use asset balance on transition. See note 1 for further details.

Other provisions include the amounts set aside to cover certain legal and other regulatory claims, including in respect of the Lower Passaic River (see note 28 for further details), which are expected to be substantially utilised within the next ten years.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

26 Share capital

	2019		2018	
Year ended 31 December	**Number**	**US$m**	Number	US$m
Ordinary Shares of 5p each	**1,444,816,041**	**89.6**	1,427,492,032	88.5

During the year ended 31 December 2019 the Company issued 17,324,009 ordinary shares of 5p each (2018: 14,191,384) following the exercise of share options as set out below:

	Number of shares	**US$m**
At 1 January 2019	**1,427,492,032**	**88.5**
Issue of ordinary shares	**17,324,009**	**1.1**
At 31 December 2019	**1,444,816,041**	**89.6**

The own shares reserve of $5.7 million at 31 December 2019 (2018: $6.8 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans.

The number of shares held by the Employee Benefit Trust at 31 December 2019 was 14,591,071 (2018: 17,165,314).

During the year ended 31 December 2019 524,745 (2018: 4,313,304) options under the Group’s 2002 share option scheme were exercised and 64,960 (2018: 1,932,396) options lapsed.

Details of share awards outstanding under the Group’s LTIP and Deferred Bonus Plans are set out in note 35.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

27 Reserves and non-controlling interests

	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Non-controlling interests US$m
At 1 January 2019	**10.4**	**(6.8)**	**(68.5)**	**59.8**	**244.2**	**(56.7)**	**28.0**
Dividends	**-**	**-**	**-**	**-**	**-**	**(24.4)**	**(17.4)**
Currency translation differences	**-**	**-**	**(7.4)**	**-**	**-**	**-**	**(0.3)**
Increase in fair value of cash flow hedges	**-**	**-**	**-**	**-**	**4.8**	**-**	**-**
Transfer to income statement	**-**	**-**	**-**	**-**	**(0.3)**	**-**	**-**
Actuarial losses on employee benefits	**-**	**-**	**-**	**-**	**-**	**(31.1)**	**-**
Tax on actuarial gains and losses	**-**	**-**	**-**	**-**	**-**	**7.3**	**-**
Issue of ordinary shares	**0.1**	**-**	**-**	**-**	**-**	**(1.1)**	**-**
Movement in own shares	**-**	**1.1**	**-**	**-**	**-**	**(0.2)**	**-**
Share based payments	**-**	**-**	**-**	**-**	**-**	**6.1**	**-**
Deferred tax on share schemes	**-**	**-**	**-**	**-**	**-**	**(1.5)**	**-**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**95.7**	**20.1**
At 31 December 2019	**10.5**	**(5.7)**	**(75.9)**	**59.8**	**248.7**	**(5.9)**	**30.4**

The table below shows financial information of non-wholly owned subsidiaries of the Group that have non-controlling interests:

	Profit allocated to non-controlling interests		**Accumulated non-controlling interests**	
	Year ended 31 December 2019 US$m	Year ended 31 December 2018 US$m	**31 December 2019 US$m**	31 December 2018 US$m
EMEA	**0.1**	0.9	**2.0**	2.0
Asia & Rest of World	**20.0**	18.1	**28.4**	26.0
	20.1	19.0	**30.4**	28.0

The proportion of ownership interests and voting rights of non-wholly owned subsidiaries of the Group held by non-controlling interests is set out on pages 181 to 186.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

28 Contingent liabilities and environmental matters
Environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Over 100 PRPs have been identified by EPA. Approximately 50 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation that are not currently funding the study of the river, including those that are the most responsible for its contamination.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR at an estimated cost of $1.38 billion on a net present value basis. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider a remedial alternative proposed by the CPG for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower 8 miles of the LPR. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC that covered the LPR, has been granted Chapter 11 bankruptcy protection, but OCC remains responsible for its remedial obligations even in the absence of Maxus' indemnity. The approved bankruptcy plan also created a liquidating trust to pursue potential claims against Maxus' parent entity, YPF SA, and potentially others, which could result in additional funding for the LPR remedy. While the ultimate costs of the remedial design and the final remedy are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties has not yet been determined.

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. EPA has invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the upcoming allocation, CC intends to present factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis party. The allocation process is underway and is expected to be completed at the end of 2020, although that date may be extended.

On 30 June 2018, OCC filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's belief that it is a de minimis party.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. During the year ended 31 December 2018, an additional provision of $8.0 million was recorded as an exceptional item (see note 3) to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 31 December 2019, $9.2 million of this provision had been utilised. The remaining provision at 31 December 2019, taking into account insurance reimbursement, was $14.6 million (2018: $17.6 million). The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, additional provisions could be recorded and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

Following the sale of the North America Crafts business, including CC, announced on 22 January 2019, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters, including related insurance reimbursements.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

29 Capital commitments
As at 31 December 2019, the Group had commitments of $5.8 million in respect of contracts placed for future capital expenditure (2018: $8.0 million).

30 Notes to the consolidated cash flow statement
a) Reconciliation of operating profit to cash generated from operations

Year ended 31 December	2019 US$m	2018 US$m
Operating profit	**191.0**	147.1
Depreciation of owned property, plant and equipment	**29.9**	29.5
Depreciation of right-of-use assets	**15.2**	-
Amortisation of intangible assets	**8.0**	9.2
Decrease/(Increase) in inventories	**10.4**	(6.8)
Increase in debtors	**(6.5)**	(18.5)
(Decrease)/Increase in creditors	**(13.8)**	8.8
Provision and pension movements	**(33.5)**	(4.5)
Foreign exchange and other non-cash movements	**4.4**	6.1
Discontinued operations	**0.3**	0.2
Cash generated from operations	**205.4**	171.1

b) Taxation paid

Year ended 31 December	2019 US$m	2018 US$m
Overseas tax paid	**(46.3)**	(51.4)
Discontinued operations	**-**	1.3
	(46.3)	(50.1)

c) Investment income

Year ended 31 December	2019 US$m	2018 US$m
Dividends received from joint ventures	**0.3**	1.6
	0.3	1.6

d) Capital expenditure and financial investment

Year ended 31 December	2019 US$m	2018 US$m
Acquisition of property, plant and equipment and intangible assets	**(44.3)**	(47.6)
Disposal/(acquisition) of other equity investments	**0.4**	(5.4)
Disposal of property, plant and equipment	**4.3**	3.2
Discontinued operations	**0.5**	4.2
	(39.1)	(45.6)

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

e) Acquisitions and disposals of businesses

Year ended 31 December	2019 US$m	2018 US$m
Acquisition of businesses	**(4.9)**	(1.8)
Disposal of businesses	**30.7**	1.7
	25.8	(0.1)

f) Summary of net debt

Year ended 31 December	2019 US$m	2018 US$m
Total cash and cash equivalents	**177.4**	135.7
Bank overdrafts	**(41.5)**	(20.0)
Net cash and cash equivalents	**135.9**	115.7
Other borrowings	**(285.8)**	(338.4)
Net debt excluding lease liabilities	**(149.9)**	(222.7)
Lease liabilities	**(65.0)**	-
Total net debt	**(214.9)**	(222.7)

Total cash and cash equivalents at 31 December 2019 include an amount of $25.5 million which are under a notional cash pooling arrangement which a number of the Group’s UK subsidiaries participate in. Cash and overdraft balances under this arrangement are reported on a gross basis. On a net basis at 31 December 2019 cash and cash equivalents are $151.9 million and bank overdrafts are $16.0 million.

Total net debt of $214.9 million (2018: $222.7 million) comprises of borrowings of $285.8 million (2018: $338.4 million), net cash and cash equivalents of $135.9 million (2018: $115.7 million) and lease liabilities of $65.0 million (2018: $nil). Movements in total net debt during the year included the net cash repayments of borrowings of $52.3 million (2018: $20.4 million), increase in net cash and cash equivalents of $20.0 million (2018: $4.5 million), increase in lease liabilities of $64.5 million (2018: $nil), foreign exchange gains of $0.7 million (2018: $5.4 million loss) and other non-cash movements of $0.7 million (2018: $0.7 million).

31 Acquisitions
a) Acquisition of ThreadSol

On 12 February 2019 the Group completed the acquisition of 100% of the voting equity of Intellosol Softwares India Private Limited (‘ThreadSol’), a company incorporated in India that is a cloud-based digital applications provider. ThreadSol's technology focuses on fabric usage optimisation in apparel manufacturing and helps customers reduce fabric waste and cost, and establish accurate product costing. The Group acquired ThreadSol in order to expand the offerings of the Coats Digital business.

The initial consideration transferred for the acquisition was $3.8 million and net of cash and cash equivalents acquired was $3.7 million.

In addition consideration of $0.6 million was paid following finalisation of certain completion consideration adjustments based on the amount of cash and net working capital at the acquisition date.

Contingent deferred consideration amounts are also payable. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Contingent deferred consideration amounts will therefore be charged to the income statement over the period of service they relate to. Up to $6.4 million is payable over a service period of four years to 31 December 2022. The charge to the income statement for contingent deferred consideration for the year ended 31 December 2019 was $0.5 million.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Fair values of the identifiable assets and liabilities of ThreadSol as at the date of acquisition were as follows:

	Fair value recognised US$m
Assets:	
Intangible assets	3.9
Property, plant and equipment	0.1
Trade and other receivables	0.6
Cash and cash equivalents	0.1
	4.7
Liabilities:	
Trade and other payables	(0.7)
Deferred tax liabilities	(0.6)
Total identifiable net assets acquired at fair value	**3.4**
Goodwill recognised on acquisition	1.0
Total consideration paid	**4.4**

In accounting for the acquisition, adjustments were made to the book values of the net assets of the company acquired to reflect their fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired was completed during the year ended 31 December 2019 within 12 months of the acquisition date.

Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial. There are no material contingent liabilities recognised in the amounts above in accordance with paragraph 23 of IFRS 3 (revised).

The excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired is represented by software of $2.1 million, in process technology of $1.7 million and brands and trade names of $0.1 million, with residual goodwill arising of $1.0 million.

The goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across the Group; and
- the ability to exploit the Group's existing customer base.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

ThreadSol revenues of $0.8 million and loss before tax of $1.6 million from the date of acquisition to 31 December 2019 has been included in the results from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been $1.0 million and the loss before tax would have been $1.8 million based on unaudited management accounts for the year ended 31 December 2019.

Transaction costs of $0.1 million were expensed and included in administrative expenses in the consolidated income statement for the year ended 31 December 2019. Transaction costs paid in the year ended 31 December 2019 were $0.6 million and are included in the cash flows absorbed in investing activities in the condensed consolidated cash flow statement.

The total cash outflow in the year ended 31 December 2019 relating to the acquisition of ThreadSol was $4.9 million representing the consideration paid net of cash and cash equivalents acquired of $4.3 million and transaction costs paid of $0.6 million.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

b) Acquisition of Pharr High Performance Yarns
On 10 February 2020 the Group completed the acquisition of the trade and assets of Pharr High Performance Yarns ("Pharr HP"), a market leading manufacturer of high performance engineered yarns, based in McAdenville, North Carolina, US. Pharr HP specialises in providing technical yarn solutions to the growing markets of Industrial Thermal Protection, Defence and Fire Service industries. Its manufacturing capabilities and customer base will provide the Group with further expertise within Personal Protection, a key end-use market in the Performance Materials operating segment. Other parts of Pharr, such as the carpet yarns business and specialty flooring products business are not included as part of the acquisition.

The initial consideration transferred on the date of acquisition to acquire the Pharr HP business was $37 million.

Transaction costs relating to the acquisition totalling $0.9 million have been expensed and are included in administrative expenses in the consolidated income statement. Transaction costs paid in connection with the acquisition in the year ended 31 December 2019 were $0.3 million and are included in the cash flows absorbed in investing activities in the consolidated cash flow statement.

The Group is in the process of completing the assessment of the fair value of assets and liabilities acquired of the Pharr HP business, including any intangible assets. Given the completion date of the acquisition of Pharr HP was after the 31 December 2019 year end and given the acquisition is for the trade and assets of the Pharr HP business which requires separation from other parts of Pharr that have not been acquired, it has not been practical to complete this assessment as yet.

As of the completion date it is expected that the amount of the net tangible assets of Pharr HP will be broadly similar to the initial consideration paid of $37 million, which may be subject to adjustment for the actual level of net working capital at completion, and before any adjustments to book values of net tangible assets to reflect their fair values to the Group and before the alignment of accounting policies to those of the Group where appropriate.

As the acquisition was completed after the 31 December 2019 year end, the results of Pharr HP have not been consolidated in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

32 Sale of North America Crafts
In January 2019, Coats agreed to sell its non-core North America Crafts business to Spinrite Acquisition Corp for cash consideration payable at completion of $37 million. The sale proceeds, which were on a debt and cash free basis, were subject to an adjustment for the level of net working capital as at the time of completion.

The assets and liabilities at 31 December 2018 of the North America Crafts business were reclassified as a disposal group held for sale and the results of the business are reported as discontinued operations in the income statement, including prior period amounts. The sale was completed on 20 February 2019, the date which control passed to the acquirer.

a) Discontinued operations
The results of discontinued operations are presented below. All amounts relate to the North America Crafts business unless stated:

Year ended 31 December	2019 US$m	2018 US$m
Revenue	**14.8**	128.3
Cost of sales	**(10.4)**	(88.5)
Gross profit	**4.4**	39.8
Distribution costs	**(3.7)**	(29.2)
Administrative expenses	**(2.4)**	(11.5)
Other operating income	**1.6**	3.6
Operating (loss)/profit and (loss)/profit before taxation	**(0.1)**	2.7
Tax on (loss)/profit	**0.2**	0.1
Profit from discontinued operations	**0.1**	2.8
Losses on disposal (note 32 (b))	**(0.6)**	-
Loss arising on measurement to fair value less cost to sell (see note 32 (c))	**-**	(18.4)
Total loss from discontinued operations	**(0.5)**	(15.6)

Revenue in the table above includes inter-company sales of $nil for the year ended 31 December 2019 (2018: $0.8 million). External revenue of the North America Crafts business for the year ended 31 December 2019 was $14.8 million (2018: $127.5 million).

The loss per ordinary share from discontinued operations is as follows:

Year ended 31 December	2019 Cents	2018 Cents
Loss per ordinary share from discontinued operations:		
Basic loss per ordinary share	**(0.03)**	(1.09)
Diluted loss per ordinary share	**(0.03)**	(1.08)

The table below sets out the cash flows from discontinued operations:

Year ended 31 December	2019 US$m	2018 US$m
Net cash inflow from operating activities	**0.3**	1.5
Net cash inflow from investing activities	**0.5**	5.9
Net cash flows from discontinued operations	**0.8**	7.4

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

b) Loss on disposals
The major classes of assets and liabilities disposed relating to North America Crafts as of the disposal date on 20 February 2019 were as follows:

	US$m
Property, plant and equipment	**-**
Right-of-use assets	**13.8**
Inventories	**35.3**
Trade and other receivables	**13.6**
Total assets	**62.7**
Trade and other payables	**(13.2)**
Deferred tax liabilities	**(0.2)**
Lease liabilities	**(13.6)**
Total liabilities	**(27.0)**
Net assets disposed	**35.7**
Consideration received	**(34.6)**
Disposal costs and completion adjustments	**1.4**
Curtailment gain on post-retirement medical liabilities	**(1.4)**
Total exceptional loss on disposal of North America Crafts	**1.1**
Profit on disposal of legacy UK Crafts property	**(0.5)**
Exceptional loss on disposals – discontinued operations	**0.6**

Following the sale of the North America Crafts business, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters (see note 28).

In addition Coats retains the previously incurred pension obligations and post-retirement medical liabilities from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of $64.7 million at 31 December 2018 with a recoverable surplus of $48.1 million recognised on the balance sheet. As a consequence of the disposal during the year ended 31 December 2019 the recoverable surplus recognised on the balance sheet was reduced by $10.6 million (although there was no change in the gross surplus in the scheme) and a curtailment gain arose on the post-retirement medical liabilities of $1.4 million, net of tax.

c) Assets and liabilities held for sale
Assets and liabilities classified as held for sale are set out below. The assets and liabilities of the disposed North America Crafts were classified as a disposal group held for sale at 31 December 2018:

31 December	**2019 US$m**	2018 US$m
Assets of the disposal group classified as held for sale	**-**	50.6
Other non-current assets classified as held for sale[1]	**1.5**	0.8
Total assets of the disposal group and non-current assets classified as held for sale	**1.5**	51.4
Liabilities of the disposal group classified as held for sale	**-**	(17.9)
Total net assets classified as held for sale	**1.5**	33.5

1. The other non-current assets held for sale of $1.5 million (31 December 2018: $0.8 million) are property, plant and equipment that do not relate to North America Crafts.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The major classes of assets and liabilities held for sale relating to North America Crafts at 31 December 2018 are as follows:

31 December	2018 US$m
Property, plant and equipment	–
Inventories	34.0
Trade and other receivables	16.6
Total assets of the disposal group classified as held for sale	**50.6**
Trade and other payables	17.4
Deferred tax liabilities	0.5
Total liabilities of the disposal group classified as held for sale	**17.9**

As at the date of reclassification of the North America Crafts disposal group to held for sale, the fair value less cost to sell was less than the carrying amounts. The loss arising on measurement to fair value less costs to sell was $18.4 million which has been included as an exceptional charge within the loss from discontinued operations and includes transaction costs incurred for the year ended 31 December 2018.

The loss arising on measurement to fair value less costs to sell was applied to reduce the carrying amounts of property plant and equipment by $10.8 million to $nil and inventories by $3.5 million to $34.0 million with additional liabilities and costs of $4.1 million being recognised as of 31 December 2018.

33 Related party transactions
Remuneration of key management personnel
Following the disposal of the North America Crafts business in 2019 and the change in the Group's operating segments to Apparel & Footwear and Performance Materials, the Group Executive Team are deemed to be the key management personnel of the Group. In the prior year the key management personnel were the directors of Coats Group plc and therefore comparatives have been restated on a consistent basis. The remuneration of the Group Executive Team, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided on pages 70 to 85 in the audited part of the Directors' Remuneration Report.

Year ended 31 December	2019 US$m	Restated 2018 US$m
Short-term employee benefits	8.6	8.7
Share based payments	2.8	2.4
	11.4	11.1

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Trading transactions
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures are disclosed below.

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Sale of goods		Purchase of goods	
	2019 US$m	2018 US$m	**2019 US$m**	2018 US$m
Joint ventures	**3.8**	3.7	**55.1**	50.9

Amounts owing by/(to) joint ventures at the year end are disclosed in notes 19 and 21. All transactions with joint ventures are at an arm's length and payment terms are consistent with normal trading terms with third parties.

34 Derivatives and Other Financial Instruments
The Group's main financial instruments comprise:

Financial assets:
- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial liabilities:
- trade, other payables and certain provisions that arise directly from the Group's operations;
- bank borrowings and overdrafts; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial assets
The Group's financial assets are summarised below:

Year ended 31 December	2019 US$m	2018 US$m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	**177.4**	135.7
Trade receivables (note 19)	**209.4**	216.0
Other receivables (note 19), net of non-financial assets $22.1 million (2018: $25.4 million)	**31.7**	29.8
	418.5	381.5
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 20)	**2.9**	1.6
	2.9	1.6
Other financial assets carried at fair value through the statement of comprehensive income:		
Other investments (note 16)	**6.2**	6.7
Derivative financial instruments (note 20)	**1.3**	1.3
	7.5	8.0
Total financial assets	**428.9**	391.1

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Financial liabilities
The Group's financial liabilities are summarised below:

Year ended 31 December	2019 US$m	2018 US$m
Financial liabilities carried at amortised cost:		
Trade payables (note 21)	**170.7**	205.3
Amounts owed to joint ventures (note 21)	**16.2**	11.6
Other financial liabilities	**93.6**	97.8
Provisions (note 25)	**2.2**	3.9
Lease liabilities (note 15)	**65.0**	-
Borrowings (note 23)	**327.3**	358.4
	675.0	677.0
Financial liabilities carried at fair value through the income statement:		
Derivative financial instruments (note 22)	**1.5**	0.7
Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income:		
Derivative financial instruments (note 22)	**-**	3.5
Total financial liabilities	**676.5**	681.2

Other financial liabilities include other payables, other than taxation and other statutory liabilities.

Fair value of financial assets and liabilities
The fair value of the Group's financial assets and liabilities is summarised below:

	2019		2018	
Year ended 31 December	Book value US$m	Fair value US$m	Book value US$m	Fair value US$m
Primary financial instruments:				
Cash and cash equivalents	**177.4**	**177.4**	135.7	135.7
Trade receivables	**209.4**	**209.4**	216.0	216.0
Other receivables	**31.7**	**31.7**	29.8	29.8
Other investments	**6.2**	**6.2**	6.7	6.7
Trade payables	**(170.7)**	**(170.7)**	(205.3)	(205.3)
Amounts owed to joint ventures	**(16.2)**	**(16.2)**	(11.6)	(11.6)
Other financial liabilities and provisions	**(95.8)**	**(95.8)**	(101.7)	(101.7)
Borrowings	**(327.3)**	**(327.3)**	(358.4)	(358.4)
Derivative financial instruments:				
Forward foreign currency contracts	**1.4**	**1.4**	0.9	0.9
Interest rate swaps	**1.3**	**1.3**	(2.2)	(2.2)
Net financial liabilities	**(182.6)**	**(182.6)**	(290.1)	(290.1)

Market values have been used as proxies for the fair value of all listed investments. Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than 12 months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Fair value measurements recognised in the statement of financial position

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques which include inputs for the asset or liability that are not observable market data (unobservable inputs).

Financial assets measured at fair value

Year ended 31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2019				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**2.9**	**-**	**2.9**	**-**
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	**6.2**	**1.2**	**-**	**5.0**
Derivatives designated as effective hedging instruments	**1.3**	**-**	**1.3**	**-**
	10.4	**1.2**	**4.2**	**5.0**
2018				
Financial assets measured at fair value through the income statement:				
Trading derivatives	1.6	–	1.6	–
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	6.7	1.7	–	5.0
Derivatives designated as effective hedging instruments	1.3	–	1.3	–
	9.6	1.7	2.9	5.0

Financial liabilities measured at fair value

Year ended 31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2019				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(1.5)**	**-**	**(1.5)**	**-**
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**-**	**-**	**-**	**-**
	(1.5)	**-**	**(1.5)**	**-**
2018				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(0.7)	–	(0.7)	–
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	(3.5)	–	(3.5)	–
	(4.2)	–	(4.2)	–

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Level 1 financial instruments are valued based on quoted bid prices in an active market. Level 2 financial instruments are measured by discounted cash flow. For interest rates swaps future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the various counterparties. For foreign exchange contracts future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of the various counterparties. Equity instruments that are classified as level 3 financial instruments relate to the Group's investment in Twine Solutions Limited which was acquired in December 2018. Given the business is still at start-up phase and there have been no indications of impairment, the carrying value is deemed to approximate to fair value.

The main risks arising from the Group's financial instruments are as follows:

- currency risk;
- interest rate risk;
- capital risk;
- market price risk;
- liquidity risk; and
- credit risk.

The Group's policies for managing those risks are described on pages 164 to 170 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate.

Currency risk
The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of both its financial assets and financial liabilities are denominated in currencies other than US Dollars, which is the Group's presentational currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's US Dollar statement of financial position will be affected by short-term movements in exchange rates, particularly the value of Sterling, Euro, Indian Rupee and Brazilian Real. The Group's investments reflect the requirements of its customers, which results in investments in potentially more volatile developing market currencies. However, as a diverse global business, there are many natural offsets within the Group that tend to mitigate the risk associated with any individual currency volatility.

The Group uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted by group companies in currencies other than their functional currency. Such foreign currency contracts are only entered into when there is a commitment to the underlying transaction. The contracts used to hedge future transactions typically have a maturity of between three months and one year.

Interest rate risk
In 2019, the Group financed its operations through shareholders' funds, bank borrowings, Senior Notes and overdrafts. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to committed bank facilities amounting to some $350.0 million, of which $60.0 million had been drawn down at year end and $225.0 million of Senior Notes (see note 23).

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and risk appetite. In order to achieve hedge effectiveness, when entering into interest rate swap contracts, the cash flows, interest rate references and maturity of the underlying exposure of the hedged item are considered so as to match the hedging instrument. The ratio of fixed to floating rate hedging is established according to Group policy which prescribes a banded range for the fixed to floating ratio. The ratio of fixed to floating will decrease over a rolling 5-year period.

The Group's interest income does not vary significantly from the returns it would generate through investing surplus cash at floating rates of interest since the interest rates are re-set on a regular basis.

A reasonably possible change of one per cent in market interest rates would reduce profit before tax by approximately $0.7 million (2018: $1.0 million), and would reduce shareholders' funds by approximately $3.5 million (2018: $8.9 million).

Trade and other receivables and trade and other payables are excluded from the following disclosure (other than the currency disclosures) as there is limited interest rate risk.

Capital risk management
The Group manages its capital so as to ensure that the Company and the Group will be able to continue as a going concern.

The Group's capital structure comprises cash and cash equivalents and borrowings (see Summary of net debt on page 155), and share capital and reserves attributable to the equity shareholders of the Company.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Currency exposure

The table below shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation.

	Net foreign currency financial assets/(liabilities)						
Functional currency 2019	**Sterling US$m**	**US dollars US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**	**Other US$m**	**Total US$m**
Sterling	**-**	**0.4**	**1.4**	**-**	**-**	**1.9**	**3.7**
US dollars	**(21.9)**	**-**	**(1.3)**	**-**	**-**	**(7.9)**	**(31.1)**
Euros	**0.9**	**1.6**	**-**	**0.1**	**-**	**(0.5)**	**2.1**
Indian Rupees	**-**	**1.8**	**(0.5)**	**-**	**-**	**-**	**1.3**
Brazilian Reals	**-**	**(2.5)**	**-**	**-**	**-**	**-**	**(2.5)**
Other currencies	**-**	**(10.1)**	**5.8**	**0.7**	**-**	**-**	**(3.6)**
	(21.0)	**(8.8)**	**5.4**	**0.8**	**-**	**(6.5)**	**(30.1)**

	Net foreign currency financial assets/(liabilities)						
Functional currency 2018	Sterling US$m	US dollars US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m	Other US$m	Total US$m
Sterling	–	6.2	(3.8)	–	–	0.6	3.0
US dollars	(24.6)	–	(12.9)	–	0.1	28.9	(8.5)
Euros	0.8	(3.9)	–	–	–	0.6	(2.5)
Indian Rupees	–	6.6	(0.9)	–	–	–	5.7
Brazilian Reals	–	0.8	–	–	–	0.1	0.9
Other currencies	(0.1)	(23.0)	12.4	–	–	(0.8)	(11.5)
	(23.9)	(13.3)	(5.2)	–	0.1	29.4	(12.9)

The following table shows the impact on pre-tax profit and shareholders' funds of reasonably possible changes in exchange rates against each of the major foreign currencies in which the Group transacts:

2019	**Sterling US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**
Increase in US dollar exchange rate	**10%**	**10%**	**10%**	**10%**
(Decrease)/increase in profit before tax	**(3.7)**	**(0.3)**	**(0.2)**	**0.2**
(Decrease)/increase in shareholders' funds	**(7.6)**	**1.5**	**4.1**	**1.8**

2018	Sterling US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m
Increase in US dollar exchange rate	10%	10%	10%	10%
(Decrease)/increase in profit before tax	(4.3)	(0.9)	(0.7)	(0.1)
(Decrease)/increase in shareholders' funds	(12.3)	0.4	3.7	3.2

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Currency profile of financial assets
The currency profile of the Group's financial assets was as follows:

					2019					2018
31 December	**Investments US$m**	**Cash and cash equivalents US$m**	**Trade and other receivables US$m**	**Derivative financial instruments US$m**	**Total US$m**	Investments US$m	Cash and cash equivalents US$m	Trade and other receivables US$m	Derivative financial instruments US$m	Total US$m
Currency:										
Sterling	**-**	**0.6**	**7.3**	**60.5**	**68.4**	–	0.2	9.0	–	9.2
United States dollars	**5.0**	**114.1**	**90.1**	**(110.3)**	**98.9**	5.0	65.8	103.1	(46.1)	127.8
Euros	**0.1**	**5.7**	**23.0**	**(2.9)**	**25.9**	0.1	3.5	25.6	(3.9)	25.3
Indian Rupees	**1.1**	**18.1**	**24.3**	**14.3**	**57.8**	1.1	10.5	24.8	18.0	54.4
Brazilian Reals	**-**	**1.8**	**22.2**	**(1.2)**	**22.8**	–	5.5	18.1	(7.8)	15.8
Other currencies	**-**	**37.1**	**74.2**	**43.8**	**155.1**	0.5	50.2	65.2	42.7	158.6
Total financial assets	**6.2**	**177.4**	**241.1**	**4.2**	**428.9**	6.7	135.7	245.8	2.9	391.1

The investments included above comprise listed and unlisted investments in shares and bonds.

Currency and interest rate profile of financial liabilities
The currency and interest rate profile of the Group's financial liabilities was as follows:

						2019					2018
31 December	**Floating rate US$m**	**Fixed rate US$m**	**Interest free US$m**	**Lease liabilities US$m**	**Derivative financial instruments US$m**	**Total US$m**	Floating rate US$m	Fixed rate US$m	Interest free US$m	Derivative financial instruments US$m	Total US$m
Currency:											
Sterling	**1.3**	**-**	**10.8**	**5.4**	**(35.3)**	**(17.8)**	0.2	–	15.2	(60.4)	(45.0)
United States dollars	**95.2**	**220.0**	**126.7**	**11.2**	**9.2**	**462.3**	143.8	200.1	148.4	31.8	524.1
Euros	**5.5**	**-**	**12.5**	**3.2**	**19.7**	**40.9**	10.4	–	16.2	31.5	58.1
Indian Rupees	**-**	**-**	**38.4**	**16.0**	**-**	**54.4**	–	–	44.4	–	44.4
Brazilian Reals	**-**	**-**	**12.6**	**0.6**	**7.1**	**20.3**	–	0.8	12.6	–	13.4
Other currencies	**2.7**	**2.6**	**81.7**	**28.6**	**0.8**	**116.4**	3.0	0.1	81.8	1.3	86.2
Total financial liabilities	**104.7**	**222.6**	**282.7**	**65.0**	**1.5**	**676.5**	157.4	201.0	318.6	4.2	681.2

The benchmark for determining floating rate liabilities in the UK is LIBOR for both sterling and US$ loans.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Details of fixed and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

	2019			2018		
	Fixed rate financial liabilities		**Financial liabilities on which no interest is paid**	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Year ended 31 December	**Weighted average interest rate %**	**Weighted average period for which rate is fixed (months)**	**Weighted average period until maturity (months)**	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Currency:						
Sterling	**-**	**-**	**18**	-	-	18
United States dollars	**3.61**	**61**	**-**	3.47	61	-
Other currencies	**11.58**	**12**	**-**	-	-	-
Weighted average	**3.70**	**60**	**18**	3.47	61	18

Currency profile of foreign exchange derivatives

	Assets		Liabilities	
Year ended 31 December	**2019 US$m**	2018 US$m	**2019 US$m**	2018 US$m
Currency:				
Sterling	**97.8**	62.3	**(1.9)**	(1.9)
United States dollars	**42.7**	59.1	**(163.5)**	(134.8)
Euros	**-**	–	**(22.7)**	(35.4)
Indian Rupee	**14.3**	18.0	**-**	–
Brazilian Real	**-**	–	**(8.3)**	(7.8)
Other currencies	**57.0**	59.2	**(14.0)**	(17.8)
	211.8	198.6	**(210.4)**	(197.7)

Market price risk

The Group has equity and bond investments at 31 December 2019 of $6.2 million (2018: $6.7 million) held for strategic rather than trading purposes. The Group does not actively trade these investments and is not materially exposed to price risk.

The sensitivity analyses below have been determined based on the exposure to reasonably possible price changes for the investments held at the year end.

Year ended 31 December	**2019 US$m**	2018 US$m
Impact of a 10% increase in prices:		
Increase in pre-tax profit for the year	**-**	–
Increase in equity shareholders' funds	**0.6**	0.7

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Liquidity risk
The Group typically holds cash balances in deposits with a short maturity. Additional resources can be drawn through committed borrowing facilities at operating subsidiary level. During the year the Group has complied with all externally imposed capital requirements.

The Group had the following undrawn committed borrowing facilities in respect of which all conditions precedent had been met at the year-end:

Year ended 31 December	2019 US$m	2018 US$m
Expiring between two and five years	**290.0**	235.0

Maturity of undiscounted financial assets (excluding derivatives)
The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

Year ended 31 December	2019 US$m	2018 US$m
In one year or less, or on demand	**404.1**	368.5
In more than one year but not more than two years	**7.7**	7.6
In more than two years but not more than five years	**3.2**	2.1
In more than five years	**6.0**	10.0
	421.0	388.2

Maturity of undiscounted financial liabilities (excluding derivatives)
The expected maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

Year ended 31 December	2019 US$m	2018 US$m
In one year or less, or on demand	**339.6**	333.3
In more than one year but not more than two years	**19.0**	7.1
In more than two years but not more than five years	**212.2**	115.5
In more than five years	**123.7**	225.0
	694.5	680.9

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

Maturity of undiscounted financial derivatives
The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows, was as follows:

	Assets		Liabilities	
Year ended 31 December	2019 US$m	2018 US$m	2019 US$m	2018 US$m
In one year or less, or on demand	**174.0**	199.6	**(172.5)**	(198.5)
In more than one year but not more than two years	**24.3**	0.3	**(24.0)**	(0.7)
In more than two years but not more than five years	**15.3**	–	**(13.9)**	(1.6)
In more than five years	**-**	–	**-**	(0.4)
	213.6	199.9	**(210.4)**	(201.2)

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Credit risk

Year ended 31 December	2019 US$m	2018 US$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**177.4**	135.7
Derivative financial instruments	**4.2**	2.9
Trade receivables (net of impairment provision)	**209.4**	216.0
Other receivables	**31.7**	29.8
	422.7	384.4
Financial assets considered not to have exposure to credit risk:		
Other investments	**6.2**	6.7
Total financial assets	**428.9**	391.1
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**17.0**	22.0
Trade receivables between 1 and 2 months over permitted credit period	**5.1**	5.5
Trade receivables between 2 and 3 months over permitted credit period	**1.7**	2.2
Trade receivables between 3 and 6 months over permitted credit period	**2.3**	2.2
Trade receivables in excess of 6 months over permitted credit period	**0.3**	0.7
Total trade receivables (net of impairment provision) in excess of permitted credit period	**26.4**	32.6
Trade receivables within permitted credit period	**183.0**	183.4
Total net trade receivables	**209.4**	216.0
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**0.1**	0.1
Trade receivables between 1 and 2 months over permitted credit period	**-**	–
Trade receivables between 2 and 3 months over permitted credit period	**-**	0.1
Trade receivables between 3 and 6 months over permitted credit period	**0.2**	0.4
Trade receivables in excess of 6 months over permitted credit period	**7.8**	9.0
Total impairment provision	**8.1**	9.6

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports.
All active customers are subject to an annual review, or more frequent if appropriate, review of their credit limits and credit periods.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

The Group monitors receivables for any significant increases in credit risk, and fully provides for trade receivables which are more than 6 months overdue, unless there are specific circumstances which would indicate otherwise. For all other trade receivables, when determining expected losses, the Group takes into account the historical default experience and the financial position of the counterparties, as well as the future prospects considering various sources of information.

The Group does not have a significant credit risk exposure to any single customer.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Hedges
During 2019, the Group has hedged the following exposures:

- interest rate risk – using interest rate swaps; and
- currency risk – using forward foreign currency contracts.

At 31 December 2019, the fair value of such hedging instruments was a net asset of $2.7 million (2018: $1.3 million net liability). During the year a gain of $4.8 million (2018: $1.0 million loss) in respect of interest rate swap hedges was recognised in other comprehensive income.
In addition a profit of $0.3 million (2018: $0.6 million) was reclassified from other reserves to the profit and loss account.

Cash flow hedges outstanding at 31 December are expected to increase/(decrease) the income statement in the following periods:

Year ended 31 December	2019 US$m	2018 US$m
Within one year	**0.4**	0.3
Within one to two years	**0.3**	(0.4)
Within two to five years	**0.6**	(1.6)
In more than five years	**-**	(0.4)
	1.3	(2.1)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

The Group holds both interest rate swaps exchanging floating rate amounts for fixed rate amounts and exchanging fixed rate amounts for floating amounts. This ensures that the Group holds an appropriate level of both fixed rate and floating rate borrowings, in line with Board approved policies. The amount accumulated in equity is reclassified to profit or loss over the period that the interest payments on debt affect profit or loss.

35 Share-based payments
The total cost recognised in the consolidated Income Statement in respect of equity settled share-based payment plans was as follows:

Year ended 31 December	2019 US$m	2018 US$m
Long Term Incentive Plan ('LTIP')	**5.9**	7.5
Deferred bonuses	**0.8**	0.6
	6.7	8.1

The average share price for the year ended 31 December 2019 was 78.0p (2018: 79.8p).

LTIP
Under the terms of the Coats Group LTIP, executive directors and key senior executives may be awarded each year conditional entitlements to ordinary shares in the Company (in the form of nil cost options). The vesting of awards is subject to the satisfaction of a three-year performance condition, which is determined by the Remuneration Committee at the time of grant. The performance condition includes both market and non-market based measures.

Details of options outstanding under equity settled awards:

	2019 Options	2018 Options
Outstanding at 1 January	**58,634,695**	69,840,970
Granted during the year	**9,780,094**	12,553,061
Vested during the year	**(4,252,860)**	(9,831,730)
Lapsed during the year	**(2,233,488)**	(3,502,615)
Exercised during the year	**(17,524,116)**	(10,424,991)
Outstanding at 31 December	**44,404,325**	58,634,695
Exercisable at 31 December	**11,891,514**	6,752,045

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 7.3 years (2018: 7.0 years).

The fair value of the market-based component of these awards was calculated using the Monte Carlo simulation method to reflect the likelihood of the market-based Total Shareholder Return ('TSR') performance condition, which attach to 20% (2018: 20%) of the award, being met, using the following assumptions:

	2019	2018
Vesting period	**3 years**	3 years
Share price at valuation date	**81.5p**	82.0p
Exercise price	**Nil**	Nil
Risk free rate	**0.82%**	0.84%
Expected dividend yield	**0%**	0%
Expected volatility	**32.65%**	30.92%
Fair value per share	**48.0p**	49.0p

Deferred bonuses
Under the terms of the Coats Group Deferred Bonus Plan, any bonuses awarded to executive directors and key senior management will be the subject of a mandatory 25% to 40% deferred into shares, to be held for a three year retention period. Annual bonuses will be determined by reference to performance, in the normal course measured over one financial year. Awards are normally exercisable after three years.

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of 3.0 years (2018: 2.2 years).

Share option scheme
The Company granted a number of awards under a share option scheme prior to 2010. There are no outstanding or exercisable share options under this scheme as of 31 December 2019 as set out below:

	2019		2018	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**589,705**	**25.95p**	6,835,406	47.92p
Lapsed during the year	**(64,960)**	**25.95p**	(1,932,397)	50.00p
Exercised during the year	**(524,745)**	**25.95p**	(4,313,304)	50.00p
Outstanding at 31 December	**-**	**-**	589,705	25.95p
Exercisable at 31 December	**-**	**-**	589,705	25.95p

The options outstanding at 31 December 2019 had a weighted average remaining contractual life of nil years (2018: 0.5 years).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

36 Post balance sheet events
On 10 February 2020 the Group completed the acquisition of the trade and assets of Pharr High Performance Yarns (see note 31 for further details).

37 Alternative Performance Measures
This Annual Report contains both statutory measures and alternative performance measures which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the Group's business is managed and measured on a day-to-day basis.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business. A number of these measures form the basis of performance measures for remuneration incentive schemes.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting Standards ('IFRS') as adopted by the European Union and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies.

A reconciliation of alternative performance measures to the most directly comparable measures reported in accordance with IFRS is provided on pages 172 to 175.

a) Organic growth on a constant exchange rate (CER) basis
Organic growth measures the change in revenue and operating profit before exceptional and acquisition related items after adjusting for acquisitions. The effect of acquisitions is equalised by:

- removing from the year of acquisition, their revenue and operating profit; and
- in the following year, removing the revenue and operating profit for the number of months equivalent to the pre-acquisition period in the prior year.

The effects of currency changes are removed through restating prior year revenue and operating profit at current year exchange rates.

Organic revenue growth on a CER basis measures the ability of the Group to grow sales by operating in selected geographies and segments and offering differentiated cost competitive products and services.

Adjusted organic operating profit growth on a CER basis measures the underlying profitability progression of the Group.

Adjusted operating profit is calculated by adding back exceptional and acquisition related items (see note 4 for further details).

Year ended 31 December	2019 US$m	2018 US$m	% Growth
Revenue from continuing operations	**1,388.7**	1,414.7	(2)%
Constant currency adjustment	**-**	(40.4)	
Revenue on a CER basis	**1,388.7**	1,374.3	1%
Revenue from acquisitions	**(0.8)**	-	
Organic revenue on a CER basis	**1,387.9**	1,374.3	1%

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Year ended 31 December	2019 US$m	2018 US$m	% Growth
Operating profit from continuing operations[1]	**191.0**	147.1	30%
Exceptional and acquisition related items (note 4)	**7.0**	47.8	
Adjusted operating profit from continuing operations	**198.0**	194.9	2%
Constant currency adjustment	**-**	(5.9)	
Adjusted operating profit on a CER basis	**198.0**	189.0	5%
Operating loss from acquisitions	**1.6**	-	
Organic adjusted operating profit on a CER basis	**199.6**	189.0	6%

1. Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

b) Adjusted EBITDA

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, amortisation and impairments and excluding exceptional and acquisition related items.

During year ended 31 December 2019 the Group adopted IFRS 16 'Leases'. The Group has adopted the modified retrospective approach from the 1 January 2019 transitional date, and therefore comparatives have not been restated (see note 1). Accordingly to enable comparison with prior periods adjusted EBITDA does not exclude the effect of depreciation of right-of-use assets.

Operating profit from continuing operations before exceptional and acquisition related items and before depreciation and amortisation (Adjusted EBITDA) is as set out below:

Year ended 31 December	2019 US$m	2018 US$m
Operating profit from continuing operations[1]	**191.0**	147.1
Exceptional and acquisition related items (note 4)	**7.0**	47.8
Adjusted operating profit from continuing operations	**198.0**	194.9
Depreciation of owned property, plant and equipment	**29.9**	29.5
Amortisation of intangible assets	**5.1**	6.9
Adjusted EBITDA	**233.0**	231.3

1 Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

Net debt excluding lease liabilities recognised following the adoption of IFRS 16 at 31 December 2019 was $149.9 million (2018: $222.7 million).

This gives a leverage ratio of net debt excluding lease liabilities to Adjusted EBITDA at 31 December 2019 of 0.6 (2018: 1.0).

Net debt including lease liabilities following the adoption of IFRS 16 at 31 December 2019 was $214.9 million. Adjusted EBITDA excluding the effect of depreciation on right-of-use assets for the year ended 31 December 2019 was $248.2 million. This gives a leverage ratio at 31 December 2019 of 0.9 on an IFRS 16 basis.

For the definition and calculation of net debt excluding lease liabilities see note 30 (f).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

c) Underlying effective tax rate
The underlying effective tax rate removes the tax impact of exceptional and acquisition related items and net interest on pension scheme assets and liabilities to arrive at a tax rate based on the underlying profit before taxation.

A significant proportion of the Group's net interest on pension scheme assets and liabilities relates to UK pension plans for which there is no related current or deferred tax credit or charge recorded in the income statement. The Group's net interest on pension scheme assets and liabilities is adjusted in arriving at the underlying effective tax shown below and, in management's view, were this not adjusted would distort the alternative performance measure. This is consistent with how the Group monitors and manages the underlying effective tax rate.

Year ended 31 December	2019 US$m	2018 US$m
Profit before taxation	**166.8**	122.8
Exceptional and acquisition related items (note 4)	**4.4**	47.8
Net interest on pension scheme assets and liabilities	**5.5**	3.8
Underlying profit before taxation from continuing operations	**176.7**	174.4
Taxation charge from continuing operations	**50.5**	49.0
Tax credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**0.4**	4.9
Underlying tax charge from continuing operations	**50.9**	53.9
Underlying effective tax rate	**29%**	31%

d) Adjusted earnings per share
The calculation of adjusted earnings per share is based on the profit from continuing operations attributable to equity shareholders before exceptional and acquisition related items as set out below. Adjusted earnings per share growth measures the underlying progression of the benefits generated for shareholders.

Year ended 31 December	2019 US$m	2018 US$m
Profit from continuing operations	**116.3**	73.8
Non-controlling interests	**(20.1)**	(19.0)
Profit from continuing operations attributable to equity shareholders	**96.2**	54.8
Exceptional and acquisition related items net of non-controlling interests (note 4)	**4.4**	47.6
Tax credit in respect of exceptional and acquisition related items	**-**	(4.8)
Adjusted profit from continuing operations	**100.6**	97.6
Weighted average number of Ordinary Shares	**1,443,824,641**	1,420,069,352
Adjusted earnings per share (cents)	**6.97**	6.87
Adjusted earnings per share (growth %)	**1%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2019 is 1,443,824,641 (2018: 1,420,069,352), the same as that used for basic earnings per ordinary share from continuing operations (see note 11).

e) Adjusted free cash flow
Net cash generated by/(absorbed in) operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below. Adjusted free cash flow measures the Group's underlying cash generation that is available to service capital demands.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Year ended 31 December	2019 US$m	2018 US$m
Change in net debt resulting from cash flows (free cash flow)	**72.3**	24.9
Acquisition of businesses (note 30(e))	**4.9**	1.8
Acquisition of other equity investment	**-**	5.0
Disposal of businesses (note 32)	**(30.7)**	-
Net cash inflow from discontinued operations (note 32)	**(0.8)**	(7.4)
Net cash outflow in respect of exceptional reorganisation costs	**4.3**	20.7
Payments to UK pension schemes	**26.7**	24.0
UK pension consolidation costs	**-**	2.2
Net cash flows in respect of other exceptional and acquisition related items	**6.2**	7.5
Receipts from exercise of share options	**(0.2)**	(3.0)
Dividends paid to equity shareholders	**24.1**	21.1
Tax inflow in respect of adjusted cash flow items	**-**	(0.6)
Adjusted free cash flow	**106.8**	96.2

f) Return on capital employed
Return on capital employed ('ROCE') is defined as operating profit before exceptional and acquisition related items divided by period end capital employed as set out below. ROCE measures the ability of the Group's assets to deliver returns.

Year ended 31 December	2019 US$m	2018 US$m
Operating profit from continuing operations before exceptional and acquisition related items[1]	**198.0**	194.9
Non-current assets:		
Acquired intangible assets	**41.8**	40.0
Property, plant and equipment	**276.3**	282.2
Right-of-use assets	**63.4**	-
Trade and other receivables	**20.1**	21.4
Current assets:		
Inventories	**172.5**	185.4
Trade and other receivables	**261.2**	253.8
Current liabilities:		
Trade and other payables	**(284.4)**	(302.7)
Lease liabilities	**(14.1)**	-
Non-current liabilities:		
Trade and other payables	**(18.2)**	(23.1)
Lease liabilities	**(50.2)**	-
Capital employed	**467.7**	457.0
ROCE	**42.3%**	42.6%

1. Refer to note 4 for details of exceptional and acquisition related items.

During the year ended 31 December 2019 the Group adopted IFRS 16 'Leases'. The Group has adopted the modified retrospective approach from the 1 January 2019 transitional date, and therefore comparatives have not been restated (see note 1). Return on capital employed at 31 December 2019 was 42.2% (2018: 42.6%) excluding right-of-use assets and lease liabilities from capital employed in the calculation of ROCE.

COMPANY BALANCE SHEET

Year ended 31 December	Notes	2019 US$m	2018 US$m
Fixed assets:			
Investments	4	**1,244.2**	1,244.2
Current assets:			
Cash at bank and in hand		**0.8**	0.4
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		**(69.0)**	(67.0)
Trade and other payables		**(0.6)**	(0.3)
Net current liabilities		**(68.8)**	(66.9)
Net assets		**1,175.4**	1,177.3
Capital and reserves:			
Share capital	5	**89.6**	88.5
Share premium account		**10.5**	10.4
Capital redemption reserve		**14.1**	14.1
Share options reserve		**18.5**	18.5
Capital reduction reserve		**59.8**	59.8
Own shares	5	**(5.7)**	(6.8)
Profit and loss account		**988.6**	992.8
Shareholders' funds		**1,175.4**	1,177.3

The Company reported a profit for the financial year ended 31 December 2019 of $21.9 million (2018: $25.3 million).

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 4 March 2020
Company Registration No.103548

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Capital redemption reserve US$m	Share options reserve US$m	Capital reduction reserve US$m	Own shares US$m	Profit and loss account US$m	Total equity US$m
1 January 2018	87.5	7.7	14.1	18.5	59.8	(7.7)	983.9	1,163.8
Profit and total comprehensive income for the year	–	–	–	–	–	–	25.3	25.3
Issue of ordinary shares	1.0	2.7	–	–	–	–	(0.7)	3.0
Movement in own shares	–	–	–	–	–	0.9	5.4	6.3
Dividends to equity shareholders	–	–	–	–	–	–	(21.1)	(21.1)
31 December 2018	88.5	10.4	14.1	18.5	59.8	(6.8)	992.8	1,177.3
Profit and total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**21.9**	**21.9**
Issue of ordinary shares	**1.1**	**0.1**	**-**	**-**	**-**	**-**	**(1.1)**	**0.1**
Movement in own shares	**-**	**-**	**-**	**-**	**-**	**1.1**	**(0.6)**	**0.5**
Dividends to equity shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**(24.4)**	**(24.4)**
31 December 2019	**89.6**	**10.5**	**14.1**	**18.5**	**59.8**	**(5.7)**	**988.6**	**1,175.4**

COMPANY CASH FLOW STATEMENT

Year ended 31 December	2019 US$m	2018 US$m
Net cash flows from operating activities:		
Operating profit	**24.5**	21.8
Decrease in debtors	**-**	0.1
Decrease in creditors	**(0.7)**	(0.7)
Movement in provisions	**-**	(0.8)
Net cash flows from operating activities	**23.8**	20.4
Net cash flows from investing activities:		
Investments in subsidiary undertakings	**-**	(8.5)
Net cash flows from investing activities	**-**	(8.5)
Net cash flows from financing activities:		
Proceeds from sale of own shares	**0.5**	6.3
Receipts from exercise of share options	**0.2**	3.0
Dividends paid to equity shareholders	**(24.1)**	(21.1)
Net cash flows from financing activities	**(23.4)**	(11.8)
Net increase in cash and cash equivalents	**0.4**	0.1
Cash at bank and in hand at the beginning of the year	**0.4**	0.3
Cash at bank and in hand at the end of the year	**0.8**	0.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a) General information and basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting standard 102 (FRS 102) as issued by the Financial Reporting Council.

Functional currency

The functional currency of Coats Group plc continued to be United States dollars ('USD') during the year ended 31 December 2019.

b) Fixed assets – investments

Investments in subsidiary undertakings are reflected at cost less provisions for any impairment.

c) Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial assets and financial liabilities are initially measured at transaction price. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

d) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss and the assets is reduced to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

e) Share-based payments

Cash-settled

Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled

The Group operates an equity-settled Long Term Incentive Plan for executives and senior management, settlement is in the form of Coats Group plc shares. Awards under this plan are subject to both market-based and non-market-based vesting criteria.

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. As the Long Term Incentive Plan relates to employees of a subsidiary, when there is no recharge of the cost, the fair value is charged to Investments on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non market-based performance conditions and forfeitures. The corresponding credit is to shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust ('EBT') over the vesting period. Coats Group plc is the sponsoring employer of the EBT and its activities are considered an extension of the Company's activities. Therefore the shares purchased by the EBT are included as a deduction from shareholders' funds and other assets and liabilities of the EBT are recognised as assets and liabilities of Coats Group plc.

f) Taxation

Provision is made for taxation assessable on the profit or loss for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred taxation is measured on a non-discounted basis.

g) Dividends

Dividends proposed are recognised in the period in which they are formally approved for payment.

h) Critical accounting judgements and key sources of estimation uncertainty

Carrying value of investments:

The carrying values of investments are assessed annually for indicators of impairment. If an impairment review is required judgement is involved in calculating the recoverable amount. No indicators of impairment were identified during the year ended 31 December 2019.

There are no sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

2 Result for the year
The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The profit for the year attributable to shareholders was $21.9 million (2018: $25.3 million).

Details of directors' remuneration are set out on pages 70 to 85 within the Remuneration Report and form part of these financial statements.

3 Dividends
Dividends amounting to $24.4 million in respect of the year ended 31 December 2019 were payable to Coats Group plc shareholders during the year (2018: $21.1 million). Details of the proposed final dividend for the year ended 31 December 2019 are set out in note 12 of the consolidated financial statements.

4 Investments

	Investments in subsidiary undertakings US$m
At 1 January 2018	1,235.7
Additions	8.5
At 31 December 2018	1,244.2
At 31 December 2019	**1,244.2**

5 Share capital and reserves
There are 1,444,816,041 Ordinary Shares of 5p issued and fully paid at 31 December 2019 (2018: 1,427,492,032).

The movement in share capital during the year is set out in note 26 of the consolidated financial statements.

The own shares reserve at 31 December 2019 of $5.7 million (2018: $6.8 million) represents the cost of shares in Coats Group plc purchased in the market and held by an Employee Benefit Trust to satisfy awards under the Group's share based incentive plans. The number of shares held by the Employee Benefit Trust at 31 December 2019 was 14,591,071 (2018: 17,165,314).

As at 31 December 2019 the Company had distributable profits of $220.4 million (2018: $222.5 million).

6 Related party transactions
Amounts due from and to other Group companies are disclosed on the face of the Balance Sheet on page 176.

Interest payable to other Group companies during 2019 was $Nil (2018: $0.9 million).

GROUP STRUCTURE

The Company, through various subsidiaries, has branches in several different jurisdictions in which the business operates outside the UK. Unless otherwise indicated, all shareholdings owned directly or indirectly by the Company represents 100% of issued share capital of the subsidiary.

Subsidiaries:
Direct holdings of the Company

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Arrow HJC	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	B. M. Estates Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Contractors' Aggregates Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GPG (UK) Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GPG March 2004 Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	MFC (Predecessors) Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT, United Kingdom	£1.00 Ordinary
United Kingdom	S G Warburg Group Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary

Subsidiaries:
Indirect holdings of the Company

Country of Incorporation	Company name	Registered office address	Share class
Argentina	Coats Cadena S.A. – Argentina	Tucuman 1, 4th Floor, (1049) Capital Federal, Argentina	ARS1.00 Ordinary Nominal
Australia	Australian Country Spinners Pty Limited[1]	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Ordinary
Australia	Australian Country Spinners Unit Trust[1]	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Units
Australia	Coats Australian Pty Ltd	Unit 2, 56 Keys Road, Moorabbin VIC 3189, Australia	AUD0.54 Ordinary
Australia	GPG Services Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	Guinness Peat Group (Australia) Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary, AUD14,977.77 Redeemable Preference
Australia	Sabatica Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Bangladesh	Coats Bangladesh Limited	Tower 117, 117/A Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Bangladesh	Coats Crafts Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Brazil	Coats Corrente Ltda	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	BRL1.00 Ordinary
Brazil	Corrente Sociedade de Previdência Privada	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	Civil association
Bulgaria	Coats Bulgaria Eood	Tharigradsko shouse bld 7th Km, Sofia 1748, Bulgaria	BGL50.00 Ordinary
Canada	Coats Canada Inc	10 Roybridge Gate Blvd, Vaughan ON L4H 3M8, Canada	Common (no par value)
Canada	Staveley Services Canada Inc	44 Chipman Hill, Suite 1000, Saint John NB E2L 2A0, Canada	CAD Common, CAD Class A Pref 1, CAD Class A Pref 2
Chile	Coats Cadena Ltda	Enrique Gomez Correa 5750, 3er piso, Oficina No.4, Macul, Santiago, Chile	US$1.00 Ordinary
Chile	The Central Agency Limited - Chile	Enrique Gomez Correa 5750, 3er piso, Oficina No.4, Macul, Santiago, Chile	US$1.00 Ordinary
China	Coats Opti Shenzhen Limited	Shenzhen Coats Industrial Park, Fuyong Town, Baoan District, Shenzhen, China	US$1.00 Ordinary (90%)
China	Coats Shenzhen Limited	Shenzhen Coats Industrial Park, Fuyong Town, Baoan District, Shenzhen, China	US$1.00 Ordinary (90%)
China	Guangzhou Coats Limited	Art Street 11, 1106 Xin Gang Road, Haizhu District, Guanghou, 510310, China	HKD1.00 Ordinary (90%)
China	Qingdao Coats Limited	Qingdao Huanhai, Economic+Technological Development Zone, Chengyang, Qingdao 266108, China	US$1.00 Ordinary (90%)
China	Shanghai Coats Limited	No.8 Building, Export Processing Garden, Songjiang Industrial Zone 201613, Shanghai, China	US$1.00 Ordinary (90%)
Colombia	Coats Cadena Andina SA - Colombia	Avenida Santander, N.5E-87, Pereira, Colombia	COP20.63 Ordinary
Ecuador	Coats Cadena SA Ecuador	De las Avellanas E, 2-74 y El Juncal, Quito, Ecuador	US$1.00 Ordinary

1. 100% owned by the joint venture ACS Nominees Pty Limited.

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
Egypt	Coats Craft Egypt	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	EGP1.00 Ordinary
Egypt	Coats Egypt for manufacturing and dyeing sewing thread SAE	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	US$10.00 Ordinary
Egypt	Coats Industrial Trading Egypt	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	EGP4000.00 Ordinary
El Salvador	Coats El Salvador, S.A. de C.V.	Zona Franca Export Salva, Edificio No 18C, San Salvador, El Salvador	US$100.00 Ordinary
Estonia	Coats Eesti AS - Estonia	Ampri tee 9/4, Lubja küla 74010 Viimsi Vald, Harjumaa, Estonia	€63.90 Ordinary
France	Coats France S.A.S.	8 avenue Hoche, 75008, Paris, France	€0.60 Ordinary
Germany	Coats GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	€12,000,000.00 Ordinary
Germany	Coats Opti Germany GmbH	1 Suedwieke 180, 26817 Rhauderfehn, Germany	€1.00 Ordinary
Germany	Coats Thread Germany GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	€1.00 Ordinary
Germany	Schwanenwolle Tittel & Krueger AG i. L	RHS, Stadtstrasse 29, 79104 Freiburg, Germany	DEM1.00 Ordinary
Guatemala	Centraltex de Guatemala, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Coats de Guatemala, S.A.	13-78 Zona 10, Edif. Intercontinental Plaza Torre Citigroup Nivel 17, Oficina 1702, Ciudad, Guatemala	GTQ1.00 Ordinary
Guatemala	Crafts Central America, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Distribuidora Coats de Guatemala, Sociedad Anomina	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ1.00 Ordinary
Guatemala	Guatemala Thread Company Sociedad Anonima	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ10.00 Ordinary
Honduras	Coats Honduras, S.A.	Edificio #13 Zona Libre Inhdelva, 800 mts. Carretera a la Jutosa, Choloma, Cortes, Honduras	HNL100.00 Ordinary
Hong Kong	China Thread Development Company Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats (China) Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats China Holdings Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats Hong Kong Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary (90%)
Hong Kong	Coats Opti Hong Kong Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD1.00 Ordinary
Hong Kong	Coats Thread HK Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Fast React Asia (HK) Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	HKD1.00 Ordinary
Hong Kong	Fastreact Systems (Far East) Co Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	HKD1.00 Ordinary
Hungary	Coats Magyarorszag Cernagyarto es Ertekesito Korlatolt Felelossegu Tarsasag	1044 Budapest, Vaci ut 91, Hungary	HUF100,000.00 Ordinary
India	Intellosol Softwares India Private Limited	Ground Floor, S-606-B School Block, Shakarpur Delhi, East Delhi, DL – 110092 India	INR10.00 Ordinary
India	Madura Coats Private Limited	7th Floor, Jupiter 2A, Prestige Tech Park, Sarjapur Marathalli Ring Road, Bangalore, 560103, India	INR10.00 Ordinary
Indonesia	PT. Coats Rejo Indonesia	Jl RA Kartini No 26, Jakarta 12430, Indonesia	IDR415.00 Ordinary-A, IDR627.00 Ordinary-B, US$1.00 Preference
Indonesia	PT Coats Trading Indonesia	Ventura Building, 4th Floor, Jl RA Kartini No 26, Cilandak, Jakarta 12430, Indonesia	USD1.00 Ordinary
Israel	Coats (Israel) Ltd	2 Shidlovsky Road, Yavne, Israel	US$400.00 Ordinary
Italy	Coats Italy S.r.l.	Sesto San Giovanni (MI), Via Milanese, 20 CAP, 20099, Milan, Italy	€5,000,000.00 Quota
Korea, Republic of	Coats Korea Co., Limited	74 Siu-ro, Danwon-gu, Ansan City, Republic of Korea, 15436	KRW10,000.00 Ordinary
Madagascar	Coats (Madagascar) International	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	MGF100,000.00 Ordinary
Madagascar	Coats (Madagascar) S.AR.L (EPZ)	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	MGF100,000.00 Ordinary
Malaysia	Coats Thread (Malaysia) Sdn. Bhd.	49-B Jalan Melaka Raya 8, Taman Melaka Raya, 75000 Melaka, Malaysia	RM10.00 A, RM10.00 B, RM10.00 C (99%)
Mauritius	J & P Coats (Mauritius) Ltd	Allee des Mangues, Pailles, Mauritius	Rs100.00 Ordinary
Mauritius	Coats Indian Ocean Holding Co Limited	2nd Floor, IBL House, Caudan, Port-Louis, Mauritius	US$100.00 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
Mexico	Coats Assets de Mexico SA de CV	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXN1.00 Series A Fixed
Mexico	Coats Mexico S.A. de C.V.	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXP1.00 Ordinary-A, MXP1.00 Ordinary-B
Morocco	Coats Maroc	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Morocco	Mercerie Industrielle de Casablanca	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Netherlands	Coats Industrial Europe Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Industrial Thread Holdings B.V	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Northern Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats South America Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats South Asia Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Southern Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Guinness Peat Group International Holdings BV	Naritaweg 165, 1043 BW, Amsterdam, Netherlands	€500.00 Ordinary
New Zealand	Coats Patons (New Zealand) Ltd	3 Mana Place, Wira, Auckland, New Zealand	NZD1.00 Ordinary
Nicaragua	Coats de Nicaragua SA	Altamira d'este, Rotonda Madrid #235, Managua, Nicaragua	NIO100.00 Ordinary
Pakistan	J & P Coats Pakistan (Pvt) Limited	Suites 112-113, Prime Office Lobby, Park Towers, Shahrah-e-Firdousi, Clifton, Karachi, 75600, Pakistan	PKR100.00 Ordinary
Peru	Coats Cadena SA - Peru	Av. Republica de Panama 3461, Piso 9, San Isidro, Lima, Peru	PEI0.01 Ordinary (99%)
Poland	Coats Polska Spolka z oganiczona odpowiedzialnoscia	91-214 Lodz, ul, Kaczencowa 16, Poland	PLN1,000.00 Ordinary
Portugal	Coats - Comercio de Linhas, Fechos e Acessorios, Para a Industria SA	Praca do Almada, No 10, 4490, Povoa do Varzim, Portugal	€1.00 Ordinary Bearer Shares
Portugal	Companhia de Linha Coats & Clark S.A.	Praca do Almada, No 10, 4490, Povoa do Varzim, Portugal	€1.00 Bare Shares
Romania	Coats Romania SRL	Municipiul Odorheiu Secuiesc, Str. Nicolae Balcescu, Nr. 71, Judetul Harghita, Romania	RON169.38 Ordinary
Russian Federation	Coats LLC	53 Lenin Street, Oktyabrsky, Lubertsy, 140060, Moscow Region, Russia	SUR173.55 Ordinary
Singapore	Coats International Pte. Limited	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
Singapore	Coats Overseas Pte Ltd	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
South Africa	Coats South Africa (Proprietary) Limited	107 Escom Road, New Germany, 3620, KZN, Natal, South Africa	ZAR0.01 Ordinary, ZAR0.01 Cumulative Redeemable Preference, ZAR0.01 Non-redeemable Preference Shares, ZAR0.01 Non-redeemable Non-cumulative Variable Rate Convertible Preference
South Africa	Cotnat Properties (Proprietary) Limited	107 Escom Road, New Germany, 3620, KZN, Natal, South Africa	ZAR1.00 Ordinary
Spain	Coats Spain, S.L.	Poligono Industrial Can Roqueta, Avda.Ca N'Alzina nr.79, Calle N'Alzina, Sabadell, Barcelona, Spain	€1.00 Ordinary
Spain	Gotex S.A.	Poligono Industrial Can Roqueta, Calle N'Alzina, 79 Sabadell, Barcelona, Spain	€6.02 Ordinary
Sri Lanka	Coats Thread Exports (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR100.00 Ordinary (99%)
Sri Lanka	Coats Thread Lanka (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR10.00 Ordinary (99%)
Sweden	Coats Industrial Scandinavia AB	Box 109, SE-516 22 Dalsjofors, Sweden	SEK1,000.00 Bearer
Switzerland	Coats Stroppel AG	c/o Haussmann Treuhand AG, Seefeldstrasse 45, 8008 Zurich, Switzerland	CHF2,500.00
Thailand	Coats Threads (Thailand) Ltd	39/60 Moo 2 Tambol Bangkrachaw, Amphur Muang, Samutsakorn Province 74000, Thailand	THB1,000.00 Ordinary
Tunisia	Coats Industrial Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Tunisia	Coats Trading Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Turkey	Coats (Turkiye) Iplik Sanayii AS	Organize Sanayi Bolgesi Mavi Cad. No 2, 16220 Bursa, Turkey	TRY1.00 New Ordinary (92%)
Ukraine	Coats Ukraine Ltd	Moskovskiy ave. 28A, litera B, Kiev, 04655, Ukraine	UAH1.00 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Allied Mutual Insurance Services Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Anfield 1 Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT United Kingdom	£1.00 Ordinary
United Kingdom	Anfield 2 Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT United Kingdom	£1.00 Ordinary, £1.00 Deferred
United Kingdom	Barbour Threads Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£10.00 Ordinary
United Kingdom	Brown Shipley Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Brunel Pension Trustees Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Cardpad Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats (UK) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, £1.00 Ordinary-A
United Kingdom	Coats Finance Co. Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Global Services Limited[2]	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Group Finance Company Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.33 Ordinary
United Kingdom	Coats Holding Company (No. 1) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.125 Ordinary
United Kingdom	Coats Holding Company (No. 2) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary
United Kingdom	Coats Holdings Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Brands Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Patons Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£0.25 Ordinary
United Kingdom	Coats Pensions Trustee Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Property Management Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (BDA) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (CV Nominees) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (VV) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.01 Ordinary, £0.075 Deferred
United Kingdom	Coats Thread (UK) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats UK Pension Scheme Trustees Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Corah Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary, £1.00 4.2% Cumulative Preference
United Kingdom	D. Byford & Co Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.20 Ordinary, £1.00 Preference
United Kingdom	Embergrange	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Fast React Systems (Bangladesh) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Fast React Systems Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, £1.00 Special redeemable non-voting shares
United Kingdom	GPG (UK) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, AUD1.00 Ordinary
United Kingdom	GPG Europe Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
United Kingdom	GPG Securities Trading Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Griffin SA Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GSD (Corporate) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GSD Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary-A, £1.00 Ordinary-B

2. Change of name to Coats Digital Limited on 28 February 2020.

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Guinness Peat Overseas Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Hicking Pentecost Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.50 Ordinary
United Kingdom	I.P. Clarke & Co. Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	J.& P. Coats, Limited	1 George Square, Glasgow G2 1AL, United Kingdom	£1.00 Ordinary
United Kingdom	Marshaide Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Needle Industries Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Patons & Baldwins Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Patons Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, £1.00 7% Preference
United Kingdom	Simpson, Wright & Lowe, Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Sir Richard Arkwright & Co. Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	SIRBS Pension Trustee Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley 2005 No 3 Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley Industries Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley Services Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	The Central Agency Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£10.00 Ordinary
United Kingdom	The Coats Trustee Company Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Thomas Burnley & Sons, Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£10.00 Ordinary
United Kingdom	Tootal Group Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary, £1.00 3.5 % Cumulative Preference
United Kingdom	Tootal Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United States	Coats American Inc	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	US$10.00 COMMON, US$5.00 5% Cumulative Preference
United States	Coats Garments (USA) Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$1.00 Ordinary
United States	Coats Holdings Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$1.00 Ordinary
United States	Coats HP Holding Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Wake NC 27615-6417, USA	US$1.00 Ordinary
United States	Coats HP Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Wake NC 27615-6417, USA	US$1.00 Ordinary
United States	Coats North America Consolidated Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$0.10 Ordinary, US$1.00 Class B Voting Shares
United States	Coats North America de Republica Dominica Inc	c/o CT Corporation System, 225 Hillsborough Street, Raleigh, Wake County, North Carolina 27603, USA	US$1.00 Ordinary
United States	Coats Puerto Rico Inc	CT Corporation System, 150 Fayetteville Street, Box 1011, Raleigh NC 27601, USA	US$1.00 Ordinary
United States	Coats Sales Corporation	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	US$100.00 Ordinary
United States	Jaeger Sportswear Ltd	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	US$ Common
United States	Patrick Yarn Mill, Inc.,	700 S Railroad Avenue, Kings Mountain NC 28086-3360, USA	US$1.00 Class A voting, Class B non-voting
United States	Staveley Inc	The Corporation Trust Co., 1209 Orange Street, Wilmington, DE 19801, USA.	US$0.01 Ordinary
United States	The Calico Printers Association (U.S.A.) Limited	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	US$1.00 Ordinary
United States	Westminster Fibers, Inc.	c/o The Corporation Trust, 1209 Orange Street, Wilmington, Delaware, USA	US$1.00 Common shares
Uruguay	Coats Cadena S.A. - Uruguay	Rufino Dominguez 1864, Montevideo, Uruguay	UYU0.05 Ordinary
Vietnam	Coats Phong Phu Limited Liability Company	No. 48 Tang Nhon Phu Street, Tang Nhon Phu B Ward, District 9, Ho Chi Minh City, Vietnam	US$1.00 Ordinary (64%)

GROUP STRUCTURE
CONTINUED

Joint Ventures

Country of Incorporation	Company Name	Registered Office address	Share class
Australia	ACS Nominees Pty Limited	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Ordinary (50%)
China	Guangying Spinning Company Limited	2 Yuan Cun Xi Jie Guangzhou, 510655, China	US$1.00 Ordinary (50%)
China	Tianjin Jinying Spinning Co Ltd	Jinlai Road Liqizhuang, Xi Qing District, Tianjin, 300381, China	US$1.00 Ordinary (50%)
India	S&P Threads Private Limited	Delite Theatre Building, III Floor, Asaf Ali Road, New Delhi, 110 002, India	INR10.00 Ordinary (50%)
United Kingdom	Coats VTT Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	US$0.01 Ordinary (50%)

FIVE-YEAR SUMMARY

For the year ended 31 December	2015 US$m	2016 US$m	2017 US$m	2018 US$m	2019[4] US$m
Continuing operations (before exceptional and acquisition related items)[1]:					
Revenue[2]	1,270.5	1,276.0	1,356.1	1,414.7	**1,388.7**
Cost of sales	(803.6)	(789.2)	(849.7)	(901.9)	**(898.1)**
Gross profit	466.9	486.8	506.4	512.8	**490.6**
Operating costs[2]	(353.9)	(347.6)	(345.8)	(317.9)	**(292.6)**
Operating profit	113.0	139.2	160.6	194.9	**198.0**
Share of profits from joint ventures	1.5	0.8	1.3	0.1	**1.1**
Finance income	10.5	4.3	2.1	1.7	**1.7**
Finance costs	(41.7)	(35.9)	(25.4)	(26.1)	**(29.6)**
Profit before taxation	83.3	108.4	138.6	170.6	**171.2**
Taxation	(37.1)	(41.0)	(44.6)	(53.8)	**(50.5)**
Profit from continuing operations	46.2	67.4	94.0	116.8	**120.7**
Adjusted earnings per share (cents)	2.73	4.02	5.70	6.87	**6.97**
Dividend per share (cents)	–	1.25[3]	1.44	1.66	**1.85**
Adjusted free cash flow ($m)	44.6	58.9	76.4	96.2	**106.8**
Return on capital employed (%)	30.7%	35.2%	35.4%	42.6%	**42.3%**

Notes:

1. The results for 2015-2017 have been restated following the disposal of the North America Crafts business.
2. Revenue and operating costs have been restated for 2015-2017 following the Group's adoption of IFRS 15 'Revenue from contracts with customers' on 1 January 2018.
3. On a pro-forma basis (final dividend in 2016: 0.84c per share).
4. The Group adopted IFRS 16 'Leases' from 1 January 2019 using the modified retrospective approach and therefore results for 2015-2018 are not restated.

SHAREHOLDER INFORMATION

United Kingdom
4 Longwalk Road,
Stockley Park,
Uxbridge,
UB11 1FE
Tel: 020 8210 5000
www.coats.com

UK registered members
To manage your shareholding online,
please visit: www.investorcentre.co.uk

Incorporated and registered in England No. 103548

Registered office:
4 Longwalk Road,
Stockley Park,
Uxbridge,
UB11 1FE

Location of share registers
The Company's register of members is maintained in the United Kingdom
Register enquiries may be addressed direct to the Company's share registrars named below:

Registrar	Telephone and postal enquiries	Inspection of Register
UK Main Register:		
Computershare Investor Services PLC	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ Tel: 0370 707 1022 Facsimile: 0370 703 6143	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ