COATS GROUP PLC
ANNUAL REPORT 2017

Delivering today
Transforming for tomorrow

DELIVERING TODAY
TRANSFORMING FOR TOMORROW

CONTENTS

WE ARE COATS. CONTINUING TO DELIVER SUSTAINABLE VALUE FOR OUR STAKEHOLDERS TODAY, AND TRANSFORMING TO REALISE THE OPPORTUNITIES OF TOMORROW.

Our focus on business performance and meeting customer needs means we deliver benefits to our investors, employees and customers today. Our global reach and relationships, and our evolving expertise enable us to anticipate and meet their future needs.

We operate with one common purpose – to harness talent and technology to benefit our customers and their industries, our shareholders and our people and the communities in which we operate.

We are committed to operating responsibly and in a sustainable manner with regard to all our stakeholders and the environment.

For over 200 years we have been helping to connect and form the fabric of daily life on our planet.

Find out more online:

- See our online 'Year in Review for 2017' – for a more visually engaging way to read about our progress in the year www.coats.com/ara2017
- A full copy of this Annual Report can be downloaded along with other relevant documents 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
- For more on our Corporate Responsibility (CR) performance in 2017, our approach to CR, our policies and their impact see online at www.coats.com/cr

2017 FULL YEAR RESULTS AND HIGHLIGHTS

Revenue ($m)

Ⓐ Adjusted operating profit ($m)

Operating profit ($m)

Employee Engagement (%)

Key Performance Indicators
We have indicated with * those measures we consider KPIs. See page 14 for more details and historical performance.

Financial performance

	2017	2016	Change	Ⓐ CER change	Ⓐ Organic change
Revenue	**$1,510m**	$1,457m	4%	4%	3%*
Adjusted					
Ⓐ Operating profit	**$174m**	$158m	10%	11%	9%*
Ⓐ Basic earnings per share	**6.4c**	4.9c	30%*		
Ⓐ Free cash flow	**$87m***	$78m	12%		
Ⓐ Return on capital employed (ROCE)	**35%***	35%	–		
Reported[1]					
Operating profit	**$167m**	$153m	9%		
Basic earnings per share	**5.8c**	4.3c	35%		
Net cash generated by operating activities[2]	**$(232)m**	$8m	n/a%		
Full year dividend per share[3]	**1.44c**	1.25c	15%		

- Revenue growth of 4% to $1,510 million; driven by Apparel and Footwear (up 5%) and Performance Materials (up 12%), with some offset due to a weak performance in North America Crafts.
- Adjusted operating profit up 11% to $174 million (reported $167 million, up 9%); Group operating margin up 70bps to 11.5%.
- Adjusted EPS up 30% to 6.4 cents (reported EPS of 5.8 cents, up 35%) as a result of higher operating profits, a further reduction in effective tax rate and a reduction in finance costs.
- Adjusted free cash flow growth of 12% to $87 million; which includes a $10 million year-on-year increase in capital spend predominantly in H2, as anticipated.
- Settlement concluded with all three UK pension schemes and Pension Regulator investigations now ceased with $348 million of parent Group cash paid to the schemes during the year.
- Successful $225 million debut US Private Placement issue, alongside refinancing of existing bank debt facilities, providing diversification of sources and maturity of debt.
- Full year dividend per share increase of 15% to 1.44 cents per share.

Strategic progress

- Launch of 'Connecting for Growth' global strategic change programme to drive the next phase of Coats' growth; expected to deliver $15 million annualised recurring net savings by 2020.
- Completed the Performance Materials acquisition of Patrick Yarn Mill in December 2017.

Non-financial performance

- Employee Engagement maintained at 83%*, a global top decile performance.
- Global Health and Safety campaign – 'Be the One' – heightened awareness of incidents and near misses and increased reporting. Recordable accident rate at 0.55*, 83% lower than the latest US OSHA textile rate.

Ⓐ Alternative Performance Measures – see note 37 on page 143

1. Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.
2 Net cash generated by operating activities includes $373 million payments into the three UK defined benefit schemes in 2017 (2016: $99 million).
3 Dividend growth based on 2016 pro-forma full year dividend of 1.25 cents per share.

COATS AT A GLANCE

COATS IS THE WORLD'S LEADING INDUSTRIAL THREAD MANUFACTURER. HEADQUARTERED IN THE UK, WE OPERATE GLOBALLY IN OVER 50 COUNTRIES AND IN 2017 GENERATED REVENUES OF $1.5BN.

INDUSTRIAL 2017 revenue: $1,297m (2016: $1,221m)

Apparel & Footwear
2017: $1,021m (2016: $975m)

The trusted, value adding partner to the global Apparel and Footwear industry – providing a portfolio of world class products and services to meet the needs of customers and brands.

Apparel, footwear & accessories threads

End uses include: Menswear, Ladies-wear, Activewear, Outdoor, Denim, Workwear, Intimates and Footwear

Key brands include: Epic, Astra, Nylbond, Gral, Gramax, Dual Duty Seamsoft, Sylko and Knit

Zips and Trims products

End uses include: Zips for luxury and domestic uses, Interlinings

Key brands include: Opti, Permess, Signal and Connect

Software solutions

Enabling supply chain productivity gains, increasing speed of supply and facilitating compliance

Key brands include: Fast React and GSD

Performance Materials
2017: $276m (2016: $246m)

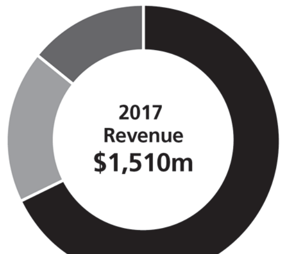
Global experts in the design and supply of products that serve traditional end uses and hi-tech products that operate 'beyond the stitch line'.

Traditional – End uses include: Outdoor, Home textiles, Feminine hygiene, Tea bags, Bedding and quilting, Upholstered furniture, Filtration and Sports goods

Hi-tech – End uses include: Automotive, Composites, Fibre optics, Flame retardant, Extrusion, Engineered performance fabrics and knits and Tyre cord

Key brands include: Firefly, Flamepro, Protos, Synergex, Lattice, Magellan, Gotex, Ultrabloc, Neophil, Dabond, Nylbond, Aptan, Gral, Admiral, Patrick, earthspun® and 'Spun by the Sun'

2017 performance



- 68% Apparel & Footwear
- 18% Performance Materials
- 14% Crafts

CRAFTS
2017 revenue: $213m (2016: $236m)

Foundation and fashion hand knitting yarns, threads, zips and a variety of needlecraft items

Key brands include: Red Heart, Coats & Clark, Dual Duty XP, Anchor and Cisne

Our global footprint

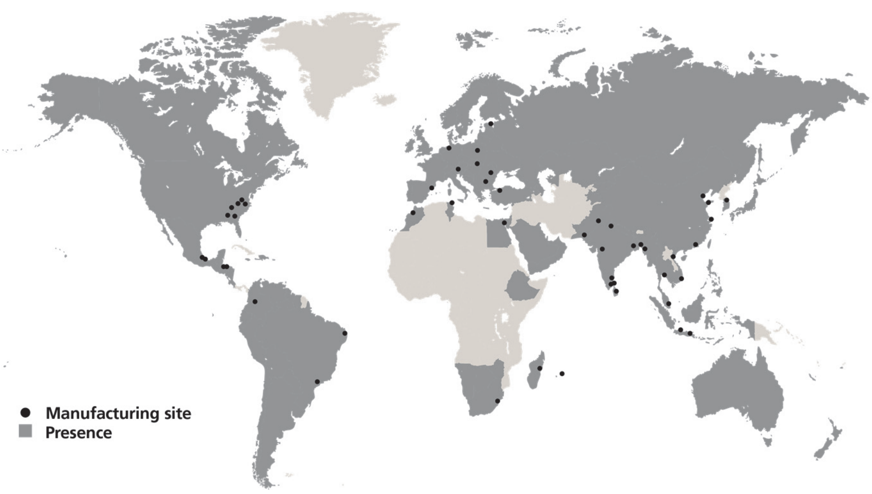
Our sales presence in over 100 countries and digital platforms enable us to serve customers wherever they are located.

With employees across six continents, and some 50 manufacturing sites, we have an unrivalled global manufacturing footprint.

For more information see www.coats.com/aboutus

Revenue by region

Americas 31% | **EMEA** 18% | **Asia** 51%



OUR 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 to innovate and grow.

During 2017 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 2017
1. Global market leader in Apparel and Footwear (A&F) thread	A strong and defendable core business representing some 70% of Group sales	Global leader in A&F market Increasing market share in stable market Leading the response to meet changing industry needs – speed, productivity, innovation, quality, corporate responsibility and sustainability	**+5%** Sales growth driven by key markets across all territories **+8%** 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	Global presence in multiple hi-tech end use sectors some of which are high growth Performance Materials offer hi-tech products that guarantee performance and safety and a more sustainable product offer Innovation in developing or acquiring new competencies and technologies – such as lightweight carbon and 'Spun by the Sun'	**+12%** Revenue growth to $276m – including acquisitions **+18%** Double digit organic sales growth in hi-tech end uses e.g. telecommunications Significant post-acquisition sales growth from Gotex of c.30%
3. Refocused Americas Crafts business	Major player in the Americas textile crafts market	Market leading brands in North and Latin America Deep customer relationships with North American retailers	New North American leadership team to focus on consumer marketing and enhancing digital offers Commencing integration of Latin American Crafts business into Industrial
4. Delivering self-help initiatives	Focused improvement programmes and experienced management to deliver margin and financial improvements	Productivity gains and procurement initiatives Investing in energy / waste reduction to improve operational efficiencies Global strategic change programme – Connecting for Growth	**+11%** A Adjusted operating profit growth through operational leverage, procurement and productivity savings. Successfully offsetting input cost pressures Disciplined approach to SD&A cost base – flat costs year on year
5. Track record of delivering free cash flow	Strong cash flow generation and high returns on capital employed (ROCE)	Balancing key cash demands of organic investment, pension schemes, bolt on acquisitions and shareholder dividends Increased ROCE over recent years	**+15%** Full year dividend payment of 1.44 cents per share Adjusted free cash flow generation of +12% to $87m

For more go online www.coats.com/investors/investmentcase

A Alternative Performance Measure – see note 37 on page 143

CHAIRMAN'S STATEMENT

Mike Clasper
Chairman

Highlights for 2017:
- Achieving inclusion in the FTSE 250 stock market index
- Successful ongoing integration of prior acquisitions
- Board visits to observe sustainable global operations

Priorities for 2018
- Oversight of 'Connecting for Growth' global strategic change programme
- Focus on key themes including data, innovation, people and corporate responsibility
- Continued proactive outward focus through programme of visits to operations, customers and other third parties

'Having a diverse range of Board members is vital to our success. Board decisions set the tone and culture for the organisation.'

'Our entry into the FTSE 250…has been celebrated by staff across all our sites, from Shenzhen to Singapore and Stockley Park'.

'TO MAKE CONSIDERED AND BOLD DECISIONS REQUIRES THOUGHTFUL DISCUSSION WITHIN THE BOARD AND A DEEP UNDERSTANDING OF OUR STAKEHOLDERS.'

Dear Shareholder
This past year has seen us make good progress on our move from the industrial to the digital age, as we work with clients to meet their needs in a digital world and to anticipate trends that will influence the way in which we work in the future. In doing so we have drawn on the talents and engagement of our workforce, while aligning the interests of our shareholders in any decisions made about the business. It has been the year in which we realised our aspiration to return to FTSE 250 listing as a global manufacturer and also the year in which the Pension Regulator ceased its investigations.

Governance
Our corporate governance framework provides a platform from which we can deliver our strategic aims. It also ensures that we operate to the benefit of all of our stakeholders – so having a diverse range of Board members is vital.

I am, therefore, pleased to report that the Board appointed two new female Non-Executive Directors. Hongyan 'Echo' Lu joined the Board in December 2017 and Anne Fahy joined the Board in March 2018.

Ruth Anderson, Non-Executive Director and currently Chairman of the Audit and Risk Committee, has announced she will not be standing for re-election as a Director at the 2018 Annual General Meeting. I would like to thank Ruth for her insightful guidance and contribution over the years she has served, in which she has played a key part in steering change both to the Audit and Risk Committee and also the broader Group.

To make considered and bold decisions requires thoughtful discussion within the Board and a deep understanding of our stakeholders, be they investors, employees, suppliers or customers. It also demands an in-depth understanding of the business and – to this end – we made Board visits to two of our international sites this year.

In June, we met the local management team (and wider EMEA Performance Materials leadership team) in Turkey. We also visited the innovation showroom, showcasing the latest developments in Performance Materials and Apparel and Footwear, and heard about a pilot project in Bursa to digitise and automate the supply chain. The team told us about opportunities presented by machine learning, robotics and the use of sensors to digitise the working environment.

In October, we met in India, where we were given an introduction to the business (performance, key competitors, market environment) and the sheer scale of the domestic end uses of the thread produced (e.g. apparel tailoring). We also visited our manufacturing facility at Ambas, where we saw the results of our recent major investments in safety and sustainability: a new synthetic dyehouse, a zero-liquid discharge facility, a biomass-based steam boiler and a solar power plant.

FTSE 250
Our trip to Turkey coincided with their celebration of Coats' entry into the FTSE 250, which has been celebrated by staff across all our sites, from Shenzhen to Singapore and Stockley Park. This is a validation of the corporate changes we have made since returning to listed status in February 2015 and brings the company full circle, as Coats was a founding member of the FT 30 index created in 1935.

Pension funds
I am happy to say that, in June, we signed a binding settlement agreement with the Trustee of the Staveley Industries Retirement Benefits Scheme. The UK Pensions Regulator has now withdrawn its regulatory action and its investigations have now ceased.

CHAIRMAN'S STATEMENT CONTINUED

'I am pleased to report that the Board has been able to continue with the progressive dividend policy announced last year.'

'Our continued success relies on our ability to understand and anticipate global trends, so that we offer our customers leading-edge processes and products.'

'Achieving our FTSE 250 listing has given us an important external accreditation.'

Dividend

I am pleased to report that the Board has been able to continue with the progressive dividend policy announced last year. For 2017 we have recommended a final dividend of 1.00 cents per share, which combined with the interim dividend of 0.44 cents per share, gives a total dividend for the year of 1.44 cents per share (pro-forma 2016 full year dividend: 1.25 cents per share), which represents a 15% increase on the previous year. The final dividend will be paid on 29 May 2018 to ordinary shareholders on the register at 4 May 2018.

Performance in 2017

We continued to perform well during the year with revenue growth of 4% to $1,510 million; driven by Apparel and Footwear, up 5%, and Performance Materials, up 12%, with some offset due to a weak performance in Crafts which declined by 11%.

Wider global trends

Our continued success relies on our ability to understand and anticipate global trends, so that we offer our customers leading-edge processes and products. This requires a pro-active outward focus, working in partnership with outside organisations to broaden understanding and identify future opportunities. For example, this year our Performance Materials team has been working with research and development partners and a major car mouldings manufacturer to respond to the car industry's continued move towards lighter, cleaner cars in order to meet ever more stringent new fuel efficiency standards. By exploiting our innovative composite technology, we aim to produce carbon composite shapes that could ultimately replace metal.

Heritage and culture

It was very pleasing to see the diversity and richness of our shared heritage cultures were very much in evidence this past year. In the UK, we celebrated our long standing links with the city of Paisley by supporting its bid to become the 2021 UK City of Culture (ultimately won by Coventry, in December). We also recently became the Royal Shakespeare Company (RSC)'s Official Thread Supplier and a supporter of its 'Stitch In Time' campaign for the restoration and redevelopment of the RSC's Costume Workshop in Stratford-upon-Avon.

In the year we launched a programme called 'Doing the right thing' which encourages employees to reflect still further on the importance of ethical behaviour in their working lives, supported by a network of Ethical Culture Champions around the Group. 2017 also saw us taking part in Global Ethics Day for the first time – the day on which organisations around the world hold events to explore the meaning of ethics in international affairs.

Diversity

Diversity is an important asset in achieving our success and one that we strive to instil throughout the business, not simply at Board level. In November 2017, the Turkish parliament recognised Coats Turkey for its gender equality work, naming it as one of the top three companies in the country where working conditions show equality of opportunity for women and men.

People

As ever, the business benefited from the loyalty and involvement of our people around the network. Our employee engagement survey showed an engagement score of 83%, maintaining our position in the top 10% of companies globally. This survey is an important tool in understanding how our workforce feels about the company and why.

Looking ahead

Achieving our FTSE 250 listing has given us an important external accreditation, but we recognise that to maintain the support of all our stakeholders – our shareholders, our customers, employees and suppliers, we must be vigilant in maintaining the best possible behaviours – meeting their needs in a manner that is forward thinking, responsible and sustainable.

Mike Clasper,
Chairman
6 March 2018

GROUP CHIEF EXECUTIVE'S STATEMENT

Rajiv Sharma
Group Chief Executive

Highlights for 2017:
- Strategic progress in the year
- Acquisition of Patrick Yarn Mill
- Continued strong operational performance – with over $1bn in A&F sales

Priorities for 2018
- Implementing Connecting for Growth programme
- Continuing integration of recent acquisitions
- Continuing focus on four strategic growth pillars

'We recognise, too, the importance of our impact on the communities in which we operate and on our suppliers.'

'Coats delivered a strong performance in 2017. Momentum in Industrial continued throughout the year in key Apparel and Footwear markets, where we continued to take share, and we saw double-digit growth in hi-tech end-uses in Performance Materials.'

Ⓐ Alternative Performance Measures – see note 37 on page 143

'I AM REPORTING ON THE COMPANY THIS YEAR FROM THE VANTAGE POINT OF OUR NEWLY-ACQUIRED STATUS AS A MEMBER OF THE FTSE 250.'

Dear Shareholder
I am reporting on the company this year from the vantage point of our newly-acquired status as a member of the FTSE 250. This is a source of great pride for all of us at Coats and one which affirms the legitimacy of our strategic aims and the ongoing achievement of all our employees.

Such recognition brings with it greater expectations of us as a company and new ambitions which we must fulfil in order to keep growing in our role as a global manufacturer. This is summed up in the title to this report: delivering today, transforming for tomorrow. It recognises the dual perspective we must maintain to remain relevant in today's fast-changing market – both satisfying the needs of our stakeholders *and* all the while anticipating and planning ahead for future demands.

So, while we are always focused on the business's current performance, we are also putting in place the drivers for change. Currently, that means a focus on four pillars: digital; innovation; simplification; and acquisition, all of which are an evolution of our existing strategy. These pillars will help us deliver benefits appropriate to each of our stakeholders, allowing us to provide our 40,000 customers with products to meet their existing needs (while developing unique products, services and digital solutions to cater to their changing requirements) and, at the same time, maintaining a level of growth and efficiency that results in sustainable and profitable earnings for our shareholders. It also allows us to offer our 19,000 employees work in an environment that is innovative, safe, ethical and personally fulfilling. We recognise, too, the importance of our impact on the communities in which we operate and on our suppliers.

2017 performance
Coats delivered a strong performance in 2017. Momentum in Industrial continued throughout the year in key Apparel and Footwear markets, where we continued to take share, and we saw double-digit growth in hi-tech end-uses in Performance Materials. This was partly offset by North America Crafts where market conditions remained weak. In an environment of rising input costs, we were able to grow our operating margins, through realising price increases, productivity and procurement gains, as well as tight control of our cost base.

Industrial revenues grew at 6%, driven by share gains in Apparel and Footwear, and underpinned by our continued focus on product innovation, digital solutions and our strong Corporate Responsibility credentials. This growth in Apparel and Footwear was achieved despite mixed demand from clothing retailers. In addition, Performance Materials revenues grew by 12%, due to double-digit growth in hi-tech end uses, and the contribution from bolt-on acquisitions. Crafts saw revenues decline by 11% on a CER basis (10% decline on a reported basis), as the North American market conditions remained weak throughout the second half of the year.

Group adjusted operating profit increased 11% to $174 million on a CER basis (2016: $157 million) Ⓐ and adjusted operating margins were up 70 bps to 11.5% (2016: 10.8%). On a reported basis operating profit (which is after exceptional and acquisition related items) increased 9% to $167 million (2016: $153 million).

For more details see the Operating Review on pages on 27 to 30.

Strategic progress
As our customers' expectations change in line with current trends – be that urbanisation, the non-negotiable need to do business in an increasingly responsible, sustainable and ethical manner, or the ever-increasing adoption of digital technology – our responses to those changes must also meet the aims of our strategic focus on profitable sales growth, increased productivity and value delivery. The four pillars (digital, innovation, simplification and acquisition) are the building blocks that will help us deliver those goals and, to that end, we have made good progress during the year.

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

'The four pillars (digital, innovation, simplification and acquisition) are the building blocks that will help us deliver those goals and, to that end, we have made good progress during the year.'

'To accelerate our transition from the industrial to the digital age, we have launched the Connecting for Growth transformation programme, which will drive our next phase of growth.'

- Digital. To stay relevant, we must evolve in new directions, thinking beyond the stitch line to collaborate with internal and external stakeholders, to repurpose our products into new areas and to find different and better ways of operating. This year we created a data science team to extract and analyse our data to gain insights to help us predict future behaviours and make sound, data-driven business decisions. We also launched two mobile apps: one for our Red Heart yarn, which improves the customer's experience by allowing them to scan images and unlock additional content (with access to interactive experiences and special offers); and one for resellers in India, giving them a fast and convenient way to check the status of orders without having to use the full version of eComm.
- Innovation. This is at the heart of everything we do and big, bold, game-changing ideas are crucial to our success. Our Global Innovation Forum launched during the summer with a remit to foster a culture of innovation within the Group, sharing ideas and focusing on new avenues of growth and profitability for our customers. In Apparel and Footwear we achieved an industry first when we launched Epic EcoVerde, a 100% recycled premium thread made from post-consumer waste. Meanwhile, our Crafts team has been working closely with colleagues from Industrial to repurpose products for consumers. This has resulted in our Eloflex yarn – a thread for stretch fabric previously sold to Industrial customers only – being marketed in branches of two major US department store chains.
- Simplification. In today's digital age, we need to be fleet of foot and capable of efficient delivery in the quickest possible timeframe. To achieve this, we need lean and integrated processes and an organisational culture of speed and simplification. During the year we created a single Digital and Technology structure and our project team worked with a range of countries to increase their compliance with our finance Target Operating Model, resulting in better controls, reduced risk and cost savings to the Group. We also made significant progress with the ongoing integration of the activities of Latin America Crafts into the larger Industrial Division.
- Acquisition. Our recent acquisitions, Gotex, FastReact and GSD have all proved successful, delivering on our strategy of acquiring companies with unique capabilities that can leverage off our network. Our latest acquisition – Patrick Yarn Mill – is another case in point. The North Carolina company, with 150 employees and a turnover of $42 million in 2017, specialises in cut-resistant and flame-retardant yarns, and can manufacture yarns using recycled fibres under its earthspun® trademark and machines powered by solar panels allowing it to offer products under its unique 'Spun by the Sun' trademark.

Connecting for Growth

To accelerate our transition from the industrial to the digital age, we have launched the Connecting for Growth transformation programme, which will support our next phase of growth. We expect this programme to deliver increased productivity, with targeted net annualised operating cost savings of $15 million by 2020.

For more details see the Financial review on pages 31 to 36.

Looking ahead

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

Our levers for change – digital, innovation, simplification and acquisition – anticipate the continuing challenges from digital technologies and online retailers, and give us the tools that will enable us to deliver value to customers, shareholders, employees and communities over the long term.

Rajiv Sharma,
Group Chief Executive
6 March 2018

MARKET TRENDS

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

What markets do we serve?

Apparel and Footwear (A&F)

Coats is the market leader in supplying premium thread to the Apparel and Footwear industries. 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. We are a key supplier to 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.

In addition to thread we are also a major global supplier of zips and provide consulting and software services to the A&F industry.

Performance Materials

We are a leading player in manufacturing high performance technical threads and yarn used in a range of industries which include automotive, household and recreation, medical, health and food, safety, telecoms, conductive and composites.

We estimate the addressable market (i.e. that into which we currently or could realistically serve in the near term) is c.$3.2 billion in size, of which c.$2.7 billion is in relation to high technology end uses (e.g. composites). We anticipate upper single digit medium term organic % growth in this area, with growth weighted towards high technology end uses.

Crafts America

Our Crafts business is a market leader in the c.$1.8 billion Americas textile crafting industry (of which c.$1.4 billion is in North America), which we categorise into two segments: handknitting yarns and needlecrafts, which includes consumer threads and zips.

Trends that are impacting our businesses:

1. Growth of the urban middle class in Asia

Globally, the Apparel and Footwear thread market is expected to grow by low single digits % over the medium term, but this is projected to be higher in Asia. In 2018 it is expected that retail sales in North America and Western Europe will for the first time account for less than 50% of all global sales. And not only will Asian consumers demand more garments – 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 threads (for example, leisure goods, cars with airbags).

Trend #1: Our response in the year
Investing in Asia manufacturing facilities such as a new warehouse in Vietnam.

Growing scale and extent of our China domestic sales operations.

2. 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 also focusing on productivity.

Our global asset 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 digital tools such as our web-based service Coats Colour Express, the fastest thread sampling service in the world.

We also support garment manufacturers to become more productive. Our technology solutions consulting offering includes time benchmarking tools and production planning systems both of which will improve speed to market.

Trend #2: Our response in the year
Offering customers technology solutions via Coats Global Services to accelerate their lead times and planning.

3. Innovative uses of threads, yarns and soft materials

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 deep water fibre optic cables.

MARKET TRENDS CONTINUED

Trend # 3: Our response in the year
Creating the 'Global Innovation Forum' – a cross functional approach to harness and develop transformational ideas.

We are also developing new high-tech applications such as lightweight carbon composite shapes made from commingled nylon and carbon fibre. However, it's not just in Performance Materials we are innovating. Within A&F we are delivering innovative knitted upper yarn solutions into footwear and apparel markets to global sports brands as they strive to simplify their products (e.g. Nike FlyKnit). In Crafts we have developed insulating hand knitting yarns that can be used for winter gloves, hats and scarfs.

Our scale is a benefit and allows us to continually invest in new technologies and innovation; we can leverage our global, world class asset base to develop centres of excellence in key growth markets; as the market leader we are in a position to use bolt-on acquisitions to access new geographies and adjacent end-markets. This is supported by our customer relationships, globally and across all levels of their organisation – often it is these 'innovation conversations' that help us come up with technological breakthroughs. In 2017 we set up a Global Innovation Forum and have invested in developing innovation centres in the US, Turkey and China which are due to open in 2018.

Trend #4: Our response in the year
Launch of EcoVerde, first range of premium threads to be made from 100% recycled post consumer waste.

Continuing the roll out of programmes such as our Supplier Code and Ethics programme.

4. Operating sustainably, increasing compliance and ethical standards

Consumers, shareholders, authorities, brands/retailers and manufacturers are all becoming increasingly focused on operating in a compliant and ethical way. Be it environmental, labour or sourcing, the entire supply chain is coming under pressure not just to conform to local requirements but also to higher international standards as well.

Increasingly, environmental, social and governance standards are being used by our shareholders and potential investors as a critical part of their investment criteria, and we are committed to driving excellence in all of these areas This goes to the heart of Coats values and standards. We behave responsibly wherever we operate, and during 2017 we have launched our 'Doing the right thing' internal programme. Ethical business practice is core to the way we do business and as such our Corporate Responsibility (CR) programme is integrated with our business strategy and helps us build and maintain both our reputation and our relationships with key stakeholders.

We regularly review the most relevant social, ethical, environmental and governance issues to Coats by using a range of benchmarks and consider the interests of our peers and key stakeholders, especially our employees, shareholders, brands and our customers. We then rank the most important of these and ensure we have established relevant policies and programmes to manage our impacts. For instance, we have invested significantly in upgrading Effluent Treatment Plants (ETPs) across many of our sites so we can reuse more and discharge cleaner water, as well as driving greater use of renewable energy in our units, which now stands at c.30% of total energy used.

Trend #5: Our response in the year
Globalising our Online Business model to service more customers entirely online.

5. Increasing adoption of digital services

Digital technology is playing an ever increasing role in everyday life and this is replicated in the industries in which we operate. To ensure we remain and increase our relevance to our customers we need to be more than just the supplier of the best products; we need to provide value adding services and customer experiences that deliver value.

We have been at the forefront of digital innovation by component suppliers to the global garment industry for several years now. We introduced Coats Colour Express, the fastest thread sampling service in the world in 2012 and Opti Express, a revolutionary zip sampling service in 2015. Once again we are leading our industry by introducing an online sales organisation to manage sales to our smaller customers. Our Online Business teams provide telesales, service and technical support to customers, as well as enabling customers to place, monitor and pay for their orders using our market leading eComm platform.

The Online Business aims to increase efficiency while growing sales and market share with our small customers and is now operating across Eastern and Western Europe, Latin America and South and South East Asia. By end of 2017 the Online Business was managing approximately 12,000 customers across EMEA, Asia and the Americas.

While in Crafts we have Redheart.com, the most popular crafting website in the USA to which more than 18 million crafters have come for inspiration, and we have also launched our first mobile app for Red Heart during the year.

BUSINESS MODEL

For an interactive version of our business model go online: www.coats.com/investors

While having the right products and services is critical, what is fundamental to our success is our reputation.

We have strong corporate responsibility credentials amongst all component suppliers to the global garment industry.

Our business model

Goals and culture

Financial strength | Risk management | Corporate Responsibility | Health and Safety

Our resources —— Our talent —— Our products and services —— Our outputs

How Coats creates value

Our vision is to become the world leader in value adding engineered yarns and threads for industrial and consumer use, and our business model provides us with the framework to effectively design, manufacture, market and deliver high quality products and digital services.

Our financial strength, resilience and ability to generate free cash flow provides us with the capacity to undertake well-considered, valuable investment into our products, services and people, to better meet our customers' needs and further our success and brand reputation.

While having the right products and services is critical, what is fundamental to our success is our reputation. This ensures the trust and confidence of our stakeholders and therefore our ability to create ongoing value. Three elements are pivotal to maintaining and further strengthening our reputation; our commitment to operating responsibly; our principles which guide our behaviours; and the effective and efficient management of risk. These components underpin our overall approach and impact every decision we make as they help to safe-guard our reputation.

Our resources: 'Core strengths'

Customer relationships – we work with nearly 30,000 apparel, footwear and accessories customers and approx. 4,000 retailers and brands globally. 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 service the industries we serve on a short lead time basis.

People – our diverse international workforce of nearly 19,000 is both highly engaged and committed, with an employee engagement score of 83% in 2017 (keeping us in top 10% of all companies globally).

Suppliers – we have a diverse and global supplier base of raw materials (predominantly polyester and nylon), intermediates (grey thread and bought-in Crafts products) and other materials (cones and chemicals).

Corporate Responsibility – we have strong credentials amongst all component suppliers to the global garment industry; this helps us build and maintain both our reputation and our relationships with key stakeholders.

Our talent: 'Operational and commercial expertise'

Sales and marketing – through our network of customer and supplier relationships we have close interactions with the world's leading global retailers and are able to respond 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, employment, 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.

BUSINESS MODEL CONTINUED

Our global asset base, engaged workforce and strong CSR credentials deliver an unrivalled and attractive proposition for our customers.

We continue to invest in developing the skills and expertise, in order to deliver the innovative products, digital solutions and services that our customers increasingly require.

A Alternative Performance Measures – see note 37 on page 143

Our talent: 'Operational and commercial expertise' (continued)

New product / process innovation – through our virtual global network we are always seeking to innovate in the industries in which we operate and in 2017 we have invested in innovation centres in the US, Turkey and China which are due to open in 2018. 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 front of mind.

Technical – we use our expertise to support our customers by making numerous technical interventions on the shop floor every year.

Digital – by offering the most comprehensive set of services in the industry; from colour sampling to online training and ecommerce, this makes it easier to do business with us and offers greater value and time benefits to customers.

Our products and services: 'Value enhancing products and services'

PRODUCTS

Apparel and Footwear – we are the world's leading manufacturer and supplier of a range of industrial sewing threads, with leading products such as Epic (fashion apparel), Dual Duty (denim) and Nylbond (footwear); under the Opti brand we are a major global manufacturer of metal, plastic and spiral zippers; and also offer a growing range of other trim products to the global garment industry, such as reflective tape and premium interlinings.

Performance Materials – we produce multiple innovative threads and yarns for traditional and high technology uses and sell directly to global original equipment manufacturers ('OEMs'). End-markets include household and recreation, healthcare (medical sutures), automotive (airbag thread), telecoms (coated fibreglass to provide strength to fibre optic cables), oil and gas (flame retardant yarn for protective clothing) and composites (yarn commingled with carbon that is pressed into carbon fibre shapes).

Americas Crafts – In North America we sell to a handful of major retailers (and to a lesser extent directly to consumers through Redheart.com); in Latin America we sell to a mix of major retailers, independent stores and distributors.

SERVICES

Through the acquisitions of GSD and Fast React, we offer industry leading consultancy, tools (e.g. cost benchmarking) and software to garment manufacturers and brands / retailers to increase their productivity and reduce costs.

Our outputs: 'Benefits for stakeholders'

Through our activities we make an economic contribution that stretches far beyond the boundaries of our own operations as we buy from local, regional and global suppliers; through the wages we pay our employees; and as we pay interest to financial institutions and taxes and remittances to governments.

We are economically linked with the local communities in which we operate and the markets that we serve around the world. As our business grows, then so does the positive economic contribution we make.

In 2017 Coats generated a total of $1.5 billion of economic value, of which the majority was distributed to our suppliers (63%) and employees (23%). A further 4% was paid in taxes to local and national governments.

All the while we continue to deliver benefits for our investors. Operating profits reflect this and have delivered a double digit CAGR % growth increase between 2015–17. By increasing profitability and disciplined capital management, both fixed assets and working capital, we have seen our returns on capital – measured as ROCE – remain high at 35% in 2017 A. By ensuring a track record of delivering good levels of adjusted free cash flow, we have generated $236 million cumulatively between 2015–17 A.

OUR STRATEGIC GOALS

Our three strategic goals help and support us in achieving our vision of becoming the world leader in value adding engineered yarns and threads for industrial and consumer use. They are closely aligned to the elements of our investment case and business model to ensure delivery of value for all our stakeholders.

Strategic goals

1 Profitable sales growth	Performance in 2017	Key metric
For Apparel and Footwear this means: Ensuring we constantly develop our leading brands, strong market positions and customer relationships. Responding to customer demands to make us easier, simpler and faster to do business with. Being able to offer operational excellence tools, software and advice that is relevant to the global A&F industry. Having strong corporate responsibility credentials that are aligned to requirements of major global brands.	• Leading product portfolios and relationships with leading brands. • Digital sales model – deeper integration of eComm in our main markets, c.19,000 customers, over 80% of total orders. • Ongoing capital expenditure to ensure safe, respectful and inclusive workplaces, minimising environmental impact, achieving strong environmental credentials. Priorities for 2018 include – Meet customer needs for speed, productivity, quality and peace of mind – Further strengthen operational capabilities and capacities in growth geographies and markets – Build sustainable innovation pipelines	• 5% A&F revenue growth • 13% Industrial adjusted operating profit growth • Industrial adjusted operating margin increase of 70bps Relevant principal risk • Customer and end user expectations • Economic risk • Environmental non-performance
For Performance Materials this means: Focusing on hi-tech sectors and new technology sectors where we have ability to build scale through technology, innovation and acquisition. Securing global specifications and build deeper relationships with global customers and brands. Unlocking revenue and innovation synergies with acquired companies to achieve market leadership in new sectors. Developing transformational new products in emerging new technologies like composites and conductive.	• Gotex – post acquisition sales growth of c.30% following global revenue synergies with the wider Group. • FlamePro branded products in Personal protection sector growth of 46%. • Acquisition of Patrick Yarn Mill for a maximum consideration of $25m – providing specific technological / innovation skills. Priorities for 2018 include – Globalise and build scale in hi-tech sectors – Explore new frontier of composite and conductive technologies – Build new innovation ecosystem and culture	• 12% revenue growth • 18% organic revenue growth in hi-tech sectors • >20% of organic sales in 2017 in relation to products that didn't exist 5 years ago Relevant principal risk • Customer and end user expectations • Economic risk • Appropriate capability development • Product and services liability
For Crafts this means: Having consumer brands that are relevant to the consumer and retain strong market positions. Our Red Heart, Coats thread and Cisne brands are #1 or #2 in their respective handknitting and needlecrafting categories. Ensuring we have deep customer relationships based around focused channel and product portfolios.	• Successful disaster recovery procedures implemented following the tornado that hit our Georgia distribution facility in January 2017. • On-going integration of the Latin America business into Industrial. Priorities for 2018 include – Focus on consumer centric, innovation led strategy to grow sales – Finalisation of LatAm integration – Complete sale of non-core lifestyle fabrics business	• 1% Latin America revenue growth • 15% decline in North America Crafts Relevant principal Risk • Customer and end user expectations • Economic risk • Appropriate capability development

OUR STRATEGIC GOALS CONTINUED

2 Increased productivity	Performance in 2017	Key metric
For us as a Group this means: Continually looking at initiatives to make savings in the areas of productivity, procurement and SD&A. These include expanding our network of Lean and Six Sigma experts, reducing electricity, fossil fuel and water consumption and increasing sales and productivity per employee. These initiatives help to offset factors such as ongoing structural labour, energy and raw material inflation and support operating margins. Meeting management's commitment to generate consistent and strong free cash flow every year. This is required to meet intended uses such as funding organic growth, pension recovery payments, bolt on acquisitions and shareholder dividends.	• Delivered improved operating margins of 11.5% (2016: 10.8%). • Track record of delivering manufacturing productivity and non-raw material sourcing gains: $10–20m pa (2013–17). • Energy consumption down 3% and water usage down 6%. • Maintained ROCE at 35% including planned $10m increase in capital expenditure. **Priorities for 2018 include** – Deliver savings and growth through Connecting for Growth programme. Achieving net operating cost savings, after reinvestments of $5 million in 2018	• ROCE of 35%* • Adjusted FCF of $87m* • Pre-exceptional operating profit margin increase of 70bps • Adjusted EPS increase of 30%* to 6.4 US cents **Relevant principal risk:** • Connecting for Growth programme • Environmental non-performance

3 Value delivery	Performance in 2017	Key metric
For us as a Group this means: We will add superior value to our customers through our offer of unique product, services and digital solutions. We will drive shareholder value through the successful implementation of our strategy – balancing our growth and efficiency agenda. We will deliver a value proposition to our employees where people can develop to their full potential within a safe, respectful and inclusive workplace.	• Customers – delivered share gain and new market growth across all aspects of our offer – for example, 9% growth in sports footwear thread. • Shareholders – earnings and cash growth, and shareholder dividend growth of 15% in line with our progressive policy. • Employees – benchmark workplace culture and our employee engagement score in 2017 of 83% retains our place in the top 10% of all global companies surveyed by IBM Kenexa. • Health and safety remains a key priority – Coats has seen a reduction in its recordable accident rate in the year, and remains significantly better than industry benchmarks in this area. **Priorities for 2018 include** – Meet customer needs for speed, productivity, quality and peace of mind – Maintain progressive dividend policy – Further strengthen H&S management programme	• Market share gains • Total Shareholder Return (including share price increase in last 12 months of 64%) • Employee Engagement score of 83%* **Relevant principal risk** • Connecting for Growth programme • Customer and end user expectations • Appropriate capability development • Pensions scheme deficit funding

* Indicates Key Performance Indicator measure – see page 14 for more details.

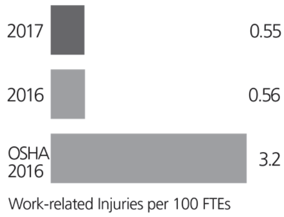
KEY PERFORMANCE INDICATORS

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

During 2017 we continued to monitor our performance and progress using the consistent range of key performance indicators used in the prior year. These non-GAAP measures are set out below. For further details of how these financial Alternative Performance Measures are reconciled to the nearest corresponding statutory measure see note 37 on page 143.

KPI	Definition	Why we measure this	Performance (% year on year)	2017 commentary
Revenue growth[1] Linked to 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.	2017: 3 2016: 1 2015: 3	Strong performance in A&F business, driven by volumes, price and mix. Product innovation and geographic expansion in hi-tech Performance Materials business, offset by Crafts sales decline in year.
Adjusted operating profit growth[2] Linked to strategic goal 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.	2017: 9 2016: 14 2015: 19	Strong volume growth, productivity and non-raw material procurement improvements and cost control have offset other inflationary cost pressures with some offset in Crafts.
Adjusted earnings per share growth[3] Linked to strategic goal 2	Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.	Measures the underlying progression of the benefits generated for shareholders.	2017: 30 2016: 23 2015: 29	EPS growth in 2017 at reported exchange rates was driven by higher operating profit a reduction in the underlying tax rate and lower finance charges.
Adjusted free cash flow[4] Linked to 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, purchase of own shares by the Employee Benefit Trust and UK pension recovery payments.	Measures the Company's underlying cash generation that is available to service capital demands.	2017: 87 2016: 78 2015: 71 All figures are in $(m)	Generated good levels of free cash, higher year-on-year operating profits, along with controlled Net Working Capital whilst increasing organic investment in Capital Expenditure.

KEY PERFORMANCE INDICATORS CONTINUED

KPI	Description	Why we measure this	Performance (%)	2017 commentary
Return on capital employed (ROCE)[5] Linked to 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.		Higher profitability and controlled asset base, offset by increased capital expenditure and timing of Patrick Yarns acquisition.
Recordable accident rate (RAR) Linked to 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.		Company-wide campaign on reporting incidents and near misses led to an increased focus in 2017 and a restatement of 2016. 2017 rate of 0.55 a small decrease on 2016 (0.56) and 83% below the latest US OSHA result (2016) of 3.2 injuries per 100 FTEs per year.
Employee engagement score Linked to 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.		We continued to benchmark our workplace culture, and assess how people feel about working at Coats. Actions taken as a result of the 2016 survey allowed us to maintain our engagement level which is in the top 10% in the global IBM/Kenexa survey.

Paying for Performance

The incentive plans used to reward the Directors and our senior managers, include Performance Measures linked to certain of our Key Performance Indicators. For more detail see the Directors' Remuneration Report on pages 55 to 67.

Footnotes

1 Revenue growth in 2017 and 2016 excludes contribution from acquisitions made during the period. Revenue growth in 2016 and 2015 also excludes the discontinued UK Crafts business (discontinued in 2016) and EMEA Crafts (disposed of in 2015).
2 Adjusted operating profit growth in 2017 and 2016 excludes contribution from acquisitions made during the period. Adjusted operating profit growth in 2016 and 2015 also excludes the discontinued UK Crafts business (discontinued in 2016) and EMEA Crafts (disposed of in 2015).
3 Adjusted EPS growth in 2016 and 2015 excludes the discontinued UK Crafts business (discontinued in 2016) and EMEA Crafts (disposed of in 2015).
4 Adjusted free cash flow in 2016 and 2015 excludes the discontinued UK Crafts business (discontinued in 2016) and EMEA Crafts (disposed of in 2015).
5 ROCE based on adjusted operating profits. With effect from 1 January 2017 capital employed used in the definition of ROCE includes intangible assets in relation to recent acquisitions. ROCE for 2016 has been restated consistent with the current definition. 2015 is as reported, and has not been restated.

PEOPLE

Highlights for 2017:
- New training programmes developing skills for the digital age
- Maintained 83% engagement score, in top 10% globally
- 'Be the One' campaign to increase H&S risk reporting

Priorities for 2018
- Further strengthen H&S management programme
- Develop 'Doing the right thing' campaign to cover wider ethics and human rights issues
- Continue development of leadership and management capability programmes

Further information on our People policies is available at www.coats.com/people

Human Rights

We uphold the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015 and publish a statement on what we are doing to prevent modern slavery in our business and supply chain on our website.

Furthermore, we support the UN Guiding Principles on Business and Human Rights throughout all our operations. Our global policies uphold the requirements of the UN Declaration of Human Rights and the Convention on the Rights of the Child, the core ILO Conventions, and the OECD Guidelines for Multinational Enterprises.

PEOPLE ARE THE BIGGEST ASSET OF OUR COMPANY. THEY ENABLE US TO ACHIEVE IMPACT BY DELIVERING VALUE TO CUSTOMERS, SHAREHOLDERS AND SUPPORTING COMMUNITY INITIATIVES.

The pace of change in the business world and the constant pressure to adapt to new technologies means that we must be more agile than ever before. Our employees are constantly refreshing and updating their skills and expertise to keep pace. Competition for talent in the digital age is increasing and the traditional concept of a career is being challenged.

Employees are looking for more from their careers than simply job satisfaction and so our 'Employee Value Proposition' (EVP) has to be competitive in the marketplace: offering fair rewards and recognition and opportunities for development, supporting health and wellbeing and enabling employees to make a difference throughout their careers. Our new five-year People strategy tackles these issues head on, underpins our business goals and aims to lead all our employees from the 'Industrial to the Digital Age'.

Attracting talented people and enabling them to grow

Mastering Coats' digital future will require us to attract and retain a talented workforce who are totally engaged and with an energy for change. During 2017 we have strengthened our recruitment processes and continued our capability development programmes across the business. Our new recruitment website, www.coatscareers.com, contains information about our EVP, provides an online applications process and the ability to process candidates more efficiently and cost effectively. The impact of this is that we have delivered employment opportunity to many more people. Since its launch we have received more than 17,000 visits to the site from over 70 countries and are continuing to receive more than 1,000 new visitors per month. To date, we have advertised 117 vacancies via the website and received more than 150 applications as a result.

We have continued to roll out our leaders' programmes Management Capability Development (MCD) and Transcend. The impact of these two programmes is that we are developing both the core leadership skills needed to achieve our short-term goals and the specific skill sets that will take the business into the next decade. Since its launch in 2013, over 400 employees have completed the MCD, 118 are ongoing, and 152 new participants started their journey during 2017. Currently 72 leaders spread globally are enrolled on Transcend. In support of our continual learning imperative, 2017 also saw the launch of Minerva, our new online digital platform which provides over 700 resources, including online learning tools, videos and tips sheets.

Respecting each other

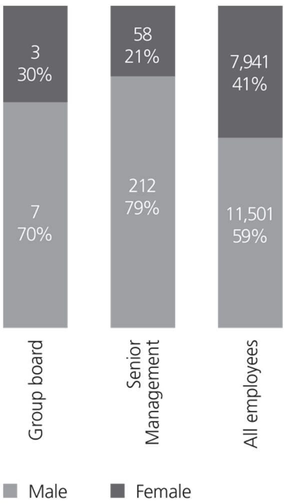
It is important that Coats' culture and values are evident across our business, and that we provide a respectful and inclusive environment, enabling positive teamwork and the freedom for all individuals to grow. At the heart of our culture is the way we treat each other and we have established a global code of ethics and conduct which is reinforced through regular employee communications.

Coats supports diversity and equal opportunity in the broadest sense. As well as a focus on gender diversity at senior levels, Coats has location specific programmes in place in a number of the countries in which it operates, for example supporting people with disabilities in Brazil and Bangladesh. We actively celebrate the diversity that the Coats global family brings and are working to see this diversity reflected at all levels in the organisation supported by our global Diversity and Inclusion (D&I) programme. In 2017 we had 43 nationalities represented in our senior management group[1], and in March 2017 we celebrated International Women's Day under the global theme #BeBoldForChange. Nearly 150 employees across the world were nominated as internal role models for their bold work to increase gender diversity at Coats. We also launched an online unconscious bias training programme which has been completed by more than 600 people.

1 Senior management: Coats employees Grade 12 and above, excluding Board Directors.

PEOPLE
CONTINUED

Gender diversity[1] (Number and %)



Employee engagement score (%)

Recordable accident rate (Number of accidents per 100 FTEs per year)

1 Senior management: Coats employees Grade 12 and above, excluding Board Directors.

2 As benchmarked by IBM Kenexa, a leading specialist survey organisation.

We continue to improve our performance and succession planning processes, ensuring we have diverse shortlists and succession pools. We remain focused on supporting local D&I initiatives, and an example of the impact of this approach is that in 2017 our Turkey business was named as one of the top three companies in the country where working conditions show equality of opportunity for women and men.

Our seventh employee engagement survey was carried out in November 2017; this assesses how we are doing and helps to identify areas where we can do better. We were pleased to see that our engagement score has been maintained at 83%, the same level for the past three years. This score is 15% higher than our initial survey in 2011 and keeps us in the top 10% of companies surveyed globally[2]. Every employee is impacted by this process as every part of the business develops and delivers action plans based on the local results of the survey. Organisational changes taking place in 2018 will provide a short term challenge to maintaining our employee engagement score, and reinforces our commitment to the process.

Doing the right thing

We operate to high ethical business and employment standards across all of our global operations and encourage a culture of openness and honesty. Our business reputation, together with the trust and confidence of the people we do business with, is one of our most valuable assets and one which we strive to protect. High ethical standards also make good business sense, they create value for our company, our shareholders and ultimately for society as a whole. Our 'Doing the right thing' campaign, launched in 2017, further embeds this into our culture, with around 20 Ethical Culture Champions acting as points of contact and support across the world. We use our internal communications to showcase teams that demonstrate the highest standards of ethical behaviour and share best practice via our intranet. We have zero tolerance towards exploitative employment practices and our policies and codes of practice make specific reference to the avoidance of slavery, forced or bonded labour both in our own operations and in our supply chain.

Our ethics and compliance training is tailored for different roles within the Group and we use targeted online training models for our senior managers and those with customer facing roles which is refreshed for all nominated employees every two years. In addition, more than 700 new starters completed this online training during 2017, bringing the total who have completed this training to more than 4,500. We reviewed our various ethics and compliance policies, including updating our Whistleblowing Policy which encourages the reporting of non-compliance with our codes of practice.

Striving for safety excellence

As a global manufacturing business, maintaining high standards of Health and Safety (H&S) is a key priority for us. Unfortunately, during 2017 one of our employees lost his life in a forklift accident at one of our India plants. We take every incident on our premises very seriously and have provided help and support for the family involved. In addition we have investigated the fatality very carefully and identified lessons that we can learn, including enhanced safety exclusion zones around forklift truck routes and additional procedures around contractor management. We have also improved our H&S reporting and investigation procedures.

We have a comprehensive global H&S management system in place which is used by all our sites and during 2017 we have reviewed our policy and procedures. 11 of our sites are also accredited to the international H&S standard OHSAS18001 and we will be reviewing the transition to ISO 45001 during 2018. To reinforce our commitment to H&S, we ran a global safety campaign – 'Be the One' – to stress the importance that we place on keeping our people safe and to encourage our teams to improve their own performance. One direct impact of our increased emphasis on H&S performance and reporting over the past two years has been an increased number of incidents and near misses being recorded and investigated across our estate. Each location is targeted to reduce recordable incident rates and improve their annual H&S audit scores. Our global total recordable injury rate reduced slightly in 2017 by 2% to 0.55 (compared to 0.56 in 2016) and is 83% lower than the latest US OSHA data for textile mills of 3.2 injuries per 100 FTEs per year.

We also recognise that our employees are increasingly at risk when they are not at our sites and have observed an increasing number of commuting incidents. We actively train our people to keep themselves safe when not at work and monitor H&S incidents during their commute to and from our sites.

CORPORATE RESPONSIBILITY

Highlights for 2017:
- Materiality assessment update and supply chain risk analysis
- Launch of first ever 100% post consumer recycled core thread
- Continuing decline of energy and water usage rates and GHG emissions impact

Priorities for 2018
- Establish plans and targets for top 10 material issues
- Continue to develop renewable energy programmes
- Complete more detailed Human Rights assessment across all operations

For more about our Strategic Themes see the CR section www.coats.com/cr

Our top 10 material issues are:
- Water consumption
- Energy consumption
- Environmental footprint
- Waste generation and recycling
- Health & Safety
- Resource scarcity
- Child labour
- Forced labour
- Transparency and reporting
- Environmental legal compliance

COATS IS A GLOBAL BUSINESS, OPERATING IN MORE THAN 50 COUNTRIES ACROSS SIX CONTINENTS WORLDWIDE. OUR BUSINESS REPUTATION IS ONE OF OUR MOST VALUABLE ASSETS, AND ONE WHICH WE CONTINUALLY STRIVE TO PROTECT.

The values and standards that we subscribe to as a company are at the core of our Corporate Responsibility (CR) programme. They are embodied in the five principles that describe the way we work: respectful and inclusive, openness and honesty, energy for change, freedom to operate and positive teamwork. Our CR activity is focused on seven strategic themes, all of which support and contribute to the achievement of our business goals, and across all of which we strive to deliver a positive impact every year.

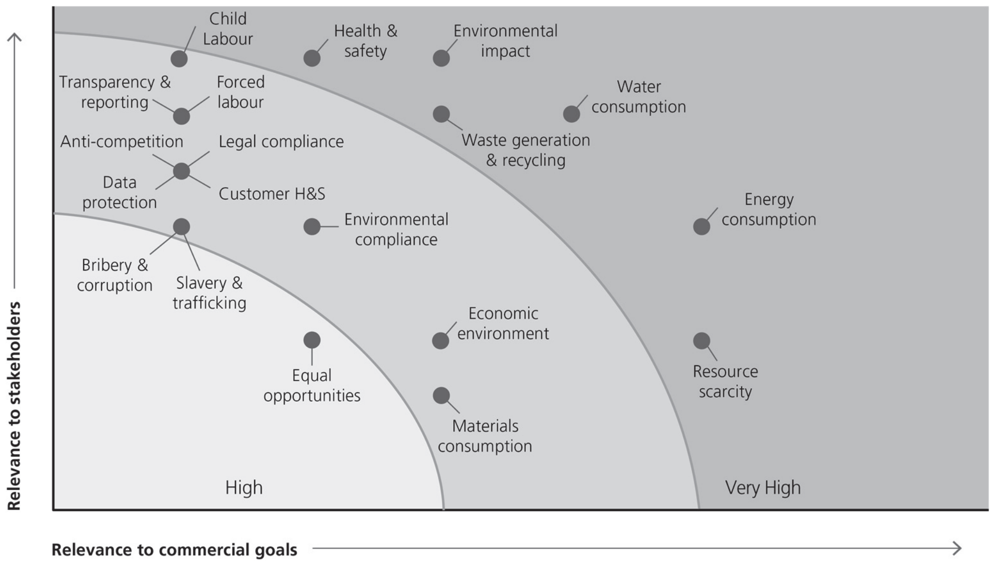
Our activities are co-ordinated by the Head of Corporate Responsibility and monitored by a CR Advisory Group which is chaired by the Chief Supply Chain Officer.

Developing a new strategy

This year we have taken a new look at what's important to us as a business and to establish some key areas of focus for our CR programme. We repeated our global materiality assessment and have undertaken a specific human rights risk assessment to identify the areas of highest risk both in our own business operations and in those of our supply chain. We have mapped our operations and those of our supply chain to identify particular industry / sectoral risks as well as risks from their geographical location.

To identify particular country risks, we took account of a number of external benchmarks and indices in our risk assessment process, including the UN Human Development Index, ITUC Global Rights Index, Freedom House Freedom in the World Civil Liberties, UNICEF % of children aged 5-14 years engaged in child labour, US State Department Trafficking in Persons, and Transparency International's Corruption Perceptions Index.

The chart below illustrates those areas identified as important both to our business and to our stakeholders:



For each of the key material areas identified we have reviewed our policies and procedures to identify any gaps in our processes. Both key and less material areas are covered in more detail on our website.

During 2018 we will continue to develop plans and targets to enhance our impact on material issues and will carry out a more detailed human rights assessment of our operations.

CORPORATE RESPONSIBILITY CONTINUED

Economic contribution ($m)

For more information on economic contribution see www.coats.com/cr

4,000+

Employees took part in Diversity & Inclusion activities in the year (2016: 350+)

100%

Post-consumer recycled core spun thread developed and launched for the first time ever, under the EcoVerde brand family

Water usage (litres per kg of dyed product)

HIGHLIGHTS AND IMPACTS ACHIEVED FROM OUR 2017 CORPORATE RESPONSIBILITY PROGRAMME.

The following highlights are a summary from the year. For more detail on our approach to CR, our activities and outcomes during the year see our website www.coats.com/cr

Our Standards

- We have updated and re-issued our anti-bribery and corruption policies and reinforced our whistleblowing policy and hotline.
- In October, we ran a global Ethics Day, to reinforce our programme for 'Doing the Right Thing'. Special events took place across the world to share views on what doing the right thing means to our employees.
- All 4,500+ senior employees and those with external facing roles are trained in ethics, anti-bribery and corruption, and competition policies and laws.

Our People

- Our health, safety and welfare programmes have been successful in keeping our recordable accident rates 83% lower than the latest average reported by OSHA for US textile mills.
- Over 700 employees have either completed or are currently working their way through our 18-month Management Capability Programme.
- We launched Minerva, our new online digital platform which provides over 700 resources and is accessible to more than 5,000 people worldwide. Since the launch in June there has been a 14% take-up, delivering new training opportunities to a wide group of employees.
- Over 6,500 employees now have access to our global D&I network and more than 4,000 of our employees took part in Diversity & Inclusion initiatives during 2017.
- We provide training courses in safety for our employees on their journey to work which has a direct positive impact on the welfare of our workforce.

Our Products

- We have developed and launched the first ever 100% post-consumer recycled core spun thread, under the EcoVerde brand family.
- We have also successfully trialled Coats Verifi products, in bulk manufacturing, which helps ensure garment seam integrity and hence an extended life cycle for the garment.
- We are members of the Zero Discharge of Hazardous Chemicals (ZDHC) Programme which aims to eliminate hazardous chemicals from the global footwear and textile supply chain.
- Our Manufacturing and Product Restricted Substances Lists (RSLs) have been refreshed and communicated to all our global suppliers. We believe these are the most comprehensive in the industry and incorporate the requirements of all the major internationally recognised environmental standards (eg ZDHC, REACH, Oeko-Tex, CPSIA).

Our Manufacturing

- We have continued to reduce our water usage per kg of dyed product by 5% compared to 2016 (26% reduction in last 5 years) through improvement in process technology. We also continue to increase the recycling of process water which now represents 11% of our water consumption (up from 8% in 2016) This reflects the continued implementation of water recycling projects at our major plants at India, China, and Sri Lanka.
- Our energy use per kg of dyed product has also continued to reduce (3% down compared to 2016 and >20% reduction in the last five years), reflecting investments in more efficient process equipment and higher utilisations.

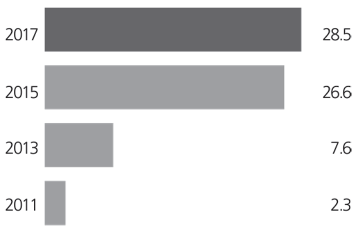
CORPORATE RESPONSIBILITY CONTINUED

Energy use
(Kwh per kg of dyed product)

Emissions intensity*
(tonnes CO2e/$m sales)

* For a table of results ranging from 2011-2017 see Directors' Report page 75

Renewable energy
(% of total energy used in year)



Our Environment

- Greenhouse gas (GHG), as measured in kilos per kilo of dyed product, went down by over 5% in the last year (4.3 kg CO_2e per kg of dyed product compared to 4.6 in 2016). This reflects both reduction in energy use and more use of renewable energy.
- In 2017, the total carbon footprint of our manufacturing operations (Scope 1 and Scope 2) was 310,578 tonnes, a decrease of 2% compared to the previous year, even though production volumes increased by 3% in the year.
- Our emissions intensity is shown in the graph to the left and shows a 17% reduction over the last six years.
- We are looking at ways of reducing our GHG emissions, both by increased efficiencies, but also through the generation and purchase of renewable energy. Over the past five years the proportion of energy usage from renewables has increased to almost 29%. Biomass boilers in India and Vietnam and solar panels in India and the USA have all contributed to this.
- We have updated our environmental policy and made a commitment to achieving ISO14001 across all our operating units, 10 sites are already accredited. We will be establishing a global environmental management system standard across all our units during 2018.

Our Partners

- We have further consolidated our Supplier Code programme, holding additional supplier training workshops in Bangladesh, China, India, Indonesia, and Vietnam, and extending our internal auditing programme from China to four additional units. This is the first phase of a more robust supplier management programme that we will be developing during 2018. Our Supplier Code covers labour practices, environmental management, responsible sourcing of materials and products, and business conduct.
- So far we have carried out over 30 face-to-face supplier engagement workshops across 15 countries, targeting over 80% of our key suppliers and carried out more than 100 audits during 2017 (1% of our supplier base) across five high-risk locations.

Our Communities

- Our activity rate in the community has continued to increase and during 2017 we completed 140 plans in the year with almost 7,500 volunteer hours dedicated to the communities in which we operate.
- These activities took place in 45 different operating units and helped lay the foundations for exciting community projects in the future.

More details can be found at www.coats.com/cr

PRINCIPAL RISKS AND UNCERTAINTIES

Highlights for 2017:

- Refreshed the Group Risk Register, in light of the evolving Group strategy and external environment
- Deep dives across a range of areas including principal risks (and related key risk indicators), specific business areas, projects and acquisition reviews
- Ongoing implementation of activities to reinforce ethical compliance and culture
- Reinforcing the risk management framework and processes at individual business unit and enabling function levels

Priorities for 2018

- Execution of the Connecting for Growth global strategic change programme
- Focus on key themes including data, innovation and people
- Continued focus on the use of key risk indicators and leveraging insights obtained from these

The management of risk using our common risk management framework is embedded throughout our global manufacturing, distribution, sales and other business operations.

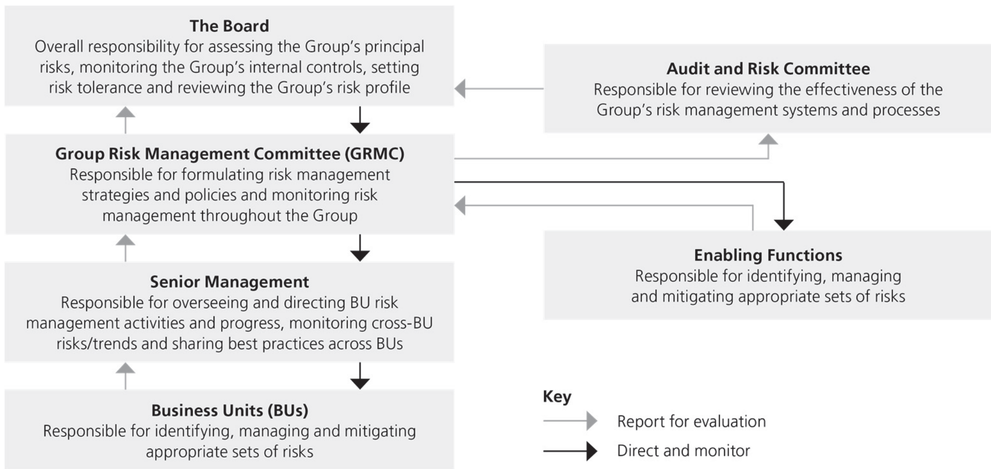
THE EFFECTIVE MANAGEMENT OF OUR RISKS AND RELATED OPPORTUNITIES IS ESSENTIAL IN SMARTLY AND PRUDENTLY ACHIEVING OUR STRATEGIC OBJECTIVES.

Overview

As a global industrial manufacturer we recognise that risk is inherent within our geographical footprint and activities. The timely identification of risks and related opportunities, combined with their appropriate mitigation and escalation, enables us effectively to run our business 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

We operate a formal governance structure to manage risk across the Group. The roles and responsibilities of the main stakeholders involved in this structure are set out below.



While 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, 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.

Local business units and enabling functions globally, as well as the Group's senior executive leadership team, regularly review a broad range of individual current strategic and operational risks, as well as conducting broader horizon scanning reviews of emerging and potential such risks. They also monitor key risk indicators for a number of these risks, which provide early warning signals and assist with prompt and proactive risk management and mitigation.

Through these reviews and their appropriate escalation, the Board receives actionable information and updates which assist it in conducting its own such reviews, monitoring the Group's risk exposure, identifying the principal risks and determining an appropriate level of risk tolerance.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

The Board is keenly aware that the effectiveness of our risk management is dependent not only on systems and processes but also on behaviours.

We regularly review and, as appropriate, refine our risk management and reporting processes and activities, to enhance our ability to identify issues promptly and to proactively manage any risks and related opportunities.

We assess risks through a standardised process which includes measuring likelihood and impact levels, with and without controls, against a pre-defined scoring matrix.

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.

During 2017 we continued to review and reinforce our Ethics Code and supporting policies, training, communications and compliance activities – this also included our comprehensive Supplier Code. Our Board and senior executive management actively support, endorse and champion the values and behaviours expected of both internal colleagues and third parties with whom we work, all of which helps to strengthen our risk culture.

Identification and management of risk

Our approach to identifying risks follows a dual approach

1) 'Top-down approach' based on regular input and insights from, and deep dive discussions involving, the Board and the Group Risk Management Committee, drawing on a broad range of internal and external operational, commercial, economic and other perspectives and helping to establish the key risks, and potential future risks, which could threaten the Group and its ability to deliver its strategy. This gives colleagues throughout the Group a clear direction and set of priorities in their ongoing discharge of their own risk management responsibilities.

2) 'Bottom-up approach' based on regular individual business unit/function-level input which helps to identify the risks which could threaten local business or functional activities. While these risks are managed at the local level, they are also consolidated and escalated as appropriate to the Group Risk Management Committee and the Board to help in the ongoing cycle of identification, testing and reviewing described below.

Our approach to risk management is based around a continuous process, which helps to ensure that we remain focused on the appropriate risks and that we are taking the appropriate actions to manage and mitigate those risks and to deliver our business strategy and objectives within agreed risk parameters as defined in our risk tolerance.

Through that process we operate an ongoing cycle of identifying risks; setting risk tolerance levels for those risks; testing those risks and risk tolerance levels through deep dive analysis into likelihood of occurrence (including through the use of key risk indicators), impacts, mitigation plans, related opportunities and resource and capital expenditure implications; then reviewing those risks and risk tolerance levels accordingly.

We regularly review and, as appropriate, refine our risk management and reporting processes and activities, to enhance our ability to identify issues promptly and to proactively manage any risks and related opportunities.

Our risk assessment and risk tolerance

We assess risks through a standardised process which includes measuring likelihood and impact levels, with and without controls, against a pre-defined scoring matrix. This assessment process assists the Board in prioritising risks and determining its level of risk tolerance for each of the principal risks, as well as helping to evaluate the adequacy of existing controls and mitigating actions and the cost-benefit analysis of potential further such controls and actions.

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 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.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risks overview

During the year the Board, supported by the Group Risk Management Committee, undertook a robust assessment of the principal risks facing the Group along with the current levels of risk tolerance for each of those risks.

As a result of this process, the Directors created a refreshed Group Risk Register. This included introducing a new risk category – 'External risk', arising from the macroeconomic climate, political events, regulatory issues and competitive pressures – and revising the contents of the Group Risk Register itself:

NEW	'Connecting for Growth programme' – Added given the launch of the global strategic change programme and in particular the implementation of the Group's digital offering and global functional model.
NEW	'Changing customer and end user expectations' – Added given the importance of continuing to identify, understand and respond to these expectations.
↓	'Failure of critical infrastructure' – Moved down and off the list of principal risks in light of the robust controls and effective mitigating actions demonstrated by the management team during 2017 including in response to the tornado which impacted the Albany Crafts distribution centre.
Amended	'Data controls and security' – Management of sensitive corporate and personal data and compliance with the General Data Protection Regulations has been moved down and off the list of principal risks in light of the robust controls and mitigating actions demonstrated by the management team during 2017. IT security risks remain on the list of principal risks within 'Cyber Risk'.

Currently the Board has identified ten principal risks, which fall into one of the following four categories:

- Strategic: Risks that could adversely impact the Group's ability to achieve its defined strategic objectives.
- External: Risks arising from the macroeconomic climate, political events, regulatory issues and competitive pressures.
- Operational: Risks inherent in our ongoing commercial operations and geographic footprint, which if not effectively managed, would be liable to cause significant commercial disruption.
- Legacy: Risks relating to the Group's past operations and activities, including through historical mergers and acquisitions, which could create material financial exposure for the Group in its present form.

These principal risks, along with a summary of the measures 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 nature / potential impact	Action / mitigation
1. STRATEGIC:		
Connecting for Growth programme Trend on year: NEW	Execution of global strategic change programme – in particular implementation of digital offering and global functional model.	The Group is pursuing changes in its operating model to increase productivity, promote efficiency in its supply chain and therefore speed of delivery to customers and to optimise its use of digital platforms to improve customer experience. Leadership of the programme is provided by a Chief Transformation Officer, supported by a team of project managers, and regular reviews, including through the use of key performance and risk indicators, are held at executive management and Board level.
Customer and end user expectations Trend on year: NEW	Risk of failure to identify, understand and respond to changing customer and end-user expectations (e.g. spending patterns and impact of online channel switch).	Our sales teams have over 1,000 interactions a day with brands, retailers and manufacturers and this informs our understanding of different markets. During the year we created a new customer insights role and extended the use of our Customer Relationship Management systems to gain more customer insights. We also strengthened our commercial team to better service key and emerging markets. In order to ensure a firm understanding of emerging trends and technologies, we undertake regular competitor and media analysis, desktop research and attend external and industry-led events.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risk	Risk nature / potential impact	Action / mitigation
Appropriate capability development Trend on year: No move ~	Risk of failure to attract and retain talent and capability given business changes and growth in new areas.	The Board and senior management remain very focused on talent and capability development, as well as retention and succession planning. 2017 capability development actions included new cohorts on a range of management and senior leader development programmes and individual assessments and coaching for selected senior managers. 2017 also saw Board approval of a new People Strategy to support the changing roles and capabilities required by the business in the next three years.
2. EXTERNAL:		
Cyber risk Trend on year: Upwards ↑	Risk of cyber incidents leading to corruption of applications, critical IT infrastructure, compromised networks, operational technology and/or loss of data.	Throughout the year we implemented a range of policies, standards and training programmes that focused on IT security and the need to prevent leakage of data. These were driven by the global Technology function and led by the Cyber and Information Security Director. In 2018 we are building on this approach by delivering a programme of automated training to targeted groups and the Group as a whole to reinforce the training on an ongoing basis. Technology enhancements are also being put in place, including further firewall blocking of non-approved applications, the expanded deployment of multi-factor authentication, deployment of an email encryption solution, and centralisation of data into Azure which both protects the data and creates enhanced tracking capabilities.
Economic risk Trend on year: No move ~	Economic risk arising from political and demand uncertainty – including risk to free trade conventions.	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 Brexit. Both the UK and the EU, 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 on our business. Whilst there continue to be a number of uncertainties in connection with the future of the UK and its relationship with the EU, there have been indirect factors which continue to have an impact on our results, primarily the effect of lower discount rates on the accounting valuation of pension liabilities and the depreciation of sterling on our UK costs. 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 provide an increasing balance in our exposure to both EU and non-EU markets.
Environmental non-performance risk Trend on year: No move ~	Environmental non-performance risk given changing standards and increased scrutiny resulting in disruption of existing business, fines and/or reputational damage.	Our environmental policy applies across the Group. Compliance with all environmental legal requirements is a minimum standard for the Group, and is monitored very closely at both a local and Group level. A Group-wide environmental management system (EMS) aligned to ISO 14001 will commence in 2018, which will further enhance our systematic management of these requirements and standards.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risk	Risk nature / potential impact	Action / mitigation
3. OPERATIONAL:		
Products and services liability risk Trend on year: No move ~	Products and services liability risk arising in particular from Performance Materials and software services.	Products and services are tested and measured against stringent quality standards. Controls in the Performance Materials area specifically have been strengthened with enhanced batch by batch testing of safety critical products. Coats' global insurance programme includes product liability cover. Actions and programmes developed during the year included: digital automation with direct Internet of Things linkage implemented between testing equipment and the SAP quality module in order to minimise the risk of human error; fail-safe restrictive programming to prevent the risk of sale of unapproved products to safety-critical customer sectors; introduction of new key risk indicators to track monthly and quarterly progress; and a zero defect communication programme to factory operators and associates working in safety critical areas.
Bribery and anti-competitive behaviour risk Trend on year: No move ~	Risk of breach of anti-corruption law or competition law resulting in a material fine and/or reputational damage.	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, 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 Group Risk Management Committee 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 whistle blower system, enabling employees and others who are aware of or suspect unethical behaviour to report it confidentially. See page 52 for more details.
4. Legacy risks		
Pension scheme deficit funding risk Trend on year: No move ~	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).	The funded pension schemes are overseen by their Trustees, who are required to have the appropriate knowledge and understanding in this area. Where appropriate, independent professional trustees are appointed to the schemes to provide additional expertise. In particular, professional investment advice is taken as necessary; and assets diversified by class and geography and currency exposures hedged where appropriate. Interest rate and inflation exposures are hedged at appropriate levels. Funding agreements are reviewed and agreed triennially. The Group and the schemes' trustees routinely review de-risking of the schemes through liability management and investment strategies. See note 9 on page 104 for more details.
Legacy environmental risks Trend on year: No move ~	Under the laws of certain countries, Coats' subsidiaries could potentially be deemed responsible for investigating and/or remediating conditions alleged to be associated in whole or in part with former operations.	The Board continues to monitor the strategy and developments in relation to the Lower Passaic River proceedings, more detail of which can be found in note 28 on page 127. Beyond that the Group continues to refine its policies and procedures for managing and mitigating potential legacy risks associated with former operations.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Long Term Viability Statement

In accordance with provision C.2.2 of the 2016 revision of the Corporate Governance Code, the Directors have assessed the longer term viability of the Group over the period to December 2020.

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 five 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.

For these reasons, the Directors have determined that a three-year time horizon to December 2020 is an appropriate period over which to provide its viability assessment, although they do have due regard to key points outside this timeframe, such as the due dates for the repayment of long-term debt.

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 23 to 25 as well as other risks that could crystallise during the medium term. The risks considered to have the most potential impact on viability were:

- A global economic downturn;
- Execution of the global strategic change programme;
- 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 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 actions.

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

Summary

	2017 $m	2016 $m	Inc/(dec) %	2016[1] CER	CER[1] inc/(dec) %	Organic[4] inc/(dec) %
Revenue[2]						
Industrial	**1,297**	1,221	6%	1,218	6%	5%
Crafts	**213**	236	(10)%	239	(11)%	(11)%
Total	**1,510**	**1,457**	**4%**	**1,457**	**4%**	**3%**
Adjusted operating profit[2,3]						
Industrial	**173**	155	12%	153	13%	11%
Crafts	**7**	11	(34)%	11	(34)%	(34)%
UK Pension admin	**(6)**	(8)		(7)		
Group	**174**	**158**	**10%**	**157**	**11%**	**9%**
Adjusted operating margin						
Industrial	**13.3%**	12.7%	70bps	12.6%	70bps	70bps
Crafts	**3.3%**	4.6%	(120)bps	4.5%	(120)bps	(120)bps
Group	**11.5%**	**10.8%**	**70bps**	**10.8%**	**70bps**	**70bps**

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

Coats revenues increased by 4%. There was a neutral impact of foreign exchange on revenues (whereas in 2016 we faced FX headwinds due to the previous US dollar strength against certain key trading currencies), so reported revenue growth is consistent with CER growth of 4%. On an organic basis, which excludes a 1% contribution from the acquisitions of Gotex, Fast React, and Patrick Yarn Mill, revenue growth was 3%.

Industrial revenues grew at 6%, driven by share gains in Apparel and Footwear, and underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility credentials. This growth in Apparel and Footwear was achieved despite mixed demand from clothing retailers. In addition, Performance Materials revenues grew by 12%, due to double-digit growth in hi-tech end uses, and the contribution from bolt-on acquisitions. Geographically, our organic growth of 5% continued to strengthen during the year in the key geographies of Asia (6% growth) and EMEA (9% growth), although the US consumer durables market (e.g. bedding and quilting) remained soft in the second half.

The Crafts division saw revenues decline by 11% on a CER basis (10% decline on a reported basis), as the North American market conditions remained weak throughout the second half of the year, alongside an adverse impact from the introduction of own-label handknitting products at a major customer. This followed the first half business disruption caused by the tornado strike at the main Crafts distribution centre in Albany, Georgia, USA on 22 January 2017 (estimated sales impact $10 million).

Group adjusted operating profit increased 11% to $174 million on a CER basis (2016: $157 million) and operating margins were up 70 bps to 11.5% (2016: 10.8%). On a reported basis operating profit (which is after exceptional and acquisition related items) increased 9% to $167 million (2016: $153 million). Exceptional and acquisition related items are not allocated to segments and as such segmental performance commentary is based on adjusted operating profit.

Industrial adjusted operating profit grew 13% on a CER basis to $173 million and margins were up 70bps to 13.3%. This was due to volume growth, realising price increases through continually focussing on our customers' needs (e.g. speed, quality, innovation and corporate responsibility), productivity and procurement improvements, and continued cost control which more than offset input cost inflation. The majority of the raw material price increases during the year (partly linked to the rising oil price) were recovered through price increases. Organic

OPERATING REVIEW CONTINUED

Industrial adjusted operating profit grew 11% year-on-year, and margins were up 70bps, with strengthening year-on-year growth of profits and margins in the second half of the year.

Crafts adjusted operating profit declined by 34% to $7 million (margins down 120bps) due to lower year-on-year volumes in North America (particularly in the second half), as well as certain non-trading items (see later for details). This was offset to some extent by cost synergies being realised in the smaller Latin America market following the decision to commence integrating its activities with the Industrial Division (as previously announced). From 2018, it is anticipated that Latin America Crafts will be reported as part of the Industrial division once the integration of activities is finalised.

Industrial

	2017 $m	2016 $m	Inc/(dec) %	2016 CER[1]	CER[1] inc/(dec) %	Organic[6] inc/(dec) %
Revenue[2]						
By business						
Apparel and Footwear[3]	**1,021**	975	5%	972	5%	5%
Performance Materials[5]	**276**	246	12%	246	12%	7%
Total	**1,297**	**1,221**	**6%**	**1,218**	**6%**	**5%**
By region						
Asia	**764**	720	6%	724	6%	6%
Americas	**257**	249	3%	253	2%	1%
EMEA	**276**	252	9%	242	14%	9%
Total	**1,297**	**1,221**	**6%**	**1,218**	**6%**	**5%**
Adjusted operating profit[2,4]	**173**	**155**	**12%**	**153**	**13%**	**11%**
Adjusted operating margin[2,4]	**13.3%**	**12.7%**	**70bps**	**12.6%**	**70bps**	**70bps**

1 2016 figures at 2017 exchange rates.
2 Includes contribution from bolt-on acquisitions made during the period.
3 Includes accessories, zips and trims and global services.
4 On an adjusted basis which excludes exceptional and acquisition related items.
5 Previously named Speciality.
6 On a CER basis excluding contributions from bolt-on acquisitions

Apparel and Footwear
Highlights for 2017:
- Strong revenue growth of 5%
- Continued market share gains
- Innovative new products such as knitted footwear uppers

Priorities for 2018
- Meeting customer needs for speed, productivity, quality and peace of mind
- Further strengthen operational capabilities in growth geographies and markets
- Build sustainable innovation pipelines

Industrial revenues grew by 6% in the year due to continued strong momentum in Apparel and Footwear (~70% of Group revenues) which grew by 5%, along with 12% growth in Performance Materials (7% organic growth and 5% contribution from acquisitions).

The strong Apparel and Footwear performance in the year delivered market share gains and was achieved despite continued mixed demand from clothing retailers and ongoing price pressures, as we maintained our customer-led approach to innovation and digital solutions, alongside our strong corporate responsibility credentials. Coats' ability to continue to take market share was assisted by several factors including deepening its relationships with retailers and brand owners through its global accounts programme, and with manufacturers, through the increasing adoption of digital services (e.g. our growing eCommerce platform which now extends to online payment availability in a number of our key markets which helps to reduce payment times from our customers). In addition, market share gains were realised through the launch of innovative new products, for example knitted footwear uppers for key sportswear brands, and we are actively working on further innovation projects with a number of global brands. We have also developed and recently launched a 100% post-consumer recycled premium thread, Epic Ecoverde, which is an industry first.

Performance Materials revenues grew 12% in the period on a CER basis (12% reported), which includes a 5% contribution from the acquisitions of Gotex (acquired in June 2016) and Patrick Yarn Mill (acquired in December 2017). Organic growth of 7% was underpinned by strong growth in EMEA and Asia as we continued to drive geographic expansion of existing products across the Coats portfolio, and leveraging Coats' global customer base.

OPERATING REVIEW CONTINUED

Performance Materials
Highlights for 2017:
- Strong growth in hi-tech sectors
- Acceleration of innovation
- Gotex exceeding business case in sales and profits

Priorities for 2018
- Build scale in hi-tech sectors
- Breakthrough into composites and conductive
- Deepen innovation culture and ecosystem

However the US consumer durables market (e.g. ''traditional'' end uses such as bedding and quilting) remained soft in the second half. Growth in hi-tech end uses which now account for 50% of Performance Materials revenues (e.g. wire and cable, and engineering performance yarns) remained strong throughout the year delivering double-digit year-on-year growth (18% organic growth). The business also continued to grow revenues in new, innovative products, and in 2017 over 20% of our total Performance Materials revenues were in relation to products that did not exist 5 years ago (for example, Coats Synergex). Overall, following the Performance Materials organic growth of 4% in the July-October period which was reported in November 2017, we have seen the organic growth for the second half improve to 6%.

By region, revenue in Asia grew by 6% on a CER basis which was ahead of the 4% growth reported in the first half, as momentum in key Apparel and Footwear markets (e.g. Vietnam and Indonesia) gathered pace during the year (7% growth in H2). Thread sales in China for domestic Apparel and Footwear consumption grew strongly by 9% in 2017, supporting our belief that Coats remains well placed in that market to benefit from the macro trend of the expansion of the urban middle class in Asia. Revenues in EMEA rose 14% (9% organic growth) which was a continuation of a strong and improving performance in 2016 (7% organic growth) and the first half of 2017 (organic growth 8%), driven by double-digit growth in certain key A&F markets (e.g. Turkey) and hi-tech Performance Materials end uses (including Gotex). In the Americas there was a return to growth in the year (2% decline in 2016) following strong performance in certain key Latin America Markets, and a marginal year-on-year improvement in the US consumer durables market on 2016 although overall this market remains weak.

Industrial adjusted operating profit increased 13% to $173 million on a CER basis (2016: $153 million) and margins increased 70bps to 13.3%. This reflected strong volume growth driving a positive operational gearing impact, realising price increases through continually focussing on our customers' needs (e.g. speed, quality, innovation and corporate responsibility), ongoing productivity and procurement savings, and a close control of costs. The majority of the raw material price increases seen during the year (partly linked to the rising oil price) were recovered through price increases, and together with these other self-help initiatives were able to more than offset the other structural non-raw material inflation (e.g. wages and energy) that the Group faces across the many countries in which it operates. Year-on-year adjusted operating profit growth in the second half of 2017 improved to 15% and margins increased year-on-year by 100bps.

Acquisition

As previously reported, Coats acquired 100% of the share capital of Patrick Yarn Mill in December 2017.

Patrick Yarn Mill is a manufacturer of high-performance engineered yarns based in North Carolina, US. It specialises in cut-resistant and flame retardant yarns. It also produces yarns from recycled fibres marketed under its earthspun® trademarks and with its large solar installation promotes its earth friendly yarns as 'Spun by the Sun'.

Founded in 1963, Patrick Yarn Mill has 150 employees. Patrick Yarn Mill's unique spinning competencies in engineered performance yarns offer an opportunity to expand Coats' existing Performance Materials portfolio as well as to extend its innovation capability. Coats will support Patrick Yarn Mill's expansion into high-growth markets by leveraging Coats' unrivalled geographic footprint, breadth of global customer relationships and strong corporate brand.

The initial consideration is $21 million, with further payments of up to $4 million over a three year period to 2020, contingent on Patrick Yarn Mill achieving certain performance targets. The acquisition will be funded from Coats' operating cash flows and existing debt facilities.

In 2017, the business achieved revenues of $42 million, and an adjusted operating profit of $2 million. It is our intention to grow revenues and operating margins going forward through identified revenue and cost synergies as a result of Patrick Yarn Mill being part of the wider Coats group of companies.

OPERATING REVIEW CONTINUED

Crafts
Highlights for 2017:
- New management team in place for North America Crafts
- Progress in integration of Latin American business into Industrial

Priorities for 2018
- Focus on areas of consumer marketing, product innovation and digital offerings
- Full integration of Latin America business into Industrial

Crafts

	2017 $m	2016[1] $m	Inc/(dec) %	2016 CER[1]	CER[1] inc/(dec) %
Revenue					
By business					
Handknittings	**108**	121	(11)%	122	(11)%
Needlecrafts[2]	**105**	115	(8)%	117	(10)%
Total	**213**	**236**	**(10)%**	**239**	**(11)%**
By region					
North America	**149**	176	(15)%	176	(15)%
Latin America	**64**	60	6%	63	1%
Total	**213**	**236**	**(10)%**	**239**	**(11)%**
Adjusted operating profit[3]	**7**	**11**	**(34)%**	**11**	**(34)%**
Adjusted operating margin[3]	**3.3%**	**4.6%**	**(120)bps**	**4.5%**	**(120)bps**

1 2016 figures at 2017 exchange rates.
2 Includes other textile craft products such as consumer sewings and lifestyle fabrics.
3 On an adjusted basis which excludes exceptional and acquisition related items.

Crafts revenues declined 10% on a reported basis (11% CER decline). This was as a result of the business disruption caused by the tornado strike in January at the main Crafts distribution centre in Albany, Georgia, USA, along with continued tough underlying market conditions in the North American market which persisted throughout the second half of the year and the adverse impact from the introduction of own-label handknitting products at a major customer. The revenue decline was broadly split evenly across both the Handknittings and Needlecrafts categories. Revenues in the smaller Latin America market grew by 1% on a CER basis (6% reported), with growth in the key markets of Brazil and Argentina.

Despite the continued difficult trading conditions, the division has continued to make good progress in the areas of enhancing its online offerings and new product launches. New management is now in place in our North American Crafts business who will be delivering a revised and refocused strategy, and the previously announced integration of the Latin American business with the Industrial operations remains on-going. From 2018, it is anticipated that Latin America Crafts will be reported as part of the Industrial division once the integration of activities is finalised.

Adjusted operating margins in the Crafts Division reduced to 3.3% (2016: 4.5%) and adjusted operating profits were down 34% to $7 million (2016: $11 million). This margin reduction was mainly due to non-trading items that occurred in the second half. These included reorganisation costs in relation to the North American management team, specific business disruption costs in relation to the Albany tornado, and asset write-downs following the sale of the non-core lifestyle fabrics business (due to complete in H1 2018). Offsetting the above, were the realisation of the initial cost synergies anticipated in the Latin American business ahead of its eventual full integration with the Industrial business. First half adjusted operating margins of 5.3% benefitted partially from the profit insurance cover in relation to lost revenues resulting from the tornado.

FINANCIAL REVIEW

Simon Boddie
Chief Financial Officer

Highlights for 2017:

- Successful completion of $225m debut issue in US placement
- Settlement concluded with all three UK pension schemes
- Improvement in cash generation driven by increased profitability, effectively controlled net working capital and lower effective tax rate

Priorities for 2018

- Implementing Connecting for Growth programme
- Continuing integration of recent acquisition
- Delivery of sales, earnings and cash growth

A Alternative Performance Measures – see note 37 on page 143

Financial summary

Adjusted earnings per share ('EPS') A for the year increased 30% to 6.4 cents (2016: 4.9 cents). This growth was driven by higher adjusted operating profits (11% CER growth) A, a reduction in effective tax rate (4% reduction in underlying rate, including a $3 million deferred tax credit resulting from the recent US tax reforms), a $4 million reduction in the IAS19 pension finance charge (albeit offset to some extent by the related decrease in interest income on reduced parent group cash), and foreign exchange gains of $2 million (2016: $4 million losses) primarily relating to mark-to-market (MTM) adjustments. Excluding the year-on-year impact of the foreign exchange gains / losses (net of tax), and the deferred tax credit as a result of the recently announced US tax reforms, adjusted EPS growth would have been 17%. The Company generated a reported attributable profit from continuing operations of $81 million compared to $64 million in 2016, primarily due to the reasons set out above.

Adjusted free cash flow A was $87 million in 2017, a 12% increase on 2016 ($78 million), driven by improved profitability, which was partially offset by the anticipated increase in capital expenditure to $50 million (2016: $40 million); the increase in which was predominantly in the second half. The reduction in net cash from $78 million at the end of 2016 to a net debt A position at 31 December 2017 of $241 million primarily reflects the upfront deficit recovery payments made into the three UK defined benefit pension schemes in the first half of the year following settlement with the Trustees of those schemes (see later for further details). An important metric for the operating business is the leverage ratio of net debt (excluding parent group cash) to adjusted EBITDA, which further improved to 1.1x adjusted EBITDA at 31 December 2017 (31 December 2016: 1.3x).

Return on capital employed A remained in line with 2016 at 35%, as higher adjusted operating profits and controlled working capital were offset by the anticipated increase in capital expenditure.

Connecting for Growth programme

Connecting for Growth is a two year transformation programme to drive agility across the organisation, enabling the next phase of growth at Coats, and accelerating our transition from the industrial age to the digital age. We are building on our current strong position in order to respond to the constantly changing market demands and adding value to our customers by being agile partners with an increased emphasis on speed, quality, value, innovation and corporate responsibility. This programme will focus on simplification across many aspects of the organisation, connecting the business end to end, and releasing funds for reinvestment in our customer-focussed initiatives and our people. Examples of reinvestment will include further building our innovation capabilities, digital tools (e.g. further connecting our global manufacturing assets), and developing our people (e.g. skills upgrades relevant to a digital world), all of which are key to delivering our wider Group strategy.

We have identified potential gross annualised operating cost savings of $25 million by 2020. After reinvestments of c.$10 million per annum, we expect the programme to deliver net annualised operating cost savings of $15 million by 2020. The total reorganisation cost to achieve these operating cost savings is estimated to be $30 million, with the majority of these reorganisation costs incurred in 2018 (as these costs are not expected to form part of the on-going cost base, these will be excluded from adjusted operating profit). In 2018, we anticipate there to be net operating cost savings, after reinvestments, of $5 million (reflected within adjusted operating profit).

We expect that the majority of savings will be achieved from reducing complexity in the existing Group. For example, transitioning from market-focussed support functions (e.g. Finance, HR, Technology) to realigned globally integrated support functions, redesigning the way we service a number of our peripheral markets, and moving from a business which is currently operated by individual local management teams into 10 scalable clusters. 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.

Financial review

Adjusted EPS A for the year increased 30% to 6.4 cents (2016: 4.9 cents). This was driven by the higher operating profit, improvements in the underlying tax rate, the deferred tax credit as a result of the recently announced US tax reforms, a lower pension finance charge (offset to some extent by decrease in interest income on reduced parent group cash), and MTM foreign

FINANCIAL REVIEW CONTINUED

exchange gains (2016: foreign exchange losses). Excluding the year-on-year impact of the MTM foreign exchange gains/losses (net of tax), and the one-off impact of the US tax reforms on deferred tax balances, adjusted EPS growth would have been 17%. Reported EPS of 5.8 cents compares to 4.3 cents in 2016 with the increase predominantly due to the above factors.

Non-operating results
Net finance costs in the period were $23.0 million, significantly down from $31.6 million in 2016. The key drivers of the reduction in net finance costs in the period were $2 million foreign exchange gains mainly in relation to MTM adjustments for the year ended 31 December 2017 (2016: $4 million losses), and a $4 million reduction in the IAS19 pension finance charge to $9.4 million (2016: $13.6 million). The latter was following the injection of parent group cash into the three UK defined benefit schemes which reduced the net IAS19 liabilities accordingly, although the reduced pension finance charge was offset to some extent by reduced interest income on the lower parent group cash balance. Interest on borrowings was broadly flat year-on-year at $14.5 million (2016 $14.4 million); underlying interest was lower partly due to fixed interest rate swaps coming to an end, as well as lower net debt levels during the year. However, this was offset by a $2 million charge in relation to accelerated amortisation of capitalised facility fees in relation to the previous 2015 refinancing (following the USPP issue and refinancing of existing bank debt in December 2017).

The taxation charge for 2017 was $47.8 million (2016: $46.8 million) resulting in a reported tax rate of 33% (2016: 38%). Excluding exceptional and acquisition related items and the impact of IAS19 finance charges, the underlying effective rate on pre-tax profits reduced by 400bps to 30% (2016: 34%). This reduction includes a non-cash tax credit of $3.0 million (200 bps) as a result of the revaluation of the net US deferred tax liabilities following the tax reform measures introduced by the US Government in the Tax Cuts & Jobs Act. The Group's underlying effective tax rate excluding this one-off impact is 32%, a reduction of 200bps from 2016 which was driven by a reduction in unrelieved losses, together with a change in profit mix for the period.

We have reviewed the available detail of the Tax Cuts & Jobs Act but do not expect the changes to have a significant impact on the Group's future underlying effective tax rate despite the reduction in the headline US Corporate Income Tax rate from 35% to 21% with effect from 1 January 2018. The benefit of the rate reduction is offset by provisions to limit net interest expense to 30% of adjusted taxable income and the loss of the domestic production activities deduction, which our US operations have historically benefitted from. Further detail and guidance is expected to be released in the coming months and we will continue to monitor this.

Profit attributable to minority interests was $14.3 million (2016: $11.9 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 $9.1 million in 2017. These are related to the amortisation of intangible assets acquired in the recent acquisitions ($2.1 million), contingent consideration in relation to these acquisitions ($4.0 million), acquisition transaction costs ($0.4 million), and the closure costs of a joint venture entity ($2.6 million). In 2016 net exceptional and acquisition related items before taxation totalled $4.6 million.

Lower Passaic River ('LPR')
In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC'), a subsidiary within the Coats Group, that it was a 'potentially responsible party' 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. CC has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process.

In 2015, a provision of $15.8 million was recorded for remediation costs and associated legal and professional costs based on CC's estimated share of de minimis costs for appropriate remedies, net of insurance reimbursements.

In September 2017, in response to comments from various parties that all parties should be included in the same allocation process, EPA expanded the process to include private parties that are alleged to have discharged the relevant contaminants, and asked the allocator to

A Alternative Performance Measures – see note 37 on page 143

FINANCIAL REVIEW CONTINUED

make a determination about the respective shares of all parties. CC has previously indicated to EPA that it is not responsible for the primary risk drivers. The duration and scope of the allocation process have yet to be determined. No additional provision has been recorded during 2017.

See note 28 for further details.

Investment

Capital expenditure in the year, in addition to ongoing maintenance requirements, related to new product development, process improvements, capacity expansion, health and safety, and environmental spend. The latter, include projects such as effluent treatment plants which enable a thread plant to recycle more process water, or even to operate with zero discharges. These help to ensure that Coats maintains its strong corporate responsibility credentials and ethical reputation in the industry as well as benefitting the local communities that we do business in. Total capital spend for the year amounted to $50 million (1.2x depreciation and amortisation), in line with the previously flagged increase on the 2016 capital spend of $40 million (1.0x depreciation and amortisation).

In order to continue to support our growth strategy and reinforce our strong environmental compliance credentials we anticipate capital spend to remain in the $50-60 million range for 2018.

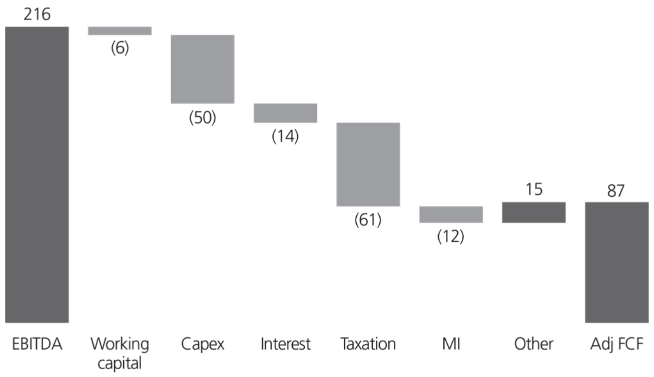
Cash flow

Adjusted free cash flow Ⓐ was $87 million in 2017, which was a 12% increase on 2016 ($78 million). This was due to increased profitability, effectively controlled net working capital and lower effective tax rates, which more than offset the anticipated second half increase in capital expenditure ($8 million increase vs H2 2016). This is a key metric for the Group in relation to underlying cash flow generation and is before annual pension recovery payments, acquisitions and dividends, and excludes exceptional items.

Adjusted EBITDA Ⓐ was $216 million (2016: $199 million). Net working capital has been effectively controlled at 10% of Group sales (2016: 10%), driven by an improvement in days payable outstanding which was offset by an increase in stocks to support service delivery, along with a marginal improvement in days sales outstanding. Interest paid was $14 million, which was in line with 2016. Tax paid was $61 million, a $3 million increase on 2016, where higher profitability in 2017 was offset by the overall reduction in the Group's underlying effective tax rate driven by favourable profit mix.

On a non-adjusted basis, free cash outflow was $330 million, compared to $84 million outflow in 2016. The increase was primarily related to $373 million of payments into the three UK defined benefit pension schemes (2016: $99 million) following settlement with their respective trustees (including $348 million of upfront settlement payments out of parent group cash made in the first half), shareholder dividends of $18 million (2016: nil), offset by a lower spend on acquisitions in 2017 of $20 million (2016: $36 million).

Adjusted free cash flow 2017 ($m)



Ⓐ Alternative Performance Measures – see note 37 on page 143

FINANCIAL REVIEW CONTINUED

Balance sheet

The Group had a net debt position Ⓐ of $241 million at 31 December 2017 (31 December 2016: net cash $78 million). At 31 December 2016 the net cash position of $78 million included parent group cash of $343 million and operating business net debt of $265 million. Following the settlement of the three UK defined benefit pension schemes in the first half of 2017 the parent group cash has now reduced to $0.5 million, with $348 million (£270 million) up-front settlement payments into those three schemes.

The Coats operating business had a net debt position Ⓐ of $242 million at the end 2017. This was below 31 December 2016 ($265 million) primarily due to the adjusted free cash flow Ⓐ in the last year ($87 million) Ⓐ, offset by on-going pension deficit recovery payments (including administrative expenses) now paid out of the operating business net debt following settlement ($25 million), shareholder dividends ($18 million) and the acquisition of Patrick Yarn Mill ($20 million). An important metric for the operating business is the leverage ratio of net debt (excluding parent group cash) to adjusted EBITDA Ⓐ. Net debt at 31 December 2017 improved to 1.1x adjusted EBITDA of the last twelve months (1.3x at 31 December 2016).

Following the binding settlement agreements agreed with the trustees of the three UK pension schemes (see further details below) it was determined that the functional currency of Coats Group plc had changed from Great Britain pounds sterling to the United States dollars, effective 1 March 2017. This change has been accounted for prospectively (in line with accounting standards) and generated exchange differences in the year that reduced share capital by $40 million, reduced the capital reduction reserve by $25 million, and reduced the share premium account by $11 million. Equivalent gains were booked in the translation reserve and as a result distributable reserves have not been impacted by this change.

Pensions and other post-employment benefits

The net obligation for the Group's retirement and other post-employment defined benefit liabilities, on an IAS19 financial reporting basis, was $163 million as at 31 December 2017, down from $627 million at 31 December 2016.

The deficits in the Group's UK defined benefit schemes, namely the UK Coats Plan, and Brunel and Staveley schemes, decreased to $106 million (£79 million) from the position at 31 December 2016 ($576 million, £467 million). The decrease in liabilities in the period of $470 million primarily consisted of deficit repair payments of $373 million (which included agreed upfront settlement payments of £270 million ($348 million) made in the first half), actuarial gains of $141 million (mainly related to asset outperformance) offset by the impact of foreign exchange on Sterling liabilities of $31 million.

IAS19 deficit	**31 Dec 2017 $m**	31 Dec 2016 $m	**31 Dec 2017 £m**	31 Dec 2016 £m
Coats Plan	**78**	467	**58**	378
Brunel	**30**	64	**22**	52
Staveley	**(2)**	45	**(1)**	37
UK defined benefit schemes	**106**	576	**79**	467
Other Coats net employee benefit obligations	**57**	51		
Total	**163**	627		

Pensions investigations

As previously reported in the announcements of 16 December 2016, 17 February 2017, and 26 June 2017 Coats has signed binding settlement agreements with the Trustees of all three UK pension schemes; the UK Coats Pension Plan, the Brunel Holdings Pension scheme and the Staveley Industries Retirement Benefit Scheme. The settlements with the three schemes were completed in the first half of 2017, and as a result the UK Pension Regulator confirmed that its regulatory action has ceased in relation to the warning notices issued to the Company in 2013 and 2014.

Ⓐ Alternative Performance Measures – see note 37 on page 143

FINANCIAL REVIEW CONTINUED

The principal commercial terms of the combined three settlements are:

- Financial support on the basis of a combined technical provisions deficit as at April 2015 of £582 million ($786 million) to be repaired by:

  a) upfront payments totalling £329.5 million ($447 million) from the Company's parent group cash paid directly into the schemes (inclusive of the agreed Recovery Plan contributions paid to the Brunel and Staveley schemes since 1 January 2016); and

  b) annual deficit contributions totalling £17.5 million ($24 million), including estimated administration expenses and levies of £5 million p.a. to be paid until 2028.
- Access to sponsor support from Coats for future funding needs together with a Company guarantee.

As a result of the settlements reached with the three schemes, the total cash Recovery Plan contributions in 2017, including estimated administration expenses and levies, were £290 million ($373 million). This comprised £270 million upfront settlement payments (which were paid in H1), and £20 million annual deficit contributions, including estimated administration expenses and levies. These cash payments continue to be excluded from the Group's adjusted Free Cash Flow.

Triennial funding valuations
The next triennial funding valuations for the Coats UK, Brunel and Staveley schemes have an effective date of 31 March 2018.

Although there is a relatively small IAS19 accounting deficit as at 31 December 2017 in comparison to the defined benefit obligations, the pension trustees are required to calculate the funding position on the more prudent ‘technical provisions’ basis. In addition, real UK interest rates have reduced since the first quarter of 2015 and in aggregate the UK schemes now hedge c.70% of interest rate and inflation linked liabilities. These triennial valuations will determine the Group’s agreed future contribution requirements and the process is expected to be completed in the first half of 2019.

Refinancing
As previously reported, in December, the Group completed a $225 million issue of US Private Placement (USPP) notes. The notes, which represent our debut issue in the USPP market, have a maturity of seven and ten years and have been issued on investment grade terms.

Simultaneously, Coats agreed a new $350 million five-year bank facility with a syndicate mainly comprising its existing lenders. The USPP notes and new bank facility replace Coats' $680 million bank facility that was due to mature in March 2020. This refinancing has achieved the Group's aims of diversifying the sources of debt financing and extending their maturity out to 2027.

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. Over time, and as underlying earnings and cash flows increase, the Board intends to pursue a progressive dividend policy.

As a result of this established policy, and reflecting the financial performance in 2017, the Board is proposing a final dividend of 1.00c per share which, combined with the interim divided of 0.44c per share, gives a total dividend for the year of 1.44c (pro-forma 2016 full year dividend: 1.25c per share), which represents a 15% increase on the previous year. Subject to approval at the forthcoming AGM, the final dividend will be paid on 29 May 2018 to ordinary shareholders on the register at 4 May 2018, with an ex-dividend date of 3 May 2018.

FINANCIAL REVIEW CONTINUED

Outlook

We enter 2018 in a strong position, with continued momentum in our Apparel and Footwear and hi-tech Performance Materials businesses. Whilst market conditions in our North American Crafts business are expected to remain challenging, our new management team has commenced implementation of a refocused strategy.

We expect 2018 adjusted operating profits to benefit from the incremental full year contribution from the Patrick Yarn Mill acquisition, and the anticipated first year benefits from the Connecting for Growth programme. As such, 2018 adjusted operating profits are expected to be slightly ahead of previous management expectations.

We will also continue to focus on cash flow generation in order to allow us to continue to reinvest in both organic and inorganic growth opportunities.

Simon Boddie
Chief Financial Officer
6 March 2018

The Strategic Report comprising pages 1 to 36 was approved by the Board and signed on its behalf by the Group Chief Executive.

Rajiv Sharma
Group Chief Executive

CHAIRMAN'S INTRODUCTION

Highlights for 2017
- Role in review and setting of new five year Group strategy
- Appointment of two new Non-Executive Directors and meeting Hampton-Alexander recommendations on boardroom diversity
- Time during the year allocated to risk deep dives

Priorities for 2018
- Oversight of long term strategy and acquisitions
- Risks which may materially impact Group strategy and long term viability
- Continue programme of site visits around Coats

Section contents

As a listed company, Coats is required to report on how it has applied the principles of the Code and this report is set out in the following pages.

A statement of compliance with the provisions of the Code can be found on page 68.

'SOLID CORPORATE GOVERNANCE IS THE FOUNDATION ON WHICH THE BUSINESS CONTINUES TO BE MANAGED.'

Dear Shareholder

I am pleased to report to you the Governance section of the 2017 Annual Report and further to confirm that Coats Group plc (Coats) has complied fully with the principles and provisions of the 2016 UK Code of Corporate Governance (the Code).

This report describes Coats' corporate governance structures and procedures and the roles played by each of the Board, its Committees and the Group Executive Team (GET) in these.

I believe that our corporate governance framework – set out on the following page – is appropriate for a company of our size and FTSE 250 status and supports the delivery of the Group's strategic objectives whilst also ensuring accountability, transparency and fairness in our dealings with all of our stakeholders, in particular our shareholders, customers, employees and suppliers.

Culture and diversity

At Coats, we have long believed that supporting and respecting all aspects of the diversity of our people is an important contributor to business performance as well as being the right thing to do. Having a diverse range of Board members is critical, as Board decisions set the tone and culture for the organisation, and diversity and a broad range of experience help generate the sparks that ensure our decisions are never the result of 'group think' or treading all-too familiar paths.

Consequently, I am pleased to report the Board has appointed two new female Directors, which brings the percentage of female representation on the Board to over 30%. In December 2017 Echo Lu joined the Board and Anne Fahy joined on 1 March 2018. Echo brings 20 years of global HR operations and management expertise, and direct managerial experience of global companies operating in markets in Asia. Anne has a wealth of financial experience from her time at BP including knowledge of the full range of audit matters and financial controls. Anne will also become Chairman of our Audit and Risk Committee in place of Ruth Anderson who will step down from the Board following our Annual General Meeting on 16 May 2018.

Compliance and accountability

Significant time and resource is given to governance matters by the Board and within the everyday operations of the Group. This ensures compliance within the framework of regulations but is also central to delivering sustainable business success.

We believe that reputation is critical to commercial success and can only be enhanced by behaviours of which we are all proud. A key element of ensuring sound governance is guaranteeing an appropriate system of controls and accountability.

Details of the Group's Committees and their reports are contained in this section of the Report.

Activities in the year

In addition to time spent at Board and Committee meetings, the Directors participate in strategy days and Company-related events such as the Global Leadership Conference and visits to the Company's sites worldwide.

Two such visits in 2017 were to operations in Turkey and India where the Board had the opportunity to deepen its understanding of the business and culture of the Company and the important role we play for a broad range of stakeholder groups.

Mike Clasper
Chairman
6 March 2018

CHAIRMAN'S INTRODUCTION CONTINUED

The UK Corporate Governance code (April 2016) can be found on www.FRC.org.uk

The Terms of reference of each Committee are available at www.coats.com/governance

Our governance activities are aligned to the Code and this report is structured accordingly:

Leadership

- The Board recognises the need for clear divisions of responsibility in order to provide leadership for the long term success of Coats. The Corporate Governance Report details our approach in these matters and our relations with shareholders.

Effectiveness

- The Board recognises that to operate effectively the organisation requires the correct balance of skills, experience and diversity. The report of the Nomination Committee outlines our approach in this area.

Accountability

- A key element of ensuring sound governance is guaranteeing an appropriate system of controls and accountability. The report of the Audit and Risk Committee provides an update in this area.

Remuneration

- Director remuneration is set to promote the long term success of Coats. The report of the Remuneration Committee sets out our approach in this area.

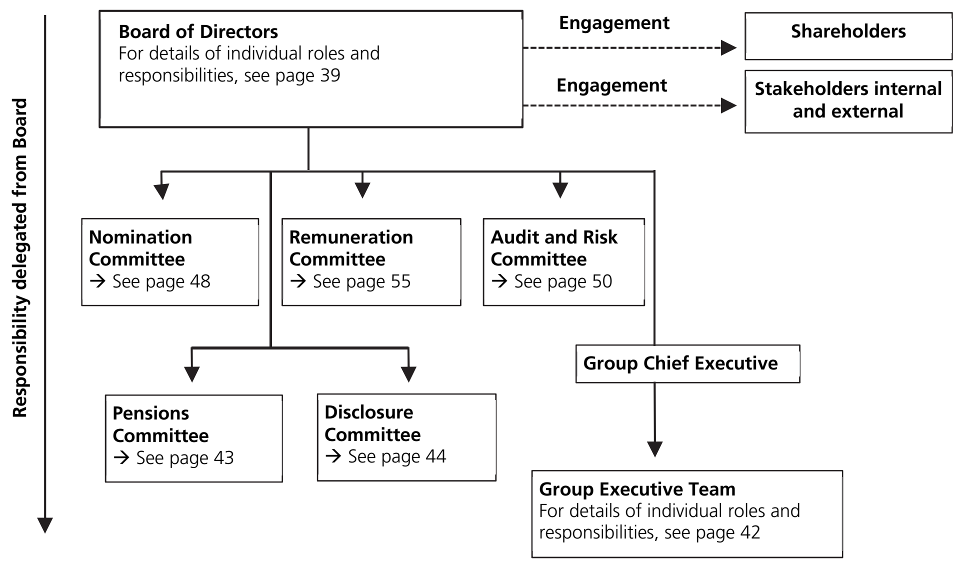
Governance Code Report

- The UK Governance Code Report and the Directors' Report outline our compliance with all aspects of the Code.

Our governance framework

Responsibility for good governance rests with the Board; this is underpinned by an effective governance framework which, the Board believes, fits the requirements of Coats' business.

The Board retains certain matters for its own preserve; other specific responsibilities are delegated to its principal Committees, namely the Audit and Risk Committee, the Nomination Committee and the Remuneration Committee, and to senior executive management.



BOARD OF DIRECTORS

Key to Committee membership

AR Audit and Risk

N Nomination

R Remuneration

Chair of Committee

Changes to the composition of the Board since 1 January 2017 up to the date of this report are detailed below and also in the Directors' Report on page 71:

- Hongyen 'Echo' Lu, Non-Executive Director Appointed 1 December 2017
- Anne Fahy, Non-Executive Director Appointed 1 March 2018

Mike Clasper CBE, Chairman N

- Key skills and experience: Mike has over 35 years' experience in general management and marketing for global companies, with a particular focus on brands and business services.
- Other current appointments: He is currently the Senior Independent Director at Serco Group plc, a leading provider of public services and Chairman of Bioss, an organisation and people development consultancy. He is also a trustee of the Chartered Management Institute (CMI) a governor of the Royal Shakespeare Company (RSC) and an Advisory Board member for Arora International.
- Previous relevant experience: Mike was until recently Chairman of Which? Ltd. and has previously served as Chief Executive Officer of BAA plc, Chairman of HM Revenue & Customs, Operational Managing Director at Terra Firma, and held a number of senior management positions at Procter & Gamble. He has also been the Senior Independent Non-Executive Director of ITV plc, Chairman of the West London Consortium, and Chairman of the Market Place Impact Taskforce of Business in the Community.
- Qualifications: Mike holds an MA in Engineering from the University of Cambridge.

Rajiv Sharma, Group Chief Executive N

- Key skills and experience: Rajiv became Group Chief Executive on 1 January, 2017, having served as an Executive Director since December, 2014. He has nearly 30 years' of experience which includes commercial, operations, M&A, strategy, digital and general management. 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.
- Other current appointments: Rajiv does not currently have any other external appointments.
- Previous relevant experience: Rajiv has multi industry global experience. He has managed complex businesses with blue chip companies that include Saab, Honeywell, GE and Shell. The majority of his career has been dedicated to growing or turning around businesses and he has been on the board of joint ventures at both GE and Shell.
- Qualifications: Rajiv holds a degree in Mechanical Engineering, as well as an MBA from the University of Pittsburgh, USA.

Simon Boddie, Chief Financial Officer

- Key skills and experience: Simon has over 30 years' experience of working in finance with extensive knowledge of international operations, emerging markets and digital.
- Other current appointments: He is currently a Non-Executive Director of PageGroup plc, a specialist recruitment company, where he also chairs the audit committee.
- Previous relevant experience: Simon was previously Group Finance Director for ten years at Electrocomponents plc, a FTSE 250 industrial distribution business. Prior to Electrocomponents, Simon worked for Diageo, the leading international drinks business, where he held a variety of senior finance positions. His career started at Price Waterhouse, where he qualified as a Chartered Accountant, before working in the Corporate Finance Team of Hill Samuel Bank.
- 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.

Nicholas Bull, Senior Independent Non-Executive Director AR N

- Key skills and experience: Nicholas is a qualified chartered accountant with over 30 years' experience in global banking.
- Other current appointments: He is currently Chairman of the investment trust, Fidelity China Special Situations plc, as well as a trustee of the Design Museum, the Conran Foundation and a member of the Council of the University of Exeter.
- Previous relevant experience: Nicholas has served as Chairman of De Vere, the hotel and leisure group. He has also served as Chairman of the Advisory Board of City stockbroker, Westhouse Securities and of Smith's Corporate Advisory Limited. Prior to that he had a career in banking with Morgan Grenfell (subsequently Deutsche Bank), Société Générale and ABN AMRO working in London, Hong Kong, Singapore and Sydney.
- 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

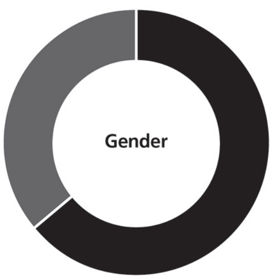
Independence

- 80% Independent NEDs
- 20% Executive Directors

Tenure

- 44% 0–3 years
- 44% 3–6 years
- 12% 6–9 years

Diversity



- 64% Male
- 36% Female

Charts reflect Board composition as at date of Annual Report publication.

Mike Allen, Independent Non-Executive Director N R

- Key skills and experience: Mike has over 25 years' experience in investment banking and general management both in New Zealand and the UK.
- Other current appointments: He is currently Chairman of Investore Property Limited, Director of Godfrey Hirst Australia and Taumata Forests Limited, and an Independent Director of China Construction Bank (NZ) Limited and Tainui Group Holdings.
- Previous relevant experience: Mike has previously held a variety of senior leadership roles in New Zealand at Southpac Corporation and Westpac.
- Qualifications: Mike has an LLB / BCom from Otago University, New Zealand.

Ruth Anderson, Independent Non-Executive Director AR N

- Key skills and experience: Ruth is a chartered accountant with more than 30 years' experience of working for the accounting firm KPMG LLP.
- Other current appointments: Ruth is a Non-Executive Director at Ocado Group plc and Travis Perkins plc and chairs the audit committees at both. She is also a Director of The Royal Parks and a Trustee of the charity The Duke of Edinburgh's Award.
- Previous relevant experience: During her career with the accounting firm KPMG LLP Ruth worked from student accountant to UK Vice Chairman and advised many global businesses.
- Qualifications: Ruth has a BA in French and Spanish from the University of Bradford. She is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Institute of Taxation.

David Gosnell, Independent Non-Executive Director AR N R

- Key skills and experience: David has over 30 years' experience in supply and procurement strategy and execution.
- Other current appointments: David is currently Non-Executive Director of Brambles Ltd, the supply chain solutions provider and Chairman of Old Bushmills Distillery Company Ltd.
- Previous relevant experience: David retired from Diageo plc in 2014 where he had most recently held the role of President of Global Supply and Procurement. He led a global team of 9,000 people around the world across manufacturing, logistics and technical operations as well as managing Diageo's global procurement budget. 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 and has completed Supply Chain Manufacturing – Drive Operational Excellence at INSEAD (Singapore).

Hongyan Echo ('Echo') Lu, Independent Non-Executive Director N R

- Key skills and experience: Echo has over 20 years' of global HR, operations and general management experience in retail and pharmaceutical industries across Europe, Asia and the US.
- Other current appointments: Echo is currently the Managing Director of Holland & Barrett International, a European health and wellbeing retailer.
- Previous relevant experience: Echo previously served as the Managing Director of Homebase Ltd as part of Home Retail Group plc and spent ten years at Tesco plc in a variety of senior leadership roles, including Asia HR Director, Chief Operations Officer, China and Property Director, UK / Ireland. Echo has previously been a Non-Executive Director of Dobbies Garden Centres and served as a steering committee member of the Trestle Group Foundation, a non-profit organisation which supports female entrepreneurs in emerging economies.
- 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.

BOARD OF DIRECTORS
CONTINUED

Key to Committee membership

AR Audit and Risk

N Nomination

R Remuneration

Chair of Committee

Membership details can also be found online at www.coats.com/aboutus

Fran Philip, **Independent Non-Executive Director** N R

- Key skills and experience: Fran has over 30 years' of apparel merchandising, product innovation and branding experience having spent the majority of her career at the US retailer LL Bean.
- Other current appointments: Fran is currently a Non-Executive Director of a number of US companies including Vera Bradley Inc., the accessories brand; Totes Isotoner, the accessories manufacturer; Regent Holding, a home décor designer and importer; and an industry executive for Freeman Spogli, a US private equity firm specialising in retail and consumer brands.
- Previous relevant experience: Fran worked for several specialty chains such as The Gap, Williams –Sonoma and The Nature Company. She joined LL Bean in 1994 as Director of Product Development, Home Furnishings and went on to hold a number of roles including Vice President, Affiliated Brands, before becoming Chief Merchandising Officer in 2002 until she retired in 2011.
- Qualifications: Fran has a degree in English and Sociology from Bowdoin College, Maine, and an MBA from the Harvard Business School.

Alan Rosling, CBE, **Independent Non-Executive Director** AR N R

- Key skills and experience: Alan has wide international experience, especially in Asia, and has worked in general management, strategy and business development roles across a number of sectors including energy, textiles, retailing, banking and government.
- Other current appointments: Alan is currently the Chairman of Griffin Growth Partners, a specialist strategic advisory firm focused on growing markets in Asia and is a Director of Constellation Alpha Capital Corporation. He is also co-founder of Kiran Energy, one of India's leading solar power developers.
- Previous relevant experience: Until 2009 Alan was an Executive Director of Tata Sons Limited. Prior to that he was Chairman of the Jardine Matheson Group in India, Strategy Development Director at United Distillers and 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.

Anne Fahy, **Independent Non-Executive Director** AR N
(Anne joined the Board as a Non-Executive Director on 1 March 2018)

- Key skills and experience: Anne has over 25 years' experience in global business, financial markets and internal control.
- Other current appointments: Anne is currently a Non-Executive Director of Interserve, an international support services and construction company, SThree, a global staffing organisation providing specialist recruitment services, and Nyrstar, a global multi-metals business. She is also a Trustee of Save the Children.
- Previous relevant experience: During her career 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.

GROUP EXECUTIVE TEAM

Membership details can also be found online at www.coats.com/aboutus

Changes to the composition of the GET since 1 January 2017 up to the date of this report are shown below

- Ashok Mathur served as Chief Operations Officer Asia, until he retired 30 April 2017.
- Andy Speak served as Chief Human Resources Officer until he left 31 August 2017.
- Monica McKee's appointment as Chief Human Resources Officer was announced on 16 January 2018 and she will join 20 March 2018.

Rajiv Sharma, Group Chief Executive – for details see page 39.

Simon Boddie, Chief Financial Officer – for details see page 39.

Shantanu Banerjee, President Performance Materials – Shantanu has 30 years' of experience working at Coats and has held a number of senior marketing and manufacturing roles across North America and South Asia. Currently, as President of Performance Materials, he is responsible for leading and growing the business in all geographic clusters around the world by focusing on innovation and technology development.

Ronan Cox, Chief Transformation Officer – Ronan has over 20 years' of experience at Coats across sales, manufacturing and supply chain operations. As Chief Transformation Officer he leads the 'Connecting for Growth' programme, a series of projects which each address different aspects of reinventing Coats for the future and support the drive to a faster, more profitable business delivering value for customers, employees and shareholders.

Adrian Elliott, President Apparel and Footwear – Adrian leads the Apparel and Footwear segment at Coats providing a world class portfolio of threads, zips and trims to global brands and manufacturers. He is primarily responsible for the development and delivery of value adding products and customer propositions leading to sustainable and profitable sales growth. Adrian has worked at Coats for over 25 years across several countries and continents.

Kevin Finn, Chief Operating Officer, Asia – Kevin is responsible for ensuring a safe, respectful and inclusive working environment and sound internal controls across operations in Asia. Kevin has over 30 years' of experience working at Coats and held a range of operational and management roles throughout the business globally. Most recently he was Managing Director in China, with responsibility for country operations.

Hizmy Hassen, Chief Digital and Technology Officer – Hizmy has global responsibility for Technology within the organisation and is responsible for leading on digitising Coats' customer facing interactions which will underpin sales growth and increased productivity. He has worked at Coats for almost 20 years and across areas of Supply Chain, Technology and Digital.

Stuart Morgan, Chief Legal & Risk Officer and Group Company Secretary – Stuart joined Coats in 2014 and is responsible for legal and compliance, governance, risk management, communications and company secretarial matters. He was previously General Counsel, Global Retail and Wealth with Lloyds Banking Group where he led international teams and provided legal and regulatory advice, risk management guidance and strategic support.

Massimo Petronio, Chief Operating Officer, EMEA and LatAm – Massimo is responsible for ensuring a safe, respectful and inclusive working environment and sound internal controls across operations in both regions. He has over 30 years' of experience of working at Coats, most recently as Chief Industrial Operations Officer.

Michael Schofer, Chief Supply Chain Officer – Michael leads the supply chain business with responsibility for procurement, manufacturing, logistics and the programme to digitise Coats' supply chain. He has over 25 years' experience at Coats and held leadership roles in General Management, Supply Chain management, IT and large scale business reorganisation throughout Coats. His previous role was as CEO of the Global Crafts Business.

Monica McKee, Chief Human Resources Officer (Monica will join on 20 March 2018) Monica will join as Chief Human Resources Officer and will be responsible for delivering Coats' global HR strategy. This covers performance management, progression planning, reward and talent acquisition. Previously Monica was Head of Human Resources, Corporate Functions at Bristol-Myers Squibb where she also held a series of senior executive roles in organisation design, change management and business partnership.

CORPORATE GOVERNANCE REPORT

LEADERSHIP

Responsibilities

The Board

The Board's role is to provide leadership of the Company, and it is responsible to the shareholders for the long term success of the Company. This includes:

- Monitoring and challenging performance against plan;
- Co-developing strategy with executive management;
- Leveraging Non-Executive Director expertise beyond the boardroom; and
- Ensuring good corporate governance.

All matters are reserved for the Board unless specifically listed in the terms of reference for Committees of the Board or where the Board has delegated authority. A delegated authorities policy and schedule are reviewed by the Board annually.

Chairman

Mike Clasper, the Chairman, leads the Board, and is responsible for its effectiveness and governance. He sets the tone for the Company and ensures that the links between the Board and management and between the Board and shareholders are strong. He sets the Board agenda and ensures that sufficient time is allocated to important matters.

Group Chief Executive

Rajiv Sharma is responsible for the day-to-day management of the Group's operations, for recommending the Group's strategy to the Board and for implementing the strategy agreed by the Board. He is supported in decision-making by Simon Boddie, Chief Financial Officer and fellow Executive Director, and by a Group Executive Team (GET) comprised of senior managers.

Senior Independent Director ('SID')

In his role as the SID, Nicholas Bull provides a 'sounding board' for the Chairman and serves as an intermediary for the other Directors when necessary. Nicholas is available to shareholders if they have concerns which contact through the normal channels of Chairman, Group Chief Executive or other Executive Directors have failed to resolve, or for which such contact is inappropriate.

Non-Executive Directors

The role of the Non-Executive Directors is to provide constructive challenge to the executive management, and to bring experience and objectivity to the Board's discussion and decision-making.They monitor the delivery of the Company's strategy against the governance, risk and control framework established by the Board. The Non-Executive Directors, led by the SID, are also responsible for evaluating the performance of the Chairman.

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.

Company Secretary

Stuart Morgan is the Chief Legal & Risk Officer and Group Company Secretary. In his role as Group Company Secretary, Stuart is responsible for working with the Chairman to develop Board and Committee agendas and to ensure that all Board procedures are complied with. Stuart also advises the Board on corporate governance, legal, regulatory and compliance matters and developments.

Other Committees

Pensions

This ad hoc Committee has been established by resolution of the Board to act as a committee to provide guidance on the actuarial valuations and investment strategies for the Company's three UK defined benefit pension schemes for such duration as determined by the Board. It is known as the Pensions Committee. The Pensions Committee is chaired by Mike Allen, and its other members are Simon Boddie, Nicholas Bull, and David Gosnell.

CORPORATE GOVERNANCE REPORT CONTINUED

Disclosure

The Committee's primary duty is to determine whether, what and when any Group information needs to be disclosed to the market and to verify such information ahead of its disclosure to the market via a Regulatory Information Service in accordance with the EU Market Abuse Regulation and the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. This includes providing appropriate reassurances to the Board and, as required, individual Directors, and ensuring appropriate records are kept. The Committee is chaired by Rajiv Sharma and its other members are Simon Boddie and Stuart Morgan.

Board meetings attendance

	Appointment date	Committee Appointments*	Board	Audit Committee	Nomination Committee	Remuneration Committee
Total meetings held			**11**	**6**	**2**	**3**
Chairman						
Mike Clasper	20/02/14	N	11		2	
Group Chief Executive						
Rajiv Sharma	02/03/15	N	11		2	
Chief Financial Officer						
Simon Boddie	04/07/16		11			
Senior Independent Director						
Nicholas Bull	10/04/15	A / N	11	6	2	
Non-Executive Directors						
Mike Allen	22/09/10	N / R	10		2	3
Ruth Anderson	16/04/14	A / N	11	6	2	
David Gosnell	02/03/15	A / N / R	11	6	2	3
Echo Lu**	01/12/17	N / R	1/1			1/1
Fran Philip	01/10/16	N / R	11		2	3
Alan Rosling	02/03/15	A / N / R	11	6	2	3

*Key to Committee Appointments : A: Audit and Risk / N: Nominations / R: Remuneration

** Echo Lu attended the maximum possible number of meetings since joining the Board.

The Board met formally 11 times during the year and a number of sub-committee meetings were also convened to deal with matters such as approval of the Trading Statement, settlement of the Heads of Terms of the pensions matter with certain Trustees, and the final approval of the interim and half year results. In addition, one Board meeting was devoted exclusively to discussions on the Group's strategy.

Noteworthy matters considered by the Board in 2017

- Major projects and M&A activity
- M&A discount rates
- Capital structure
- Refreshed Group Risk Register together with numerous principal and other risk deep dives
- Corporate Responsibility
- Employee Engagement Survey
- Health and Safety
- USPP and financing arrangements with banks
- Dividend approach
- Connecting for Growth strategic change programme
- Investor Relations
- Legal and litigation issues
- 2018 Budget and Medium Term Plan
- Year end and half year results

CORPORATE GOVERNANCE REPORT CONTINUED

Board support
Each Director has access to the advice and services of the Group Company Secretary. Where necessary Directors may take independent professional advice at the Company's expense. No such independent advice was sought during the financial year. The Board receives regular briefings from the Group Company Secretary on governance, legal and regulatory matters.

Before each Board meeting, papers are delivered electronically via a secure iPad accessible web portal, which helps to ensure that Directors have time and resources to fulfil their duties. The web portal includes a resource centre providing access to key information.

Time commitment
Each Director is aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. In addition to time spent at Board and Committee meetings, the Directors attend strategy days and participate in Company-related events such as the Global Leadership Conference and visits to the Company's sites worldwide.

Directors' interests and conflicts
The interests of the Directors (including interests of their connected persons) in the share capital of the Company and its subsidiaries are set out in the Directors' Remuneration Report on pages 55 to 67.

There is an established process to capture details of any interests that a Director may have which conflict with, or could potentially conflict with, the interests of the Company. The Company's Articles of Association permit the Board to authorise any actual or potential conflicts of interest if considered appropriate. At each meeting the Board considers Directors' conflicts of interest and Directors are reminded of their duty to disclose any conflicts and potential conflicts, as well as any interests in the matters to be discussed at the meeting.

No Director, either during or since the end of the year under review, was or has become interested in any material contract (not being a contract of employment) with the Company or any of its subsidiaries.

Board effectiveness
Introduction
The Board recognises the importance of monitoring and seeking ways to enhance its effectiveness in line with best practice corporate governance. Following the externally facilitated Board effectiveness review in 2016 by an independent third party, Grand Shearman, the Board conducted an internal effectiveness review in the last quarter of 2017.

Board effectiveness review
During 2017, the Board continued to reflect and act upon the various recommendations which emerged from the 2016 Grand Shearman Board effectiveness review, which had examined how the Directors engaged individually and collectively and how each Director could further enhance the effective functioning of the Board and its Committees for the benefit of the Group.

In the last quarter of 2017, the Board undertook an internal review which considered progress against the various recommendations in the 2016 review along with any further areas for focus. The review found a strong agreement that good progress had been made against all the recommendations in the 2016 review, and concluded that the Board should continue to focus in particular on:

- Striking the optimal balance between the breadth and the depth of the issues it discusses;
- Ensuring it remains in a position to provide informed oversight of the Group's 'Digital' agenda; and
- Using pre-education sessions to help prepare Directors for discussions on key evolving business areas.

CORPORATE GOVERNANCE REPORT CONTINUED

In the wake of this internal review, actions have been agreed to ensure further progress against these areas in 2018, including, in relation to the Board's role in oversight of the 'Digital' agenda, appropriately leveraging external market expertise.

In addition, during the year Nicholas Bull led an assessment of my performance in discussion with the other Non-Executive Directors.

Following these reviews, I am satisfied that the Board and its Committees are performing effectively and that the balance of skill, experience, diversity, independence and knowledge of the Group are sufficient to enable the Directors to discharge their respective duties and responsibilities effectively and I believe the Board has a sufficient balance of diversity.

Board improvement

The Chairman in conjunction with the Group Company Secretary is responsible for the ongoing development and training of the Non-Executive Directors. The Board receives reports from the Group Company Secretary on relevant legal and governance issues at Board meetings.

On appointment, Directors are given an induction and training programme – details of Echo Lu's induction programme can be found in the Nomination Committee Report on page 49. The Directors receive information including Board and Committee packs in a timely manner and have access to all relevant information and staff.

UK Corporate Governance Code Compliance Statement

For the year ended 31 December 2017, we are pleased to report that the principles of the 2016 UK Corporate Governance Code have been applied and the Company complied in full with the provisions of the Code.

CORPORATE GOVERNANCE REPORT CONTINUED

RELATIONS WITH SHAREHOLDERS

‘BOARD MEMBERS TAKE AN ACTIVE ROLE IN ENGAGING WITH SHAREHOLDERS, BOTH IN PRIVATE MEETINGS AND IN WIDER FORUMS SUCH AS THE ANNUAL GENERAL MEETING.’

The Chairman and the Senior Independent Director aim to meet some of the major institutional investors at least once per year and are available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board.

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 Environmental, Social and Governance compliance (ESG), and the Chairman ensures that any views expressed by shareholders are communicated to the Board at the earliest opportunity.

The Board considers transparency and openness to be a key feature of its stated strategy and endeavours to ensure that both shareholders and the market remain appropriately informed and that timely updates are released to the market.

We maintain an active engagement with our key financial audiences, including institutional shareholders, debt stakeholders and sell-side analysts as well as potential shareholders.

During the year we made regular presentations to, and had meetings with, institutional and retail investors from the UK, Europe and the US to communicate progress towards achieving our sales growth strategy and to answer questions. Throughout the year our senior management team presented at industry conferences organised by investor bodies and investment banks for their institutional investor bases.

Our dedicated Investor Relations function and management team managed the interaction with these audiences and provided additional regular presentations during the year. Presentations are made to analysts and shareholders covering the Company’s Preliminary Results and its half year results each year.

Our website has a section focused on information and updates relevant to public shareholders which can be found at www.coats.com/investors

Annual General Meetings

The Board values the Annual General Meeting as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet with the Board following the formal business of the meeting. This interaction helps the Board to develop an understanding of the views of the Company’s shareholders.

Copies of the presentations and reports and the results of proxy voting at the 2017 AGM were released to the market and can be found at www.coats.com/shareholders

This year’s Annual General Meeting will be held in London on 16 May 2018.

Mike Clasper
Chairman
6 March 2018

NOMINATION COMMITTEE REPORT

EFFECTIVENESS

Highlights for 2017:

- Oversight of market search and recommendations for appointment of Echo Lu and Anne Fahy
- Oversight of senior executive talent development and succession planning

Priorities for 2018

- Ongoing focus on ensuring appropriate mix of diversity among Board, GET and senior management more generally

'THE COMMITTEE CONTINUES TO ENSURE THAT THE BOARD HAS THE CORRECT BALANCE OF SKILLS, EXPERIENCE, GENDER, ETHNIC DIVERSITY AND INDEPENDENCE.'

Dear Shareholder
I am pleased to present the Nomination Committee Report, which summarises our work over the past year.

Last year I reported on a year of change and further changes were another feature of 2017. On 1 January 2017 Rajiv Sharma's tenure as Group Chief Executive began which evidenced the Committee's strong focus on senior executive, as well as Board level talent development and succession planning. Throughout the year we considered and reviewed plans for the continued development of key personnel within the business to ensure an ongoing pipeline of executive talent.

The Committee also continued to ensure that the Board has the right balance of skills, experience, diversity and independence. Reviewing our succession plans and the composition of the Board are an essential part of this process.

During 2017 the Committee conducted a search with the assistance of an executive search agency, the Inzito Partnership, which resulted in Echo Lu being appointed as a Non-Executive Director. Echo joined the Board, and this Committee, on 1 December 2017 and her direct managerial experience of global companies operating in markets in Asia, particularly North East Asia, will bring very pertinent additional local and regional insight. She also has practical knowledge of empowering women entrepreneurs in emerging economies which will bring invaluable perspective to the Board and this Committee.

As a result of Ruth Anderson's decision to retire from the Board and not stand for re-relection as a Director at the 2018 Annual General Meeting (AGM), the Committee also engaged Inzito Parnership to search for her replacement. On 8 January 2018 we announced that Anne Fahy would join the Board on 1 March 2018 as a Non-Executive Director and will succeed Ruth to become Chairman of the Audit and Risk Committee at the AGM on 16 May 2018. Anne is a very experienced Non-Executive Director with extensive experience of global business, developing markets and internal controls and will be a strong addition to this Committee.

Both recent appointments have increased the gender and ethnic diversity of the Board and will broaden the Committee's perspective and contribution to the Company.

I welcome both Anne and Echo to the Board and thank Ruth for her wisdom and support over the years.

Mike Clasper
Chairman, Nomination Committee
6 March 2018

Composition and meetings

The Committee is chaired by Mike Clasper and its members comprise all of the Non-Executive Directors along with the Group Chief Executive. The Committee met on two occasions during 2017 to discuss proposed appointments, succession planning and development and to evaluate the balance of skills, experience, diversity, independence and knowledge on the Board.

NOMINATION COMMITTEE REPORT CONTINUED

Diversity and gender

The Board believes that having people with a diverse range of skills and qualifications, as well as a mix of geographical experience, ethnicities and gender on the Board and GET contributes to an effective and high performing leadership team, who are better able to guide the Company and set the tone and culture for the organisation.

When reviewing the composition of the Board, the Committee takes into account a number of factors including the balance of skills, experience, knowledge and independence of existing Board members and regularly considers the benefits and periodically seeks to balance the mix of ethnic, gender, age and professional diversity.

While the Committee's focus is to ensure that appointment recommendations are made on objective criteria and that the best candidates are put forward for appointments, it always remains cognisant of the needs for and benefits of diversity. Close regard is also given to these factors when considering senior executive appointments. While there is no formal diversity policy, the Committee's own practices are such that diversity considerations are taken into account as a matter of course and these were all applied when considering the appointment of Echo Lu, in December 2017 and Anne Fahy in March 2018.

The Committee continues to take an active interest in talent management, in particular ensuring that initiatives are in place to develop the talent pipeline and to promote diversity and gender in the GET and other senior executives. During the year the Committee considered the changes in the GET including the appointment of the Chief Transformation Officer and changes in the Chief Operating Officer roles for EMEA and LatAm and the Global Supply Chain Officer. During the year an executive search took place for external candidates for the roles of Chief Human Resources Officer and President, Crafts North America. For the latter role Stephanie Leichtweis was appointed in October 2017 and for the former Monica McKee was appointed in March 2018 to replace Andy Speak who left the Company in August 2017.

Induction and training

There is a formal induction programme for new Directors, which was followed during the year for Echo Lu. This included meetings with GET members, and other senior executives individually and also meeting with relevant bankers, advisers and investors. Following the initial induction for Non-Executive Directors, their continuing understanding of the business is progressed through relevant business engagements such as the Board's visits to the Turkish and Indian operations of the business during the course of 2017.

Succession planning

The Committee has in place a developed approach to succession planning and developing a diverse pipeline to meet strategic objectives and achieve gender balance in senior management, as well as ensuring appropriate succession and development plans are in place for appointments to the Board.

We are satisfied that the succession planning structure in place is appropriate for a FTSE250 company of the size and nature of the Group. Our succession planning arrangements will continue to be kept under regular review going forward.

Committee performance and effectiveness

The Committee performance was evaluated as part of the Board and Committee effectiveness review and it was considered to be effective and remains independent. The Committee is satisfied that the external commitments of its Chairman and members do not conflict with their duties and commitment as Directors of the Company.

During the year the Committee also considered potential actions resulting from the Board effectiveness review which are included in more detail on page 45. The Committee noted that the Board considered the results of a follow up questionnaire on progress on Board effectiveness at its meeting in December 2017.

The Nomination Committee Report was approved by a Committee of the Board of Directors on 6 March 2018 and signed on its behalf by:

Mike Clasper
Chairman, Nomination Committee
6 March 2018

AUDIT AND RISK COMMITTEE REPORT

ACCOUNTABILITY

Highlights for 2017:
- In depth review of Lower Passaic River provision
- Review of future strategy and structure for Group Internal Audit
- Global tax costs and provisions

Priorities for 2018
- Connecting for Growth – global change programme
- In depth reviews of major provisions where significant judgements and estimates are required

'THE COMMITTEE REMIT COVERS ACCOUNTING AND FINANCIAL REPORTING, INTERNAL CONTROLS AND EXTERNAL AUDIT. A PARTICULAR FOCUS DURING THE YEAR WAS ASSESSING THE IMPACT OF THE NEW LEASING ACCOUNTING STANDARD.'

Dear Shareholder
I am pleased to present the report of the Audit and Risk Committee for the year ended 31 December 2017.

This Report explains the work that the Committee has undertaken during the year. We have included information on our oversight of the Company's financial reporting, its assurance framework and of its systems of risk management and internal controls and explain the significant accounting issues that have been considered by the Committee, which are set out on page 51.

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. During the year, the Committee met six times and in that time, in addition to its annual work plan, it reviewed management's initial findings on the impact of adopting the new accounting standard for leases, revenue recognition and financial instruments. The Committee also reviewed the Group's processes and controls for the approval and subsequent monitoring of capital expenditure and for procurement.

This report will be my last as Chairman as, after four years on the Board, I will be stepping down as Chairman of the Committee later in the year and will not seek re-election as a Director at the 2018 Annual General Meeting. As announced on 8 January 2018 Anne Fahy will be taking over as Chairman with effect from 16 May 2018. Anne and I will be working closely together to ensure a smooth handover and both of us will be available at the 2018 Annual General Meeting to answer any questions.

Ruth Anderson
Chairman, Audit and Risk Committee
6 March 2018

Membership and meetings
It is important that the Committee operates effectively and efficiently and has the right balance of skills and expertise to deliver its responsibilities. The composition of the Committee and its members' biographies, including their relevant financial and accounting experience can be found on pages 39 to 41, and their attendance can be found on page 44. Ruth Anderson and Nicholas Bull were the members of the Committee determined by the Board as having recent and relevant financial experience for the year ended 31 December 2017.

Committee responsibilities
During the year, the Committee reviewed its terms of reference to ensure they reflect current standards of governance. The Committee is responsible for monitoring:

- the financial reporting process, the integrity of the financial statements of the Group, and any other formal announcements relating to its financial performance and reviewing significant financial reporting judgments contained in them;
- the effectiveness of the internal financial controls and the internal control and risk management systems of the Company; and
- the Company's policy on the supply of non-audit services by the external auditor.

The Committee is responsible on behalf of the Board for agreeing the terms of engagement of the external auditor, the auditor's remuneration, confirming the auditor's independence and its objectivity as well as monitoring the effectiveness of the external audit process.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

Committee responsibilities (continued)

Regular attendees at Committee meetings in the year included the Group Chief Financial Officer, the Chief Legal & Risk Officer and Group Company Secretary, the Head of Financial Control, the Group Financial Controller, the Group Head of Internal Audit, and the external auditor. The Group Chairman and Group Chief Executive also attend most meetings.

The Chairman holds regular meetings with both internal and external auditors and each has an opportunity to discuss matters with the Committee without management being present.

Significant issues relating to the financial statements

The Committee considered the following issues relating to the financial statements during the year:

Significant issues relating to the financial statements	How the Committee addressed the issue during the year
Pension matters – valuation of obligations and disclosure	At 31 December 2017, the Group's IAS19 Pension deficit was $163m. 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 environment provision	The Group has recognised a provision, net of insurance reimbursements, of $11.3m 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. Following the delivery of the EPA'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 provisioning previously established. The Committee is satisfied that there is no requirement to re-measure the provision at 31 December 2017 and that the disclosures provided in note 28 to the financial statements are appropriate.
The carrying value of tangible assets	The carrying value of the Group's tangible assets is $293 million. The Committee reviewed, and discussed in some detail, the evidence presented by management of its impairment assessment of tangible assets including the related business plans to support the carrying values. The review specifically focused on management's assessment of assets held in Brazil, with a carrying value of $38m, following difficult economic and trading conditions. The Committee was satisfied with management's conclusion that based on the fair value of net assets there was no impairment of tangible assets during 2017 even in a reasonable downside scenario and that the disclosures in note 14 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 effective tax rate, which has dropped from 34%to 32%, the Committee also considered the Group's uncertain tax provisions which amount in total to $13 million and deferred tax asset recognition. 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.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

'The Committee considered the overall performance and effectiveness of the Internal Audit function, their independence and objectivity.'

Financial reporting

The Committee's primary responsibility in relation to the Group's financial reporting is to review with management and the external auditor the half-year and annual financial statements including, amongst other matters:

- the accounting policies and practices adopted;
- material areas in which significant judgments have been applied, where there are significant estimates, or where significant issues have been discussed with the external auditor; and
- the clarity of disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including the use, prominence and balance of financial Alternative Performance Measures compared to their closest Generally Accepted Accounting Principles equivalents.

Going concern and viability statements

The Committee undertook to review the appropriateness of the going concern basis of accounting in preparing the annual financial statements.

The Committee reported to the Board that management had followed sound processes in reaching its conclusion in relation to both the going concern and viability statements, as confirmed by the external auditor.

Internal audit

The Group Head of Internal Audit agrees the Internal Audit department's programme of work annually in advance with the Committee and, at each Committee meeting, the Committee reviews key findings from internal audit reports and monitors the rate at which actions agreed with management are implemented.

During the year, the Group Head of Internal Audit presented to the Committee his future vision for the internal audit department, taking into account the increasing use of data analytics and the focus on risk-based auditing.

The Committee considered the overall performance and effectiveness of the Internal Audit function, its independence and objectivity and, based on its own assessment and input from management worldwide, was satisfied that the experience and expertise of the function is appropriate for the Company.

'The Company has a whistleblowing procedure which enables employees who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of assets or violations of any Company policy to report these confidentially.'

Internal control and risk management

The Board has overall responsibility for determining the nature and extent of its principal 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 21 to 26 earlier in this document.

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. The reporting process ensures that all business units regularly report on internal control and risks through the submission of self-assessments every six months. During the year, the Committee specifically looked at the processes and controls underpinning the approval and subsequent monitoring of the Group's capital expenditure as well as a review of procurement controls.

The Committee and the Board are satisfied that these systems operate effectively in all material respects and provide reasonable assurance regarding the Group's financial and operational condition.

Whistleblowing procedure

Whistleblowing is a standing item on the Committee's agenda. The Company has a whistleblowing procedure which enables employees who are aware of, or suspect, misconduct, illegal activities, fraud, abuse of assets or violations of any Company policy to report these confidentially. During the year we launched a programme called 'Doing the right thing', encouraging employees to reflect still further on the importance of ethical behaviour in their working lives as well as providing continued training and awareness on the importance of a strong ethical and compliance-focussed culture for the group. There were 50 incidents

AUDIT AND RISK COMMITTEE REPORT CONTINUED

(2016: 30) of whistleblowing during the year, all of which were investigated, with disciplinary action taken where there was evidence of misdemeanour.

External audit

Independence

The Committee is responsible for reviewing the independence of the Company's 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 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 regularly reviews the level of audit and non-audit fees paid to Deloitte. There is also a policy for ensuring significant assignments are not awarded to the auditor without first being subject to the scrutiny of the Committee. The key principles of the policy on non-audit services are:

Summary of non-audit services policy

- 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 also includes certain tax compliance and advisory services for Group subsidiaries incorporated outside the European Union.
- The Committee has also 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$15,000 requires the approval of the Committee.

During 2017, 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 during the year can be found in note 5 of the financial statements. The non-audit services primarily relate to tax compliance and advisory services 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.

Consideration of Audit tender

Deloitte LLP was appointed the Company's auditor in 2003. The Company has an established policy that the external audit contract be put out to competitive tender in accordance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. However, given the significant change programme that is the Finance Review being implemented widely in the Group, the Company has decided not yet to tender the audit, as permitted by the transitional provisions under the EU Statutory Audit Directive but it will have to do so no later than 2023. Tim Biggs was appointed as the lead audit engagement partner in 2016. He will rotate off the audit team after the 2020 year-end. The Company will continue to consider annually the timetable for audit tendering.

There are no contractual obligations that restrict the Company's choice of external audit firm.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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.

The Committee reviewed the performance and effectiveness of the external auditor, as well as their independence and objectivity. The review process included the completion of a questionnaire assessing their performance 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 feedback has been reviewed by the Committee which 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 2018.

Assessment of the performance of the Committee

As reported last year the Board undertook an evaluation of its effectiveness and that of the Audit and Risk Committee and its members. The feedback has been evaluated and acted upon. The Board has also held a follow up session to reflect on the recommendations and progress on their implementation.

The Audit and Risk Committee Report was approved by a Committee of the Board of Directors on 6 March 2018 and signed on its behalf by:

Ruth Anderson
Chairman, Audit and Risk Committee
6 March 2018

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

REMUNERATION

Highlights for 2017:
- Strong shareholder support for the revised Remuneration Policy at the 2017 AGM
- Increase in shareholding requirements from 100% to 200% for Executive Directors

Priorities for 2018:
- Aligning of targets to 'Connecting for Growth' ambitions
- Extension of shareholding requirements to the direct reports of the Group Chief Executive

'The strong financial performance of the group is reflected in the bonus outcomes for 2017.'

'Over this three-year period the TSR performance of Coats Group plc was at the 98th Percentile versus its comparator group of FTSE 250 companies (excluding investment trusts).'

'THE GROUP'S REMUNERATION FRAMEWORK IS INTENDED TO STRIKE THE RIGHT BALANCE BETWEEN RISK AND REWARD.'

Dear Shareholder
As referred to elsewhere, the theme of this year's report is 'Delivering today. Transforming for tomorrow'. The objectives of the Remuneration Committee are to ensure that we have a suitable remuneration framework in place that incentivises the right behaviours to deliver the results we expect today and to take the actions necessary to transform the Company going forward.

The Group's remuneration framework is intended to strike the right balance between risk and reward, alignment with stakeholders interests and the need to ensure that we have the right level of remuneration to attract and retain the people with the key skills we need to continue to grow.

Overview of 2017
There have been significant achievements and developments this year. On 1 January 2017, as announced last year, Rajiv Sharma was appointed to the position of Chief Executive Officer and in June 2017 Coats Group plc entered the FTSE 250. The strength of the company's performance has been reflected in the increase in the share price and the commencement of dividend payments during 2017.

I am pleased to note that at the 2017 AGM the Directors Remuneration Policy received overwhelming support from our shareholders. I did write to major shareholders prior to the meeting to outline the Committee's approach to the policy and I was encouraged by the constructive comments that we received during this process. The Committee remains committed to ensuring an open and proactive dialogue with shareholders on all aspects of the remuneration policy.

Following the adoption of the new policy there is now a greater proportion of annual bonus that is deferred and awarded in shares with an increase in deferral from 25% to 33%. The Committee also increased the 'Minimum Shareholding Requirement' from 100% to 200% of salary for Executive Directors and a requirement (at 75% of salary) has been adopted from 1 July 2018 for the first time for other members of the Group Executive Team. The strong financial performance of the group is reflected in the bonus outcomes for 2017. Continued growth in the sales and profitability of the Industrial Division from both Apparel and Footwear and Performance Materials segments and conversion of profit to free cash flow has resulted in bonus payments that are in excess of the target level of payout.

Also reflected in the report is the vesting of the 'Long Term Incentive' award for the performance period 1 January 2015 to 31 December 2017. Over this three-year period the TSR performance of Coats Group plc was at the 98th Percentile versus its comparator group of FTSE 250 companies (excluding investment trusts) and the 'Attributable Profit' growth exceeded the compound annual growth target of 20%.

The minimum 'Free Cash Flow' target was not achieved which is largely a reflection of the ambitious nature of the targets originally set. The LTIP award for the three-year period ending on 31 December 2017 vests at 60% of maximum and the value of the award is enhanced by the increase in the share price from 25.25 pence on the grant date of 7 April 2015 to 89.125 pence on 31 December 2017.

Outlook for 2018
Looking forward to 2018 the group has announced a transformation programme – 'Connecting for Growth' – that will support the business on its next stage of development. The programme is expected to have some initial exceptional costs that will be predominantly weighted to 2018 but will produce longer term benefits for shareholder value over the forthcoming three-year period.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

'I acknowledge the increasing desire from stakeholders and shareholders that Remuneration Committees should continue to consider remuneration for executives in the context of the rest of the workforce.'

Outlook for 2018 (continued)
Accordingly, the Committee have decided that for the 2018 LTIP award the threshold EPS Compound Annual Growth Rate (CAGR) target should be increased from 5% to 7% and a mid-range target of 10% CAGR should be introduced to increase the challenge of the vesting scale. The maximum EPS CAGR target remains unchanged at 15%. Further details are provided in the forward-looking statement for 2018 contained in the Annual Report on Remuneration on page 66.

No other significant changes are proposed for 2018 other than the adoption of a Minimum Shareholding Requirement for senior positions below the Board,as described above.

Corporate Governance
I acknowledge the increasing desire from stakeholders and shareholders that Remuneration Committees should continue to consider remuneration for executives in the context of the rest of the workforce. In particular, there is an increasing focus on the publication of the ratio of CEO pay to the rest of the workforce. This does present some challenge to Coats as the Group has fewer than 200 employees in the UK but employs some 19,000 employees in over 50 countries. Although the UK government have announced an intention to require UK companies to publish a CEO pay ratio no methodology has been yet been released.

We have in the meantime adopted our own methodology to compare the 2016 Single Figure CEO remuneration to the average and median employee based in the UK. The CEO multiple versus the average is 16 times and versus the median is 25 times. We will continue to monitor developments and to adhere to requirements as they become clearer.

I am pleased to welcome Echo Lu who joined the Committee on her appointment to the Board on 1 December 2017.

On behalf of the Committee I would like to thank shareholders for their continued support.

David Gosnell
Chairman, Remuneration Committee
6 March 2018

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
CONTINUED

POLICY SUMMARY

The following is a summary of the key features of the Remuneration Policy approved at the Annual General Meeting held 17 May 2017.

Components of remuneration

Salary + **Pension & benefits** = **Fixed total**

+

Annual bonus + **LTIP** = **Variable total**

=

Total remuneration

Fixed components		Policy
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)	£578,000	
Simon Boddie (CFO)	£412,000	
Pension		Executive Directors receive defined contributions pensions (and/or cash in lieu thereof) of up to 20% of salary. 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	

Variable components

Annual bonus		Policy
Maximum opportunity for 2018		*Maximum award opportunity: 150% of base salary* Any bonus awarded is subject to mandatory deferral of 33%. Deferred bonuses are transferred into shares, and held for 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)	100% of salary	
Simon Boddie (CFO)	100% of salary	
Performance measures weighting		
Attributable Profit	25%	
EBIT	25%	
Free Cash Flow	30%	
Individual objectives	20%	

LTIP

Annual bonus		Policy
Maximum opportunity for 2018		*Maximum LTIP award opportunity: 250% of base salary* Awards are made annually; conditional on three-year performance conditions. Any shares vesting are 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 vesting are subject to malus and clawback.
Rajiv Sharma (CEO)	150% of salary	
Simon Boddie (CFO)	150% of salary	
Performance measures weighting		
3-year EPS CAGR	40%	
3-year cumulative Free Cash Flow	40%	
TSR vs FTSE250 (ex. investment trusts)	20%	

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

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

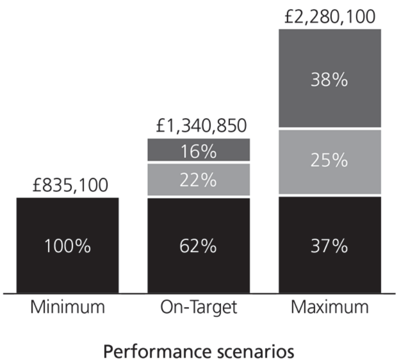
Rajiv Sharma (CEO)

- Fixed
- Variable

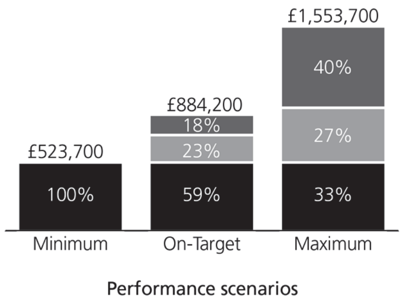
Simon Boddie (CFO)

- Fixed
- Variable

Pay scenarios



- LTIP
- Annual bonus
- Fixed pay



- LTIP
- Annual bonus
- Fixed pay

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

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

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 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 16 May 2018. A revised Remuneration Policy applicable to the year ended 31 December 2017 was approved by shareholders at the AGM on 17 May 2017 and the previous policy was approved on 22 May 2014; both can be found in the Corporate Governance section at www.coats.com/governance

Executive Directors

Two Executive Directors were employed during 2017. Rajiv Sharma, was originally appointed to the Board on 2 March 2015 and was appointed as Chief Executive with effect from 1 January 2017 following the departure of Paul Forman. Rajiv Sharma had been 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 are reflected in this report and were disclosed to shareholders in last year's Annual Report on Remuneration.

Single total figure for Executive Directors' remuneration for 2017 (audited information)

	Base salary £000		Benefits £000		Annual incentive (cash & shares) £000		LTIP £000		Pension £000		Total £000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Simon Boddie	**406.0**	197.4	**29.3**	11.5	**324.7**	156.6	**–**	–	**81.2**	39.5	**841.2**	405.0
Rajiv Sharma	**569.5**	540.6	**141.5**	281.6	**459.5**	429.3	**1,452.2**	410.5	**113.9**	108.1	**2,736.6**	1,770.1
Total	**975.5**	738.0	**170.8**	293.1	**784.2**	585.9	**1,452.2**	410.5	**195.1**	147.6	**3,577.8**	2,175.1

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

- The figures for Rajiv Sharma include the value of additional benefits that were provided to him during his secondment from Singapore to Dubai which commenced in June 2015 and ended in May 2017. The benefits figure for Rajiv Sharma includes an international allowance of $100,000 per annum which was paid until May 2017. From 1 June 2017 he was paid £10,000 per month as a housing allowance following his relocation to the UK.
- Benefits: is the value of all taxable benefits in kind 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. In the case of Rajiv Sharma this also reflects the additional benefits provided in connection with his secondment to Dubai and relocation to the UK as described above.
- Rajiv Sharma's remuneration arrangements in 2016 were determined and paid in US dollars and the figures for 2016 were converted to UK currency at an average annual exchange rate of $1 = £0.738. The international allowance that was paid until May 2017 while he was on secondment in Dubai has been converted at a rate of $1 = £0.797. With effect from his appointment as CEO on 1 January 2017 his base salary and benefits are determined in UK currency.
- Simon Boddie was appointed to the Board on 4 July 2016. The 2016 year figures therefore reflect his remuneration from his date of appointment to 31 December 2016 only.
- Annual bonus (cash and shares): the total value of the annual incentive that is attributable to 2017. One third of any bonus outcome 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. The compulsory deferral for the 2016 bonus was one quarter.
- Long Term Incentive Plan (LTIP): the value of any 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 2017 reflects the vesting of the LTIP award that was granted to Rajiv Sharma in respect of the performance period 1 January 2015 to 31 December 2017. The value shown represents the number of shares that vest multiplied by the mid-market share price on 29 December 2017 which was £0.89125. The value shown also reflects the cash value of dividend equivalents payable on vested shares This value will be re-stated in next year's report to reflect the share price on the vesting date of 7 April 2018.
- 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.
- Simon Boddie is a Non-Executive Director of PageGroup plc and received fees of £67,083 during the year to 31 December 2017. The policy of the Board is that Directors are entitled to retain any fees in respect of external appointments.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
CONTINUED

Annual bonus outcome 2017 (audited information)
The annual bonus for 2017 was determined in accordance with the details provided in the 2016 Directors' Remuneration Report. Details of the bonus measures and opportunities are provided in the table below.

All figures are as a % of salary

Annual bonus 2017	Weighting		Bonus opportunity		Performance achieved in 2017	
Performance Measure		Threshold	Target	Maximum	Simon Boddie	Rajiv Sharma
Attributable Profit (AP)	25.0%	0%	12.5%	25.0%	20.5%	20.5%
Earnings Before Interest and Taxation (EBIT)	25.0%	3.0%	12.5%	25.0%	17.5%	17.5%
Free Cash Flow (adjusted) (FCF)	30.0%	0%	15.0%	30.0%	24.0%	24.0%
Individual objectives	20.0%	0%	10.0%	20.0%	16.8%	17.5%
Total	100.0%	3.0%	50.0%	100.0%	78.8%	79.5%

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 working capital management, and achieve certain key strategic objectives that were specific for each Executive Director.

Annual bonus 2017	Weighting		Bonus targets		
Performance targets		Threshold	Target	Maximum	Performance achieved in 2017
AP ($m)	25.0%	65.8	77.4	89.0	84.8
EBIT ($m)	25.0%	152.0	164.4	180.8	171.0
FCF (adjusted)	30.0%	60.0	81.6	91.6	87.6
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 and the extent to which planned capital expenditure was delivered during the year. Targets are set in relation to Budget for the upcoming financial year. For the 2017 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 2017 included the development of a refreshed group strategy, a comprehensive digital strategy, plans to simplify the group's operating model and increase the effectiveness of supporting group functions.

Long Term Incentive award vesting
On 7 April 2015 Rajiv Sharma was granted a Long Term Incentive award in the form of nil cost options over shares in respect of the performance period 1 January 2015 to 31 December 2017 (referred to as LTIP 2015).

The performance measures were based upon the Total Shareholder Return Performance (TSR) of Coats Group plc and compound annual growth (CAGR) in Attributable Profit and cumulative Free Cash Flow relating to Coats Limited.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

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

LTIP 2015: Performance period 1 January 2015 to 31 December 2017

Measure	Weighting	Threshold	Mid	Maximum	Actual
Compound Annual Growth in Attributable Profit	40.0%	5.0%	15.0%	20.0%	20.4%
Vesting % of total award		10.0%	25.0%	40.0%	40.0%
Cumulative Free Cash Flow over 3 years	40.0%	$210m	$231m	$250m	$188.2m
Vesting % of total award		10.0%	25.0%	40.0%	0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5 Percentile	Upper Quartile	98 Percentile
Vesting % of total award		5.0%	12.5%	20.0%	20.0%
Total	100.0%	25.0%	62.5%	100.0%	60.0%

Share awards granted in 2017
The following share awards were granted to Executive Directors during the financial year ended 31 December 2017.

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	27-Feb-17	1,095,890	£600,000	150%	£0.5475	25%	1 Jan 2017 to 31 Dec 2019	27-Feb-20
Rajiv Sharma	27-Feb-17	1,536,986	£841,500	150%	£0.5475	25%	1 Jan 2017 to 31 Dec 2019	27-Feb-20

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	27-Feb-17	71,506	£39,150	9.8%	£0.5475	None	27-Feb-20
Rajiv Sharma	27-Feb-17	211,214	£115,640	19.6%	£0.5475	None	27-Feb-20

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 £0.5475 for 27 February 2017.

Coats Group plc Long Term Incentive Plan
Awards were granted on 27 February 2017 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 payable as a cash sum.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
CONTINUED

Coats Group plc Deferred Annual Bonus Plan

For all Executive Directors one quarter of the bonus outcome relating to the financial year 2016 was awarded in the form of nil cost options during the year. The awards were granted on 27 February 2017 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. The compulsory deferral for any award relating to 2017 bonus outcome was increased to 33%.

Long Term Incentive awards performance measures

The performance measures applicable to awards granted in respect of the three year performance period that commenced on 1 January 2017 (LTIP 2017) 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 2017 (LTIP 2015).

LTIP 2017 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%	$229m	$259m	$289m
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 returns to shareholders which includes share price growth and ordinary dividend payments. The performance measure is assessed against a comparator group consisting of the FTSE250, excluding investment trusts.

Prior to 1 January 2016 the targets and measures that refer to Attributable Profit Growth and Cumulative Free Cash Flow are based on the performance of Coats Limited, a subsidiary of Coats Group plc. Awards from 2016 onwards are based on the performance of Coats Group plc. 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.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
CONTINUED

Non-Executive Directors

In July 2017 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 which had not increased since his appointment to the Board in October 2013 was increased in order to ensure that the level of fee 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 2017 and the base fees have remained at the same level since 1 October 2013. Non-Executive Directors, excluding the Chairman, who are required to travel long haul (more than 5 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.

Single total figure for Non-Executive Directors' remuneration for 2017 (audited information)

	Base fee £000		Supplementary fee £000		Benefits[1] £000		Other fee[2] £000		Total £000		Comments
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	
Mike Clasper	**237.5**	225.0	**–**	–	**2.4**	4.3	**–**	–	**239.9**	229.3	
Mike Allen	**60.0**	60.0	**20.0**	20.0	**1.3**	39.6	**7.5**	–	**88.8**	119.6	
Ruth Anderson	**60.0**	60.0	**10.0**	10.0	**1.3**	3.3	**3.0**	–	**74.3**	73.3	
Nicholas Bull	**60.0**	60.0	**10.0**	10.0	**1.1**	3.6	**3.0**	–	**74.1**	73.6	
David Gosnell	**60.0**	60.0	**10.0**	10.0	**2.5**	2.3	**3.0**	–	**75.5**	72.3	
Echo Lu	**5.0**	–	**–**	–	**–**	–	**–**	–	**5.0**	–	Appointed 1-Dec-17
Fran Philip	**60.0**	15.0	**–**	–	**1.1**	–	**7.5**	5.0	**68.6**	20.0	Appointed 1-Oct-16
Alan Rosling	**60.0**	60.0	**–**	–	**1.3**	1.8	**7.5**	–	**68.8**	61.8	
Total	**602.5**	540.0	**50.0**	50.0	**11.0**	54.9	**31.5**	5.0	**695.0**	649.9	

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. Mike Allen's expenses include the grossed up cost of travel from his residence in New Zealand to attend Board Meetings which were regarded as taxable in the UK in 2016.

2 Fees under Other Fee for 2017 represent the £1,500 per trip travel fee payable for Directors (excluding the Chairman) who travel long-haul to attend 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 with effect from 1 July 2017 £250,000 for the Chairman. A supplementary fee is paid to the Senior Independent Director and Chairs of the Audit Committee and Remuneration Committee (£10,000 per annum). Mike Allen receives a supplementary fee of £20,000 per annum as Chair of the Pensions Committee.

Payments to past Directors

The following former Directors exercised options that were originally granted under the rules Guinness Peat Group plc Executive Share Option Scheme (ESOS). The value shown under gain represents the difference between the price paid for any option and the market value on exercise.

Name	Plan	Granted	Max no. of options	Exercise Price per share	Date of exercise	No. of options	MV per share on exercise	Gain (£000)
Anthony Gibbs	Guinness Peat Group ESOS	9-Mar-07	1,441,115	£0.565534	9-Mar-17	1,441,115	£0.584365	£27.1
Anthony Gibbs	Guinness Peat Group ESOS	10-Apr-08	1,310,104	£0.499961	10-Mar-17	1,310,104	£0.566482	£87.1
Blake Nixon	Guinness Peat Group ESOS	9-Mar-07	1,441,115	£0.565534	9-Mar-17	1,441,115	£0.584365	£27.1
Gary Weiss	Guinness Peat Group ESOS	9-Mar-07	1,441,115	£0.565534	9-Mar-17	1,441,115	£0.584365	£27.1

No other payments were paid to past Directors.

Payments for loss of office

There have been no payments for loss of office during the year and no Director resigned from the Board during 2017. The arrangements for the previous Chief Executive Officer, Paul Forman, who resigned from the Board on 31 December 2016 were disclosed in last year's Directors Remuneration Report. Paul Forman was regarded as a 'Good Leaver' for the purposes of all Long Term Incentive awards but did not receive any compensation for loss of office payments.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

Statement of Directors' shareholding and share interests

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 2017, are set out below.

	Shareholding requirement in 2017			Shares beneficially owned		Deferred bonus shares subject to vesting period		LTIP share options (subject to performance conditions)		Share options (no performance conditions)	
	Shares	Equivalent % of Salary[3]	Condition Met?	01-Jan-17[1]	31-Dec-17[2]	01-Jan-17[1]	31-Dec-17[2]	01-Jan-17[1]	31-Dec-17[2]	01-Jan-17[1]	31-Dec-17[2]
Executive Director											
Simon Boddie	1,100,000	200%	No	100,000	200,000	–	71,506	1,724,137	2,820,027	–	–
Rajiv Sharma	1,600,000	200%	No	200,000	400,000	932,311	1,143,525	7,315,019	7,132,323	–	749,781
Chairman and Non-Executive Directors											
Mike Clasper				1,490,000	1,490,000	–	–	–	–	–	–
Mike Allen				200,000	200,000	–	–	–	–	–	–
Ruth Anderson				200,000	200,000	–	–	–	–	–	–
Nicholas Bull				400,000	400,000	–	–	–	–	–	–
David Gosnell				786,475	786,475	–	–	–	–	–	–
Echo Lu				–	–	–	–	–	–	–	–
Fran Philip				–	–	–	–	–	–	–	–
Alan Rosling				–	–	–	–	–	–	–	–

1 Or date of appointment, if later.

2 Or date of resignation, if earlier.

3 This target was increased to 200% on 1 January 2017. The target number of shares is based on the average share price for 2017 which was 72.1p.

The Executive Directors' shareholding requirement must be met within five years of their appointment to the Board which is by 2 March 2020 for Rajiv Sharma and 4 July 2021 for Simon Boddie. For the purposes of achieving this target the total number of shares beneficially owned by the 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 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.

The table above indicates shares beneficially owned by Directors or closely associated persons; deferred bonus shares are the compulsory proportion of the annual bonus that are still subject to a holding period and LTIP share options are the performance related awards which are still subject to performance conditions. Deferred bonus and LTIP awards were granted on 7 April 2015, 26 February 2016, 29 July 2016 (LTIP only to Simon Boddie on joining) and 27 February 2017. The share options with no performance conditions remaining represents the 43.6% vesting of the LTIP 14 award that was disclosed in the 2016 report and which have not yet been exercised. The LTIP 14 award was originally subject to 3 year performance conditions for the period to 31 December 2016.

On 28 February 2018, Executive Directors were awarded the following nil cost options as part of their deferred bonus for 2017; Simon Boddie 130,384 shares, Rajiv Sharma 184,542 shares. The options are exercisable after a period of three years. In addition, the following nil cost options were awarded in respect of awards under the LTIP, Simon Boddie 744,578 shares, Rajiv Sharma 1,044,578 shares. Simon Boddie purchased 100,000 shares on 28 February 2018 and a person closely associated to Echo Lu purchased 15,000 shares on 5 March 2018. No options have been exercised by any Director during the year or between the year end and the signing of this report.

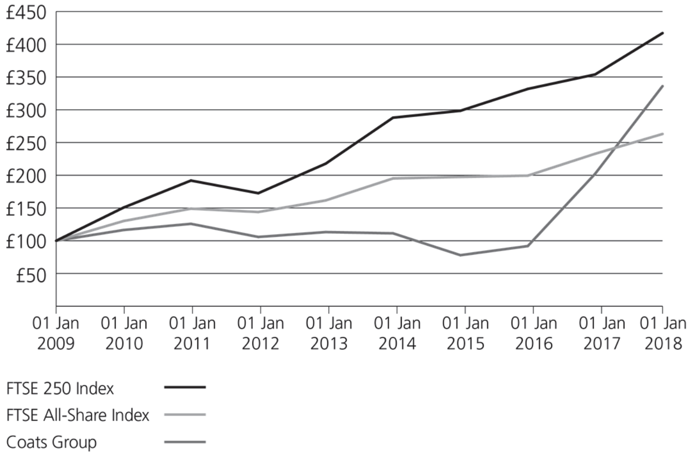
No other Directors have entered into any transactions since the year end.

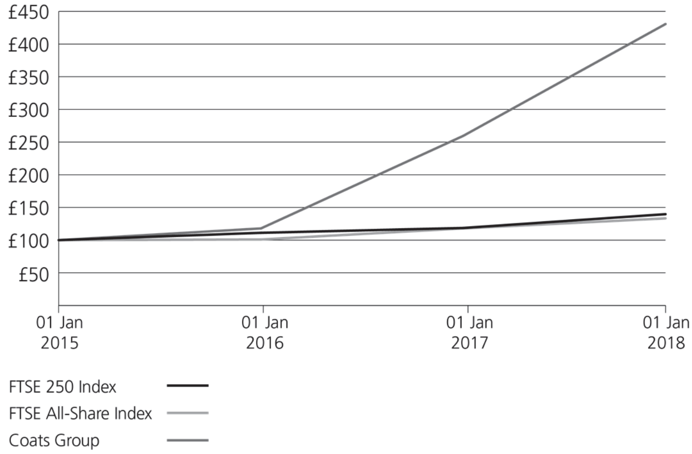
The middle market price of Coats Group plc shares at 29 December 2017 was 89.125 pence and the range during the year was 50.0 pence to 90.0 pence.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

Review of performance
The graph shows the difference between investing £100 in the Company and the constituents of the FTSE All Share Index and FTSE 250 from 1 January 2009 to 31 December 2017. 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 TSR performance measure for the Long Term Incentive Plan award an additional graph is shown that reflects the three year performance period ending 31 December 2017.





Chief Executive total remuneration for the last 9 years[1]

Executive Director	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
CEO single figure of remuneration (£k)	–	–	–	–	–	–	1,017.0	1,760.3	**2,736.6**
Annual Bonus as a % of maximum opportunity	–	–	–	–	–	–	87.1%	77.0%	**79.5%**
LTIP award as a % of maximum opportunity	–	–	–	–	–	–	–	43.6%	**60.0%**

Chief Executive remuneration – percentage change from 2016 to 2017

Executive Director	Salary	Benefits	Bonus
CEO Remuneration (Single Figure data)	3.0%	266.6%	6.4%
Average of all employees[2]	4.2%	0%	3.0%

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 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.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017
CONTINUED

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 2017	Year to 31 December 2016	% change
Employee costs ($m)	**372.3**	342.5	9%
Distributions to shareholders[1] ($m)	**17.8**	–	N/A
Average number of employees	**19,085**	19,046	-%
Revenues from continuing operations ($m) – like-for-like	**1,510.3**	1,457.4	4%
Operating profit pre-exceptional ($m) – like-for-like	**173.7**	156.9	11%

1 By way of dividends and share buybacks.

Additional information on number of employees, total revenues and profit has been provided for context. The figures for employee costs and average number of employees in 2017 and 2016 have been stated on the basis of continuing operations only. Information for 2017 includes acquisitions made during the year. The figures have been amended from prior years to reflect the revenue and profit on the basis of like-for-like comparison and to reflect Coats Group reporting currency of US dollars.

Statement of implementation of Remuneration Policy for 2018
Base salaries for Executive Directors and fees for the Chairman and Non-Executive Directors will be reviewed on 1 July 2018.

Rajiv Sharma was appointed as Chief Executive of Coats Group plc with effect from 1 January 2017. Rajiv is a Singaporean national and was previously based in Dubai until 31 May 2017; having been previously recruited as the Managing Director, Industrial Division based in Singapore. He will receive a base salary of £578,000 per annum, a pension allowance of 20%, a car allowance, medical insurance, life insurance and income replacement insurance.

As disclosed in last year's Directors' Remuneration Report to support his relocation to the UK he will be paid a net allowance of £10,000 per month until May 2018 reducing to £5,000 net per month for a subsequent period of 12 months and thereafter reducing to nil. The Company are also responsible for relocation expenses in addition which may include airfares and shipping costs, tax compliance assistance, tax equalisation to an effective Singaporean tax rate until May 2018 (reducing by half in the second 12 months and thereafter ceasing) and a one-off relocation payment of £12,000 net to cover expenses and costs not directly specified or reimbursed by the Company in connection with the relocation or acquisition of a permanent UK residence. Simon Boddie will continue to receive a base salary of £412,000 per annum, a pension allowance of 20%, a car allowance, medical insurance, life insurance and income replacement insurance.

The 2018 annual bonus incentive opportunities and Long Term Incentive award grants will be unchanged from 2017 and will be implemented in accordance with the Remuneration Policy. There is a compulsory three-year deferral into shares of the 2018 bonus outcome of 33% of annual bonus.

Annual bonus		Long Term Incentive	
Measure	Weighting	**Measure**	Weighting
Attributable Profit	25%	Earnings Per Share CAGR	40%
Earnings Before Interest and Taxation	25%		
Free Cash Flow	30%	Free Cash Flow	40%
Individual objectives	20%	Total Shareholder Return	20%

The Long Term Incentive awards granted in 2018 are subject to the following targets:

Measure	Threshold	Mid	Maximum
EPS CAGR over three years	7%	10%	15%
Vesting % for EPS measure	25%	47.5%	100%
Cumulative Free Cash Flow ($m) over three years	$305m	$335m	$365m
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.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017 CONTINUED

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 have decided to increase the challenge of the Long Term Incentive targets that will apply for the three-year performance period commencing on 1 January 2018. The Company announced to shareholders on 27 February 2018 the commencement of a Connecting For Growth (C4G) programme that is intended to increase the profitability and efficiency of the Group going forward and to support its stretching growth plans. The programme will, in the short term, initially incur certain exceptional costs which have been disclosed to shareholders but will result in longer term improvement to shareholder value. Accordingly, the Committee feels that it appropriate to increase the challenge of the EPS growth targets for the 2018 LTIP award; the threshold EPS CAGR target for the 2018 award will be increased from 5% to 7% and a mid-point target of 10% EPS CAGR will be introduced with will vest at 47.5%. The Free Cash Flow targets have been based on plans that anticipate future benefits of the C4G programme. The future benefits should be reflected in the TSR performance of the company and so no adjustment is required to the targets for the TSR measure.

Consideration by the Directors of matters relating to Directors' remuneration
The members of the Committee were: David Gosnell (Chairman), Mike Allen, Echo Lu (joined 1 December 2017), Fran Philip and Alan Rosling.

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), Andrew Speak (Group HR Director) until 31 August 2017 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. Kepler, a brand of Mercer, 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 amendments to the 2017 Remuneration Policy. Kepler were paid fees of £20,486 for time spent and materials used in providing advice to the Company during the period to 31 December 2017. Kepler provide no other advice to the Company and the Committee is satisfied that the advice provided was fair and objective.

Statement of voting at the General Meeting
At the AGM of the Company on 17 May 2017 the results of the vote regarding Resolution 2 (to approve the Annual Report on Remuneration) were:

Number	Votes for %	Number	Votes against %	Votes Total	Votes Withheld
1,070,050,902	99.9	134,798	0.01	1,070,185,700	145,706

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):

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

Prior to the AGM vote the Remuneration Committee Chairman consulated with all shareholders with a holding of more than 1% of the company to explain the key terms of the proposed policy and to highlight the changes that were proposed.

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

The Remuneration Report was approved by a Committee of the Board of Directors on 6 March 2018 and signed on its behalf by:

David Gosnell
Chairman, Remuneration Committee
6 March 2018

UK CORPORATE GOVERNANCE CODE REPORT

Compliance with the 2016 UK Corporate Governance Code (the Code)

A full version of the UK Corporate Governance Code can be found on the Financial Reporting Council's website: www.frc.org.uk

A1 The role of the Board

The Board's agenda is set by the Chairman and deals with those matters specifically reserved to the Board including matters relating to the Group's strategic plan, financial matters and corporate governance policies. Matters delegated to the Group Chief Executive and executive management include managing the Group's business in line with the strategic plan and approved risk appetite, and responsibility for the operation of the internal control framework.

Each year the Board agrees a schedule of regular business, financial and operational matters to be addressed by the Board and its Committees during the course of the year and this ensures that all areas for which the Board has responsibility are reviewed.

The Board's standard agenda covers standing items, such as Health & Safety, a revolving review of principal risks, pensions and financial matters. When relevant, M&A and specific strategic and financial projects were considered.

Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as Directors. The Directors were located in the UK, USA, New Zealand and Hong Kong and this geographical diversity meant that it was not always possible for every Director to attend all Board and Committee meetings in person. In the event that Directors were unable to attend a meeting, they were given time to comment on papers to be considered at the meeting and discussions were held in advance with the Chairman so that their contribution could be included in the wider Board discussion.

In addition to the formal Board meetings, the Chairman seeks to ensure that he meets on a periodic basis with the Non-Executive Directors without the Executive Directors present. These meetings support the constructive contribution of the Non-Executive Directors, and allow the Chairman to ensure that all views are taken into account and aired, as appropriate, at full Board meetings. All Directors are aware that, should they have concerns about the way the Board operates, those concerns should be raised and will be recorded within the minutes. No such concerns were raised during the reporting period.

A2 Division of responsibilities

The separate roles of the Chairman and Group Chief Executive are clearly defined and documented in writing and approved by the Board. Mike Clasper, the Chairman, is responsible for leading the Board while Rajiv Sharma as Group Chief Executive is responsible for the day-to-day management of the Company within the strategy set by the Board.

A3 The Chairman

The Chairman is responsible for leading the Board and ensuring its effectiveness. In conjunction with the Group Company Secretary, he sets the agendas for meetings, manages the meetings, administers the meeting timetable and encourages an open and constructive dialogue during the meetings.

A4 Non-Executive Directors

The Board is strengthened by an open and constructive dialogue in the boardroom and the Chairman actively invites the views of all Board members. The Chairman is available to the Non-Executive Directors and, over the course of the year, the Non-Executive Directors have met in the absence of the Executive Directors and also in the absence of the Chairman, when appropriate.

B1 The composition of the Board

The Nomination Committee is responsible for reviewing the composition of the Board and making recommendations for appointments to the Board. The Committee considers the balance of skills, experience, gender, diversity and knowledge needed in order to enhance the Board and support the Company in the execution of its strategy and promote the success of the Company. Details of the work undertaken by the Nomination Committee are set out on pages 48 and 49.

The Board aims to maintain a balance of independence, tenure, skills, experience and diversity.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

B1 The composition of the Board (continued)
As at the date of this report, the Board comprises the Chairman, eight Non-Executive Directors (all of whom are considered to be independent) and two Executive Directors. The Board is therefore in compliance with the requirement of the Code that, excluding the Chairman, at least half the Board should comprise independent Non-Executive Directors.

B2 Appointments to the Board
The Nomination Committee is responsible for leading the process of appointing new Directors to the Board. The Committee is committed to ensuring that all appointments are made on merit above all else with due regard for the benefits of all types of diversity, including gender.

B3 Commitment
The Non-Executive Directors' letters of appointment set out the time commitment expected from them. This time commitment is reviewed regularly in the light of the strategic and operational issues arising through the year. External interests, which may impact existing time commitments, must be agreed with the Chairman and the Board. The significant commitments of each of the Directors are included in the biographies on pages 39 to 41.

B4 Development
The Board places great value on the inductions that are offered to new Non-Executive Directors and the ongoing training opportunities made available to all Board members.

On joining the Board, all Directors are offered a thorough and tailored induction programme, the key elements of which comprise meetings with Executive Directors and senior management across the Group, site visits, specific training relating to current issues affecting the Group, meetings with advisers, provision of training material and other documents. Details of Echo Lu's induction programme can be found in the Nomination Committee Report on page 49.

The Chairman is responsible for reviewing the training needs of each Director, and for ensuring that the Directors continually update their skills and knowledge of the Company.
All Directors are advised of changes in relevant legislation and regulations and changing risks, with the assistance of the Company's advisers where appropriate. The Directors are also provided with regular corporate governance updates to highlight changes in governance regulations and best practice.

B5 Information and support
Procedures are in place to ensure that Board members receive accurate and timely information via a secure electronic portal. All Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Chief Legal & Risk Officer and Group Company Secretary who is responsible for providing advice on corporate governance matters to the Board.

In conjunction with the Group Company Secretary, the Chairman ensures that all Directors receive papers and other information relevant to matters to be discussed at Board meetings at least one week before the meeting. As Directors were, during the reporting period, situated in the UK, New Zealand, Hong Kong and the US, suitable communication and reporting systems have been established which enable them to monitor, on a timely basis, the Group's activities.

Senior management and professional advisers are invited to attend Board and Committee meetings. Where appropriate, they contribute to discussions and advise members of the Board or its Committees on particular matters. The involvement of the senior management at Board and Committee discussions strengthens the relationship between the Board and its operating business and helps to provide the Board with a greater understanding of operations and strategy.

B6 Evaluation
Following the externally facilitated review in 2016, the Board conducted an internal review of the effectiveness of the Board and its Committees – details of which are set out on page 45.

B7 Re-election
All Directors were subject to shareholder re-election at the 2017 Annual General Meeting (AGM). All Directors will be subject to shareholder election or re-election at the 2018 AGM, apart from Ruth Anderson who will retire from the Board.

UK CORPORATE GOVERNANCE CODE REPORT CONTINUED

C1 Financial and business reporting
The Strategic report can be located on pages 1 to 36, and this sets out the performance of the Company, the business model, strategy, and the risks and uncertainties relating to the Company's future prospects.

C2 Risk management and internal control
The Board sets the Company's risk appetite and annually reviews the effectiveness of the Company's risk management and internal control systems. A description of the principal risks facing the Company is set out on pages 21 to 26. The Annual Report also sets out how the Directors have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate (the 'Viability Statement'). The activities of the Audit and Risk Committee, which assist the Board with its responsibilities in relation to financial reporting, audit matters and the Group's internal control and risk management framework and processes, are set out on pages 50 to 54.

C3 Audit and Risk Committee and auditors
The Audit and Risk Committee comprises four independent Non-Executive Directors, two of whom are considered to have recent and relevant financial experience, and the Board delegates a number of responsibilities to the Audit and Risk Committee including oversight of the Group's financial reporting processes, internal control and risk management framework, and the work undertaken by the external and internal auditors. The Committee members as a whole are considered to have relevant sector competence in which Coats operates. The Audit and Risk Committee Chairman provides regular updates to the Board on key matters regular updates to the Board on key matters discussed by the Committee.

D1 The level and components of remuneration
The Company aims to reward employees fairly and the Remuneration Policy is designed to promote the long term success of the Company whilst aligning both the interests of the Directors and shareholders.

D2 Procedure
The Remuneration Committee is responsible for setting the remuneration for all Executive Directors. Details of the composition and the work of the Remuneration Committee are set out in the Directors' Remuneration Report on pages 55 to 67.

E1 Dialogue with shareholders
The Company's relations with shareholders is referred to on page 47.

Board members take an active role in engaging with shareholders, both in private meetings and in wider forums such as the AGM. The Chairman and the Senior Independent Director aim to meet some of the major institutional investors at least once per year and are available to meet other investors on request. The Chairman shares feedback from these meetings with the wider Board. The Board receives regular updates on investor communication activity, changes to the shareholder register and analysis of share price performance, and the Chairman ensures that any views expressed by shareholders are communicated to the Board at the earliest opportunity.

The Board considers transparency and openness to be a key feature of its stated strategy and endeavours to ensure that both shareholders and the market remain appropriately informed and that regular updates are released to the market.

Copies of these presentations and reports and the results of proxy voting at the 2017 AGM were released to the markets and can be found at www.coats.com/shareholders

E2 Constructive use of General Meetings
The Board values the Annual General Meeting as an important opportunity to engage with investors. Attendees have the opportunity to ask questions of the Board and are invited to meet the Board following the formal business of the meeting. This interaction helps the Board to develop an understanding of the views of the Company's shareholders. At its 2017 AGM, the Chairman provided an additional report to shareholders.

This year's AGM will be held on 16 May 2018 in London.

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017.

Corporate Governance statement
The Strategic Report, Corporate Governance Report and Audit and Risk Committee Report found on pages 1 to 76, together with this Report, of which it forms part, fulfils section 414C of the Companies Act 2006 and is prepared in accordance with rule 7.2 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules by including, by cross reference, details of the Group's financial risk management objectives and policies, business review, future prospects and environmental policy.

Results and dividends
The results of the Group are shown on page 84 and movements in reserves are set out in note 27 to the financial statements.

On 30 May 2017 a final dividend in respect of 2016 of 0.84 US cents per share was paid. In addition the Company paid an ordinary interim dividend per share of 0.44 US cents on 17 November 2017 to shareholders recorded on the register on 27 October 2017.

The Company recommends to shareholders payment of a final dividend of 1.00 US cents per share in respect of the year ended 31 December 2017 on 29 May 2018 to shareholders recorded on the register on 04 May 2018 (2016: 0.84 US cents per share). The shares will become ex-dividend on 03 May 2018.

Environmental matters
The involvement of the Group in relation to the Lower Passaic River is reported in the Principal risks section of the Annual Report and can be found on page 25. Further details are contained in note 28 to the financial statements.

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(e).

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; the binding settlement agreement with the Trustees of the UK Coats Pension Plan, Brunel Holdings Pension Scheme and the Trustee of the Staveley Scheme; 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.

Directors
The names and biographical details of the current Directors are shown on pages 39 to 41. Particulars of their emoluments and interests in shares are given in the Directors' Remuneration Report. Echo Lu was appointed as a Director on 1 December 2017 and there were no other changes to the composition of the Board during 2017.

On 8 January 2018, the Company announced that Anne Fahy has been appointed as a Director from 1 March 2018 and will succeed Ruth Anderson as Chair of the Audit and Risk Committee. Ruth will not seek re-election as a Director at the forthcoming Annual General Meeting and will retire from the Board in 2018.

DIRECTORS' REPORT CONTINUED

Directors

Changes to the composition of the Board since 1 January 2017 up to the date of this report are shown in the table below:

Member	Action	Date
Echo Lu	Appointed	1 December 2017
Anne Fahy	Appointed	1 March 2018

Appointment and retirement of Directors

The appointment of Directors is governed by the Company's Articles of Association, the 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 Code, all Directors will retire and submit themselves for re-election or election at the forthcoming AGM, apart from Ruth Anderson who will retire from the Board.

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. The Company has one class of 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 141,113,090 (10%) of its own shares was granted at the 2017 AGM. No shares were purchased pursuant to this authority during the year.

Shareholder authority for the Company to allot shares up to an aggregate nominal amount of £23,518,848 was granted at the 2017 AGM. No shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2017 was £70,665,032 divided into 1,413,300,648 ordinary shares of 5 pence each.

Since 31 December 2017, 2,047,281 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 6 March 2018 is 1,415,347,929 ordinary shares of 5 pence each. The Company's Ordinary Shares are listed on the London Stock Exchange. The register of shareholders is held in the UK.

Substantial interests

As at 31 December 2017 the Company had been notified, in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules, of the following voting rights as a shareholder of the Company (see the following table).

Substantial interests

Name of shareholder	Shares	%
FIL Limited	140,761,228	9.99
Prudential plc group of companies (M&G)	140,020,355	9.98
Invesco	138,493,196	9.83
Kempen Capital Management N.V	71,172,011	5.06
Threadneedle Asset Management Ltd.	71,337,869	5.05
J O Hambro Capital Management Ltd	70,333,801	4.98
Odey Asset Management LLP	69,490,000	4.94
Soros Fund Management	61,185,245	4.33
MSD Capital	56,006,443	3.98
Schroders plc	51,864,254	3.69

DIRECTORS' REPORT CONTINUED

As required by Chapter 5 of the Disclosure Rules and Transparency Rules, there have been no changes in the schedule of substantial interests since the year end.

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. Coats, so far as is known by the Company, is not directly or indirectly owned or controlled by another corporation or by any government.

Property, plant and equipment

Details of property, plant and equipment are set out in note 14 to the financial statements.

Research and Development (R&D) and future development

The Group has a number of ongoing R&D projects focused on developing value-adding products aimed at the industrial market segments, as well as continuing to develop its proprietary colour management systems. Further information on future development initiatives can be found in note 5.

Employee issues

A description of the Company's employee policies applied during the year and details of its Employee Engagement survey can be found on page 16 of this Annual Report.

Employees with disabilities

Applications for employment by people with disabilities are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff developing disabilities, every effort is made to ensure that their employment with the Company continues and that appropriate arrangements are made. It is the policy of the Company that the training, career development and promotion of employees with disabilities should, as far as possible, be identical to that of other employees.

Diversity and Inclusion

The Company has an active Diversity and Inclusion employee group which arranges global meetings, calls and seminar and supports, promotes and encourages a broad range of diversity and inclusion initiaitives. This activity is summarised in the Our People section of this report on page 16. Coats supports diversity within its Board of Directors, including gender diversity. The Board of Directors have recently recruited two further female Non-Executive Directors, Echo Lu and Anne Fahy. Further details of the Nomination Committee's approach to diversity are on page 49 of this Annual Report.

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 in the year. In addition the Company had Directors' and Officers' liability insurance cover in place.

Auditor

A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2018 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 reasonable steps to ascertain any relevant audit information and to ensure that the Company's Auditor is aware of that information.

Branches and financial risk management objectives and policies

The Company operates in over 50 countries, through branches and offices in the UK and overseas. Information about internal control and financial risk management objectives and policies in relation to the use of financial instruments can be found in note 34 to the financial statements, which are incorporated into this report by reference.

Further information on risk management more generally can be found on page 21.

DIRECTORS' REPORT CONTINUED

Financial instruments
Disclosure of the use of financial instruments by the Group can be found in note 34 to the financial statements.

Disclosures required under Listing Rule 9.8.4R
Additional information required to be disclosed by Listing Rule 9.8.4R, where applicable to the Group, can be found in the following pages of the Annual Report:

	Page
Amount of interest capitalised	N/a
Publication of unaudited financial information	N/a
Details of Long Term Incentive schemes	61
Allotment of equity securities	72
Significant contracts	74

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 (2016: £Nil).

Directors and their responsibilities
The current Directors who served during the year and up to the date of this report are detailed on pages 39 to 41.

Details of those Directors seeking election or re-election at the forthcoming AGM of the Company will be included in the Notice of Meeting that will be sent to shareholders in due course.

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 above). 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 section on pages 37 to 76. Information on compensation for loss of office is contained in the Directors' Remuneration report on pages 55 to 67.

Greenhouse gas emissions
For the year ended 31 December 2017, Coats reported the following emissions:

Global tonnes of CO_2e[1,2]	**2017**	2016
Direct (Gas, coal, oil)	**71.8**	70.9
Indirect (Electricity)	**238.8**	247.6

1 Based on IEA CO2 Emissions from Fuel Combustion, OECD/IEA, Paris, 2016, and the 2015 & 2016 UK DEFRA GHG reporting guidance and conversion factors. Includes Scope 1 – direct emissions from the combustion of fuel (gas, coal and oil) and Scope 2 – indirect emissions from the purchase of electricity.

2 Emissions reported are from energy consumption in our global operations.

This represents a decrease of 2% versus 2016 total emissions.

DIRECTORS' REPORT CONTINUED

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. The resultant figures are then consolidated globally.

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

2017[1]	2016	2015	2014	2013[2]	2012	2011
4.3	4.6	4.5	5.1	5.3	5.6	6.2

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

2017[1]	2016	2015	2014	2013[2]	2012	2011
206	219	208	201	212	226	249

1 2014 – 2017 reported figures are based on IEA conversion factors for Scope 2 emissions.

2 Scope 2 emissions for 2011 – 2013 continue to be calculated using DEFRA country level figures derived from IEA data.

Further details can be found in the Corporate Responsibility section on pages 18 and 20.

Post balance sheet events
Details of post balance sheet events are set out in note 36 to the financial statements.

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

On behalf of the Board

Stuart Morgan
Company Secretary
6 March 2018

DIRECTORS' RESPONSIBILITIES STATEMENT

ENSURING OUR ANNUAL REPORT IS FAIR, BALANCED AND UNDERSTANDABLE

A number of established and embedded processes underpin the compilation of the Annual Report to help provide the Board with the assurance that it is fair, balanced and understandable, including:

- reviewing the use of Alternative Performance Measures and their appropriateness in aiding users of our financial statements to better understand our performance year-on-year;
- drafting of the Annual Report by appropriate senior management who monitor regulatory changes and who are briefed regarding the fair, balanced and understandable regulations;
- an extensive verification process undertaken to ensure factual accuracy which has been considered by the Disclosure Committee;
- comprehensive reviews of drafts of the Annual Report undertaken by senior management, including members of the Group Executive Team;
- the Audit and Risk Committee discussing the draft Annual Report with both management and Deloitte and, where appropriate, challenging the content and any judgements and assumptions used; and
- all Board members receiving drafts of the Annual Report with sufficient time for review and comment.

Company law requires the Directors to prepare 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 elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the Directors must not approve the accounts 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have 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 are 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 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.

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 it faces; 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 performance, business model and strategy.

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

Mike Clasper
Chairman
6 March 2018

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 give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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 of Coats Group plc (the 'parent company') and its subsidiaries (the 'group') 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 group related notes 1 to 37;
- the Company Balance Sheet;
- the Company Statement of Changes in Equity;
- the Company Cash Flow Statement; and
- the Company related notes 1 to 8.

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 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 • Impairment assessment of Brazil tangible assets • Taxation provisions – transfer pricing The key audit matters are the same as the prior year, except that the impairment risk excludes the risk of impairment of intangible assets which has reduced since the previous audit following the improved trading results and significant increase in the group's overall market capitalisation.
Materiality	The materiality that we used for the group financial statements was $10 million which was determined on the basis of 7% of profit before tax.
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 76% of the group's revenue and 81% of the group's profit before tax from profit making components.
Significant changes in our approach	In addition to the change in key audit matters as described above, in the current year materiality has been based on 7% of profit before tax. In the prior year 8% of adjusted profit before tax has been used. In the current year, the exceptional and acquisition related items were not considered significant and not adjusted for the purpose of determining materiality.

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 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.

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

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 21-25 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 23 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation 26 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.

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

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 make a provision of $9 million, in respect of remediation costs net of insurance proceeds. 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. Management identify provisions as a source of significant estimation uncertainty in notes 1, 24 and 28 of the financial statements and discuss the matter as a significant financial and reporting issue in the Audit and Risk Committee report on page 51.
How the scope of our audit responded to the key audit matter	We challenged managements' assumptions including a review of evidence used in determining provisions for the Lower Passaic River Study Area litigation, both in terms of appropriateness of recognition and in terms of valuation. 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 considered the legal advice management had obtained in relation to litigation and directly challenged and discussed with key legal advisers.
Key observations	We found that management's provision is within a range of reasonable estimates of the future liability and has properly taken into account the latest information available from their third party legal advisers.

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 2017 was $3,389 million, and a relatively small change in the assumptions used can result in a material difference in the net deficit recognised of $163 million. 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 statement of financial position. 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. Management identify Pension and other employee benefit obligations as a source of significant 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 57.
How the scope of our audit responded to the key audit matter	We worked with our own pension specialists to challenge the assumptions such as discount, inflation and mortality rates underlying management's calculation of the group defined benefit schemes. We have compared these assumptions to industry benchmarks and prior year rates. We evaluated the competence of the experts that management engaged to calculate the defined benefit pension schemes, by confirming 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 judgements and those made by management, both individually and in aggregate.
Key observations	The key assumptions used in the calculation of the retirement benefit obligations were within the ranges expected by our pension specialists.

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

Impairment assessment of Brazil tangible assets

Key audit matter description	Management performed an assessment of whether any of the Group's tangible assets, which have a total carrying value of $293 million, exhibited any indicators of impairment. Management identified the challenging economic and trading conditions in Brazil as an indicator of potential impairment and performed a detailed impairment assessment of the assets allocated to this cash generating unit (CGU) that have a carrying value of $38 million. Management's assessment of the recoverable value, with the involvement of a local real estate expert in Brazil, was based on a valuation of the underlying assets less any costs of disposal as the land held in central Sao Paulo that was acquired in 1907 has a fair value that is significantly higher than its carrying value and is a key consideration in determining the fair value of this CGU. The determination of a reasonable range of valuations for the assets and any disposals costs involves estimation uncertainty. Due to the significant level of judgement, we identified this key audit matter as a potential fraud risk area. Management discuss the matter as a significant financial and reporting issue in the Audit and Risk Committee report on page 57.
How the scope of our audit responded to the key audit matter	We challenged management's valuation approach and assumptions to confirm that the asset values assumed were supportable and that the potential costs of disposal were appropriately assessed. We had direct discussions with the external real estate expert in Brazil to confirm the range of values for the various properties in Brazil, and evaluated the competence of the experts used. We considered the historical property indices and considered potentially contradictory evidence and applied further sensitivities.
Key observations	We concluded that the assumptions used were reasonable and had been determined and applied on a consistent basis. No impairments were identified from the work performed.

Taxation provisions – transfer pricing

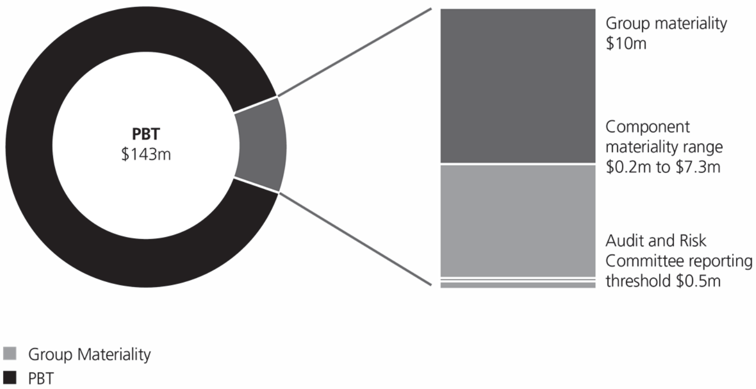
Key audit matter description	The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local Tax Authorities and consequently agreement may not be reached for a number of years. We have identified a risk in respect of the provisions which have been made in relation to the interpretation of transfer pricing legislation and practices across the jurisdictions in which the Group operates. The Group's effective tax rate reconciliation is provided in note 9.
How the scope of our audit responded to the key audit matter	We reviewed the changes in effective tax rates in each significant jurisdiction and basis for these changes. We worked with our 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 transfer pricing tax risks, including a review of applicable third party evidence and correspondence with tax authorities to assess the adequacy of associated provision and disclosures.
Key observations	We are satisfied that the provisions raised in respect of the group's potential transfer pricing taxation exposures are appropriate.

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.

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

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	$10 million (2016: $10 million)	$8.5 million
Basis for determining materiality	7% of profit before tax and equates to less than 1% of total assets. In the prior year 8% of adjusted profit before tax has been used. Adjusted profit was determined as profit before tax excluding exceptional and acquisition related items. In the current year, the exceptional and acquisition related items did not have a significant impact on the materiality determined.	Parent company materiality of $8.5 million represents 0.9% of net assets. This is capped at 85% of the group materiality.
Rationale for the benchmark applied	We have determined materiality based on professional judgement, the requirements of auditing standards and the financial measure most relevant to the user of the financial statements. Profit before tax is a key measure used by Coats Group plc in reporting results and is determined to be the most appropriate basis for determining materiality for a global manufacturer.	The parent company is primarily an investment holding company and net assets is considered the most appropriate basis.



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $0.5 million (2016: $0.5 million) for the group, 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 identified 11 (2016: 12) financially significant overseas components spread across five continents. One of the overseas components is no longer significant to the group and our involvement in their audits is as follows:

- For all components the group auditor held planning calls, attended closing meetings and also reviewed the work of overseas component auditors, where considered necessary.
- The senior members of the audit team and Senior Statutory Auditor follow a programme of planned site visits. During 2017, the Senior Statutory Auditor visited Coats operations in Hong Kong, Vietnam, India and China and met with the component audit teams. Senior members of the engagement team visited Coats North American operations.

The components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the components identified above, excluding the parent company, was executed at levels of materiality which were lower than the group materiality and range from $0.2 million to $7.3 million (2016: $0.2 million to $8.5 million).

Our audit provided coverage of 87% of the Group's net assets (2016: 86%), 76% of the Group's revenue (2016: 70%) and, 81% of the Group's profit before tax within the Group's profit making components (2016: 81%).

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

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.

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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.

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.

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 Company 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 15 years, covering the years ending 31 December 2003 to 31 December 2017.

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).

Timothy Biggs FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

6 March 2018

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December	Notes	2017 Before exceptional and acquisition related items US$m	2017 Exceptional and acquisition related items US$m	2017 Total US$m	2016 Before exceptional and acquisition related items US$m	2016 Exceptional and acquisition related items US$m	2016 Total US$m
Continuing operations:							
Revenue	2,3	**1,510.3**	**–**	**1,510.3**	1,457.3	–	1,457.3
Cost of sales		**(932.9)**	**–**	**(932.9)**	(892.3)	–	(892.3)
Gross profit		**577.4**	**–**	**577.4**	565.0	–	565.0
Distribution costs		**(193.2)**	**–**	**(193.2)**	(197.2)	–	(197.2)
Administrative expenses		**(210.6)**	**(6.5)**	**(217.1)**	(210.1)	(4.6)	(214.7)
Other operating income		**0.1**	**–**	**0.1**	0.2	–	0.2
Operating profit	2,4,5	**173.7**	**(6.5)**	**167.2**	157.9	(4.6)	153.3
Share of (losses)/profits of joint ventures	15	**1.3**	**(2.6)**	**(1.3)**	0.8	–	0.8
Investment income	6	**2.1**	**–**	**2.1**	4.3	–	4.3
Finance costs	7	**(25.1)**	**–**	**(25.1)**	(35.9)	–	(35.9)
Profit before taxation	5	**152.0**	**(9.1)**	**142.9**	127.1	(4.6)	122.5
Taxation	9	**(48.5)**	**0.7**	**(47.8)**	(47.2)	0.4	(46.8)
Profit from continuing operations		**103.5**	**(8.4)**	**95.1**	79.9	(4.2)	75.7
Loss from discontinued operations	32	**–**	**–**	**–**	(3.3)	(1.2)	(4.5)
Profit for the year		**103.5**	**(8.4)**	**95.1**	76.6	(5.4)	71.2
Attributable to:							
Equity shareholders of the company		**89.2**	**(8.4)**	**80.8**	64.7	(5.4)	59.3
Non-controlling interests		**14.3**	**–**	**14.3**	11.9	–	11.9
		103.5	**(8.4)**	**95.1**	76.6	(5.4)	71.2
Earnings per share (cents):	11						
Continuing operations:							
Basic				**5.78**			4.60
Diluted				**5.67**			4.53
Continuing and discontinued operations:							
Basic				**5.78**			4.28
Diluted				**5.67**			4.22
Adjusted earnings per share	37(d)			**6.37**			4.91

Notes on pages 90 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	**2017 US$m**	2016 US$m
Profit for the year	**95.1**	71.2
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gains/(losses) on retirement benefit schemes	**145.2**	(324.8)
Tax on items that will not be reclassified	**1.0**	0.1
	146.2	(324.7)
Items that may be reclassified subsequently to profit or loss:		
Loss on cash flow hedges arising during the year	**(1.1)**	(0.9)
Transferred to profit or loss on cash flow hedges	**0.2**	1.3
Exchange differences on translation of foreign operations	**(6.1)**	1.3
	(7.0)	1.7
Other comprehensive income and expense for the year	**139.2**	(323.0)
Net comprehensive income and expense for the year	**234.3**	(251.8)
Attributable to:		
Equity shareholders of the company	**219.9**	(263.0)
Non-controlling interests	**14.4**	11.2
	234.3	(251.8)

Notes on pages 90 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Notes	2017 US$m	2016 US$m
Non-current assets:			
Intangible assets	13	**293.9**	291.8
Property, plant and equipment	14	**292.7**	265.9
Investments in joint ventures	15	**12.0**	11.0
Available-for-sale investments	15	**1.2**	1.1
Deferred tax assets	16	**24.6**	18.1
Pension surpluses	10	**57.9**	50.8
Trade and other receivables	18	**21.5**	16.1
		703.8	654.8
Current assets:			
Inventories	17	**232.2**	205.8
Trade and other receivables	18	**268.9**	248.4
Available-for-sale investments	15	**0.2**	0.2
Pension surpluses	10	**6.9**	6.7
Cash and cash equivalents	30(e)	**118.4**	476.5
Non-current assets classified as held for sale	32(b)	**0.2**	0.2
		626.8	937.8
Total assets		**1,330.6**	1,592.6
Current liabilities:			
Trade and other payables	20	**(330.4)**	(310.8)
Current income tax liabilities		**(8.7)**	(8.9)
Bank overdrafts and other borrowings	22	**(1.7)**	(7.7)
Retirement benefit obligations:			
– Funded	10	**(16.9)**	(309.6)
– Unfunded	10	**(7.4)**	(6.2)
Provisions	24	**(18.3)**	(17.1)
		(383.4)	(660.3)
Net current assets		**243.4**	277.5
Non-current liabilities:			
Trade and other payables	20	**(27.2)**	(15.8)
Deferred tax liabilities	23	**(14.3)**	(31.7)
Borrowings	22	**(358.2)**	(390.6)
Retirement benefit obligations:			
– Funded schemes	10	**(101.1)**	(272.0)
– Unfunded schemes	10	**(102.6)**	(96.4)
Provisions	24	**(33.5)**	(34.8)
		(636.9)	(841.3)
Total liabilities		**(1,020.3)**	(1,501.6)
Net assets		**310.3**	91.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION CONTINUED

31 December	Notes	**2017 US$m**	2016 US$m
Equity:			
Share capital	26	**87.5**	127.0
Share premium account	27	**7.7**	11.6
Own shares	26, 27	**(7.7)**	(10.5)
Translation reserve	27	**(48.8)**	(121.1)
Capital reduction reserve	27	**59.8**	85.2
Other reserves	27	**245.8**	250.9
Retained loss	27	**(58.6)**	(274.6)
Equity shareholders' funds		**285.7**	68.5
Non-controlling interests	27	**24.6**	22.5
Total equity		**310.3**	91.0

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 6 March 2018

Company Registration No.103548

Notes on pages 90 to 146 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
Balance as at 1 January 2016	127.0	11.6	(7.6)	(123.1)	85.2	250.5	(14.3)	329.3	24.7
Net comprehensive income and expense for the year	–	–	–	2.0	–	0.4	(265.4)	(263.0)	11.2
Dividends	–	–	–	–	–	–	–	–	(13.4)
Purchase of own shares	–	–	(2.9)	–	–	–	–	(2.9)	–
Share based payments	–	–	–	–	–	–	5.1	5.1	–
Balance as at 31 December 2016	127.0	11.6	(10.5)	(121.1)	85.2	250.9	(274.6)	68.5	22.5
Change in functional currency*	**(39.9)**	**(10.8)**	**1.8**	**78.5**	**(25.4)**	**(4.2)**	**–**	**–**	**–**
Net comprehensive income and expense for the year	**–**	**–**	**–**	**(6.2)**	**–**	**(0.9)**	**227.0**	**219.9**	**14.4**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(17.8)**	**(17.8)**	**(12.3)**
Issue of ordinary shares	**0.4**	**2.6**	**–**	**–**	**–**	**–**	**–**	**3.0**	**–**
Movement in own shares	**–**	**4.3**	**1.0**	**–**	**–**	**–**	**(5.2)**	**0.1**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**6.4**	**6.4**	**–**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**–**	**5.6**	**5.6**	**–**
Balance as at 31 December 2017	**87.5**	**7.7**	**(7.7)**	**(48.8)**	**59.8**	**245.8**	**(58.6)**	**285.7**	**24.6**

* The functional currency of the parent company Coats Group plc was changed during the year 31 December 2017. See note 1 for further details.

Notes on pages 90 to 146 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2017 US$m	2016 US$m
Cash (outflow)/inflow from operating activities:			
Net cash (outflow)/inflow from operations	30(a)	**(157.4)**	79.4
Interest paid		**(13.7)**	(14.0)
Taxation paid		**(60.5)**	(57.9)
Net cash (absorbed in)/generated by operating activities		**(231.6)**	7.5
Cash outflow from investing activities:			
Investment income	30(b)	**1.3**	4.0
Net capital expenditure and financial investment	30(c)	**(49.7)**	(38.7)
Acquisitions and disposals	30(d)	**(23.1)**	(40.4)
Net cash absorbed in investing activities		**(71.5)**	(75.1)
Cash outflow from financing activities:			
Purchase of own shares		**–**	(2.9)
Receipts from exercise of share options		**3.0**	0.2
Dividends paid to equity shareholders		**(17.6)**	–
Dividends paid to non-controlling interests		**(12.3)**	(13.4)
Net (decrease)/increase in debt and lease financing		**(41.1)**	3.3
Net cash absorbed in financing activities		**(68.0)**	(12.8)
Net decrease in cash and cash equivalents		**(371.1)**	(80.4)
Net cash and cash equivalents at beginning of the year		**470.3**	631.4
Foreign exchange gains/(losses) on cash and cash equivalents		**17.6**	(80.7)
Net cash and cash equivalents at end of the year	30(e)	**116.8**	470.3
Reconciliation of net cash flows to movements in net debt			
Net decrease in cash and cash equivalents		**(371.1)**	(80.4)
Net decrease/(increase) in debt and lease financing		**41.1**	(3.3)
Change in net debt resulting from cash flows (free cash flow)		**(330.0)**	(83.7)
Other non-cash movements		**(5.0)**	(1.6)
Foreign exchange gains/(losses)		**15.3**	(77.1)
Increase in net debt		**(319.7)**	(162.4)
Total net cash at the start of the year		**78.2**	240.6
Total net (debt)/cash at the end of the year	30(e)	**(241.5)**	78.2

Notes on pages 90 to 146 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.

- Provisioning for Lower Passaic River environmental matters

In determining the level of provision held at year end in respect of the Lower Passaic River environmental matter the Board takes advice from external experts as appropriate. The nature of the estimates adopted is such that the final liability that crystallises may differ from these estimates. In particular there is estimation uncertainty as to what, if any, the Group's share of total remediation and legal costs is likely to be, for which a provision of $11.3 million, net of insurance reimbursements, has been recorded as set out in notes 24 and 28.

As set out in note 28 the final remediation cost could differ materially from the provision recorded. However, at this stage it is not possible to reliably estimate the range of possible outcomes.

a) Accounting convention and format

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore Group's financial statements comply with Article 4 of the EU IAS Regulations.

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 2016.

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.

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 52.

c) Change in functional currency
In February 2017 the Company signed binding settlement agreements with the Trustees of the Coats UK Pension Plan and Brunel Holdings Pension Scheme. On 28 February 2017 agreed cash payments of £200.0 million and £34.5 million were made into the Coats UK Pension Plan and Brunel Holdings Pension Scheme respectively. The Company has received written assurances from the UK Pensions Regulator that its regulatory action has ceased in relation to these two schemes under the Warning Notices that it issued to the Company in 2013 and 2014.

Following the events noted above, it was determined that the functional currency of Coats Group plc had changed from Great Britain pounds sterling ('Sterling') to United States dollars ('USD'), effective 1 March 2017. In accordance with IAS 21 this change has been accounted for prospectively from this date. To give effect to the change in functional currency, the assets, liabilities and equity of Coats Group plc in Sterling at 1 March 2017 were converted into USD at an exchange rate of US$1:£0.8078.

Share capital and other equity amounts of Coats Group plc reported in the Group's consolidated statement of financial position were previously presented in USD converted from Sterling using historical rates of exchange. Exchange differences have therefore arisen between the historical USD/Sterling exchange rates and the exchange rate used for conversion from Sterling to USD at 1 March 2017. These exchange differences are reported in the consolidated statement of changes in equity.

The presentation currency of the Group is USD and remains unchanged.

d) Foreign currencies
Foreign currency translation
The Group's presentation currency is US Dollars. 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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Group companies
Assets and liabilities of subsidiaries whose presentation currency is not US Dollars 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:

		2017	2016
Average	Sterling	**0.78**	0.74
	Euro	**0.89**	0.90
	Brazilian Real	**3.19**	3.48
	Indian Rupee	**65.09**	67.16
Period end	Sterling	**0.74**	0.81
	Euro	**0.83**	0.95
	Brazilian Real	**3.31**	3.25
	Indian Rupee	**63.87**	67.92

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 Board in deciding how to allocate resources and in assessing performance.

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 de-risking of 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.

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, quantitative as well as qualitative factors such as frequency or predictability of occurrence are 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.

Leased assets
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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 buildings	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.

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 reviewed 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 Group's investment in each of its business segments.

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	10 years to 20 years
Technology	5 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.

Impairment of assets
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to 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

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- 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.

j) Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant financial instrument.

Financial assets
(i) Available for sale investments
Available for sale investments 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. 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 and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Financial liabilities
(i) Trade payables
Trade payables are not interest-bearing and are stated at nominal value.

(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.

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(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.

(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.

k) Revenue
Revenue comprises the fair value of the sale of goods and services, net of sales tax and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

(ii) Sales of services
Sales of services are recognised in the period in which the services are rendered, by reference to the stage of completion of those services at the period end.

(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.

l) 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.

m) 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 PPF (Pension Protection Fund) 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.

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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.

n) 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.

o) 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.

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All other borrowing costs, except where otherwise stated, are recognised in the income statement in the period in which they are incurred.

p) 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.

q) 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.

r) 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.

s) 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 and interpretations adopted in the year
During the year, the Group has adopted the following standards and interpretations:

- Amendments to IAS 12 ('Recognition of Deferred Tax Assets for Unrealised Losses');
- Amendments to IAS 7 ('Disclosure Initiative'); and
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of these standards and interpretations has had no significant impact on these consolidated financial statements.

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 2018:

- IFRS 9 ('Financial instruments');
- IFRS 15 ('Revenue from Contracts with Customers');
- Amendments to IFRS 2 ('Classification and measurement of share based payment transactions');
- Amendments to IFRS 4 ('Interaction of IFRS 4 and IFRS 9');
- Amendments to IAS 40 ('Transfers of property to, or from, investment property'); and
- Annual improvements to IFRS's 2014 – 2016 cycle.

From the year beginning 1 January 2019:

- 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'); and

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- Annual Improvements to IFRS's 2015 – 2017 cycle.

From the year beginning 1 January 2021:

- Annual Improvements to IFRS's 2015 – 2017 cycle.

Other than IFRS 16 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.

IFRS 9 'Financial Instruments'
IFRS 9 provides a new expected losses impairment model and includes amendments to classification and measurement of financial instruments. The Group does not expect that the adoption of IFRS 9 will have a material impact on the financial statements but it will impact both the measurement and disclosure of financial instruments.

IFRS 15 'Revenue from contracts with customers'
IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a stand-alone selling price basis, based on a five-step model. The Group does not expect that the adoption of IFRS 15 will have a material impact on the revenue recorded in the income statement but it will introduce new disclosures requirements.

IFRS 16 'Leases'
IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 (subject to endorsement by the EU). This standard provides a single model for lessees which recognises a right of use asset and lease liability for all leases which are longer than one year or which are not classified as low value. The distinction between finance and operating leases for lessees is removed. As at 31 December 2017, the Group holds a significant number of operating leases which currently, under IAS 17, are expensed on a straight-line basis over the lease term.

Retrospective application in the comparative year ending 31 December 2018 is optional. The Group expects that it will not take this optional application and will apply the standard from the transitional date using the modified retrospective approach, adjusting opening retained earnings and not re-stating comparatives. This involves 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.

The Group has initiated a process to collect operating lease information across the business in order to assess the cumulative adjustment on transition. As at 31 December 2017 data for the Group's most significant markets has been collected and assessed.

Based on an initial analysis for the Group's most significant markets, were the new requirements adopted in 2017, operating profit would increase by an immaterial amount and profit before tax would decrease by an immaterial amount.

The discount rate, the lease term (including consideration of options to extend), changes to the lease portfolio and exchange rates on translation of financial statements of non-US Dollar operations are all subject to change in future years, which will impact the actual transitional adjustment as at the expected transition date.

The Group will continue to assess the impact of IFRS 16, including the impact on tax, until the transition date, providing further quantitative and qualitative measures as progress is made on implementation planning.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the detailed lease-by-lease review has been completed for all markets and the conclusion on other non-operating lease contractual arrangements has been reached.

The undiscounted amount of the Group's operating lease commitments at 31 December 2017 disclosed under IAS 17, the current leasing standard was $62.4 million (see note 25).

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2 Segmental analysis

The Group has two reportable segments: Industrial and Crafts. Both segments include businesses with similar operating and market characteristics. These segments are consistent with the internal reporting as reviewed by the Coats Group plc Board (the 'Chief Operating Decision Maker').

a) Segment revenue and results

Year ended 31 December 2017	**Industrial US$m**	**Crafts US$m**	**Total US$m**
Revenue	**1,296.9**	**213.4**	**1,510.3**
Segment profit	**172.9**	**7.1**	**180.0**
UK pension scheme administrative expenses			**(6.3)**
Operating profit before exceptional and acquisition related items			**173.7**
Exceptional and acquisition related items (note 4)			**(6.5)**
Operating profit			**167.2**
Share of losses of joint ventures			**(1.3)**
Investment income			**2.1**
Finance costs			**(25.1)**
Profit before taxation from continuing operations			**142.9**

Year ended 31 December 2016	Industrial US$m	Crafts US$m	Total US$m
Revenue	1,221.2	236.1	1,457.3
Segment profit	154.7	10.8	165.5
UK pension scheme administrative expenses			(7.6)
Operating profit before exceptional and acquisition related items			157.9
Exceptional and acquisition related items (note 4)			(4.6)
Operating profit			153.3
Share of profits of joint ventures			0.8
Investment income			4.3
Finance costs			(35.9)
Profit before taxation from continuing operations			122.5

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 1. Operating profit is the measure reported to the Company's directors for the purpose of resource allocation and assessment of segment performance for continuing operations.

b) Assets and liabilities

	Industrial US$m	Crafts US$m	Adjustments, eliminations and unallocated assets and liabilities US$m	Total US$m
Assets				
31 December 2017	**421.0**	**85.9**	**5.3**	**512.2**
31 December 2016	370.6	88.3	5.3	464.2
Liabilities				
31 December 2017	**(278.3)**	**(29.5)**	**(22.5)**	**(330.3)**
31 December 2016	(242.4)	(32.5)	(29.0)	(303.9)

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Segmental assets includes trade and other receivables (excluding derivative financial instruments and current income tax assets) and inventories. Segmental liabilities includes trade and other payables (excluding derivative financial instruments and current income tax payables of $24.2 million (2016: $14.0 million) included in other payables due after one year). Adjustments, eliminations and unallocated assets and liabilities consist of elimination of intra group balances as well as assets and liabilities which have not been allocated to reportable segments.

c) Other segment information

Year ended 31 December	Additions to non-current assets 2017 US$m	Additions to non-current assets 2016 US$m	Depreciation and amortisation 2017 US$m	Depreciation and amortisation 2016 US$m
Industrial	**45.6**	34.2	**30.6**	32.0
Crafts	**2.6**	2.2	**5.1**	3.0
Unallocated	**2.4**	5.1	**6.3**	5.7
	50.6	41.5	**42.0**	40.7

Depreciation and amortisation excludes amortisation of acquired intangible assets set out in note 4 of $2.1 million (2016: $1.3 million).

d) Geographic information

Year ended 31 December	Revenue by origin 2017 US$m	Revenue by origin 2016 US$m	Revenue by destination 2017 US$m	Revenue by destination 2016 US$m	Non-current assets 2017 US$m	Non-current assets 2016 US$m
Europe, Middle East & Africa (EMEA)						
UK	**10.8**	7.1	**12.0**	10.5	**266.6**	269.4
Rest of EMEA	**265.0**	245.1	**249.5**	234.9	**72.5**	69.1
Americas						
USA	**246.8**	267.6	**236.8**	256.2	**59.5**	48.5
Rest of Americas	**223.5**	217.4	**240.3**	230.1	**44.9**	43.0
Asia & Rest of World						
India	**173.5**	163.0	**173.2**	160.5	**44.3**	36.7
China and Hong Kong	**182.9**	174.1	**163.3**	161.8	**40.8**	36.2
Vietnam	**165.5**	148.4	**155.8**	134.8	**30.6**	28.8
Other	**242.3**	234.6	**279.4**	268.5	**61.5**	53.9
	1,510.3	1,457.3	**1,510.3**	1,457.3	**620.7**	585.6

Non-current assets excludes derivative financial instruments, pension surpluses and deferred tax assets.

e) Information about products and customers
The Group's revenue by product type are as follows:

Year ended 31 December	2017 US$m	2016 US$m
Industrial – Apparel and Footwear	**1,020.8**	974.8
Industrial – Performance Materials	**276.1**	246.4
Crafts – Handknittings	**108.3**	121.2
Crafts – Needlecrafts	**105.1**	114.9
	1,510.3	1,457.3

The Group had no revenue from a single customer, which accounts for more than 10% of the Group's revenue.

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3 Revenue
An analysis of the Group's revenue is as follows:

Year ended 31 December	**2017 US$m**	2016 US$m
Continuing operations:		
Sales of goods	**1,510.3**	1,457.3
Other operating income	**0.1**	0.2
Investment income	**2.1**	4.3
	1,512.5	1,461.8
Discontinued operations:		
Sales of goods	**–**	8.8
	–	8.8
	1,512.5	1,470.6

4 Profit before taxation is stated after charging/(crediting):
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 provides 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.

Exceptional items
There were no exceptional items charged/(credited) to operating profit during the year ended 31 December 2017 (2016: $Nil).

Shares of losses of joint ventures for the year ended 31 December 2017 is after exceptional costs of $2.6 million (2016: $Nil) relating to the sale and closure of the business of a joint venture in Australia, Australia Country Spinners.

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, quantitative as well as qualitative factors such as frequency or predictability of occurrence are considered. This is consistent with the way financial performance is measured by management and reported to the Board.

Acquisition related items
Acquisition related items are set out below:

Year ended 31 December	**2017 US$m**	2016 US$m
Acquisition related items:		
Administrative expenses:		
Contingent consideration	**4.0**	2.4
Acquisition transaction costs	**0.4**	0.9
Amortisation of acquired intangibles	**2.1**	1.3
Total acquisition related items before taxation	**6.5**	4.6

The Group completed the acquisition of Patrick Yarn Mill during the year ended 31 December 2017 (see note 31 for further details) and completed the acquisitions of Gotex S.A. and Fast React Systems Limited during the year ended 31 December 2016.

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.

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.

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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 cost to be part of the underlying trading performance of the business.

5 Profit before taxation from continuing operations

Year ended 31 December	**2017 US$m**	2016 US$m
Profit before taxation is stated after charging/(crediting):		
Amortisation of intangible assets	**13.2**	10.1
Depreciation of property, plant and equipment	**30.9**	31.9
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	**0.5**	0.4
– Fees payable for the audit of the Company's subsidiaries	**1.6**	1.8
Other Deloitte services:		
– Taxation services	**0.3**	0.4
– Other services	**0.1**	0.2
Total fees charged by Deloitte LLP	**2.5**	2.8
Operating lease rentals:		
– Plant and equipment	**6.4**	4.9
– Other	**12.7**	11.3
Research and development expenditure	**2.1**	1.6
Bad and doubtful debts	**0.4**	2.3
Net foreign exchange (gains)/losses	**(2.2)**	4.1
Rental income from land and buildings	**(0.4)**	(0.5)
Inventory as a material component of cost of sales	**534.6**	514.8
Inventory write-downs to net realisable value	**0.6**	1.5

6 Investment income

Year ended 31 December	**2017 US$m**	2016 US$m
Interest receivable on Parent Group cash[1]	**0.1**	2.2
Other interest receivable and similar income	**1.7**	1.6
Income from other investments	**0.3**	0.5
	2.1	4.3

1 Cash relating to the realisation of investments previously held by Coats Group plc.

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7 Finance costs

Year ended 31 December	2017 US$m	2016 US$m
Interest on bank and other borrowings	**14.5**	14.4
Net interest on pension scheme assets and liabilities	**9.4**	13.6
Other finance costs including unrealised gains and losses on foreign exchange contracts	**1.2**	7.9
	25.1	35.9

8 Staff costs
The average monthly number of employees was:

Year ended 31 December	2017 US$m	2016 US$m
Continuing operations:		
Direct	**12,169**	12,171
Indirect	**2,475**	2,353
Other staff	**4,441**	4,522
	19,085	19,046
Discontinued operations:	**–**	58
Total number of employees	**19,085**	19,104
Comprising:		
UK	**175**	220
Overseas	**18,910**	18,884
	19,085	19,104
The total numbers employed at the end of the year were:		
UK	**160**	163
Overseas	**19,110**	18,927
	19,270	19,090

Year ended 31 December	2017 US$m	2016 US$m
Their aggregate remuneration comprised (including directors):		
Continuing operations:		
Wages and salaries	**327.3**	300.7
Social security costs	**33.1**	29.8
Other pension costs (note 10)	**11.9**	12.0
	372.3	342.5
Discontinued operations	**–**	2.2
	372.3	344.7

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9 Tax on profit from continuing operations

Year ended 31 December	2017 US$m	2016 US$m
UK Corporation tax at 19.25% (2016: 20.0%)	–	–
Overseas tax charge	(61.0)	(59.6)
Deferred tax credit	13.2	12.8
Total tax charge	(47.8)	(46.8)

The tax charge for the year can be reconciled as follows:

	2017				2016			
Year ended 31 December	Underlying US$m	Exceptional and acquisition related items US$m	Other adjustments[1] US$	Total US$m	Underlying US$m	Exceptional and acquisition related items US$m	Other adjustments[1] US$	Total US$m
Profit before tax	161.4	(9.1)	(9.4)	142.9	140.7	(4.6)	(13.6)	122.5
Expected tax charge/(credit) at the UK statutory rate of 19.25% (2016: 20.00%)	31.0	(1.7)	(1.8)	27.5	28.1	(0.9)	(2.7)	24.5
Differences between overseas and UK taxation rate	6.9	(0.1)	–	6.8	7.3	(0.1)	(0.1)	7.1
Non-deductible expenses	7.3	1.1	–	8.5	3.7	0.4	0.8	4.9
Non-taxable income	(0.7)	–	–	(0.7)	(0.3)	–	–	(0.3)
Local tax incentives	(1.5)	–	–	(1.5)	(2.6)	–	–	(2.6)
Utilisation of unrecognised losses	(2.5)	–	–	(2.5)	(3.4)	–	–	(3.4)
Recognition of previously unrecognised deferred tax assets	(4.7)	–	–	(4.7)	(5.5)	0.2	–	(5.3)
Potential deferred tax assets not recognised	5.3	–	1.7	7.0	11.9	–	2.0	13.9
Impact of changes in tax rates	0.4	–	–	0.4	0.3	–	–	0.3
Impact of US Tax reform	–	–	(3.0)	(3.0)	–	–	–	–
Prior year adjustments	3.9	–	–	3.9	(2.9)	–	–	(2.9)
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	6.2	–	–	6.2	10.6	–	–	10.6
Income tax expense/(credit)	51.6	(0.7)	(3.1)	47.8	47.2	(0.4)	–	46.8
Effective tax rate	32%	8%	33%	33%	34%	9%	0%	38%

1 Other adjustments consist of net interest on pension scheme assets and liabilities of $9.4 million (2016: $13.6 million) and the one off non-cash impact of US Tax Reform.

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, the impact of net interest on pension scheme assets and liabilities and the impact of US Tax reform, the underlying effective rate on pre-tax profits reduced by 200bps to 32% (2016: 34%). The lower tax rate was driven by a reduction in unrelieved losses, together with a favourable change in profit mix for the period.

The tax reform measures introduced by the US Government in the Tax Cuts & Jobs Act resulted in a one-off non-cash tax credit of $3.0 million (200 bps) as a result of the revaluation of the net US deferred tax liabilities. A further tax credit of $2.9 million was taken directly to the consolidated statement of comprehensive income in relation to the revaluation of deferred tax liabilities in respect of US defined benefit pension arrangements.

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The Group has reviewed the available detail of the Tax Cuts & Jobs Act but do not expect the changes to have a significant impact on the Group's future underlying effective tax rate despite the reduction in the headline US Corporate Income Tax rate from 35% to 21% with effect from 1 January 2018. The benefit of the rate reduction is offset by provisions to limit net interest expense to 30% of adjusted taxable income and the loss of the domestic production activities deduction, which the Group's US operations have historically benefitted from. Further detail and guidance is expected to be released in the coming months and the Group will continue to monitor this.

Uncertain tax positions
The Group's current tax liability includes a number of tax provisions, which although individually are relatively small, together they total $13.3 million (2016: $8.4 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 (including withholding and dividend distribution taxes) of $60.5 million (2016: $57.9 million). The amount of tax paid in each jurisdiction is as follows:

Year ended 31 December	**2017 US$m**	2016 US$m
India	**10.9**	12.9
Vietnam	**9.7**	9.0
UK	**7.1**	7.1
Indonesia	**7.1**	9.3
USA	**6.9**	2.2
Singapore	**3.8**	2.2
Colombia	**1.8**	1.3
Turkey	**1.7**	1.8
Mexico	**1.7**	1.3
Bangladesh	**1.6**	2.3
Argentina	**1.4**	0.5
Germany	**1.3**	–
China	**1.1**	2.1
Spain	**0.8**	0.7
Romania	**0.5**	0.6
Others (25 countries each less than $0.5 million)	**3.1**	4.6
Total corporate income tax paid	**60.5**	57.9

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The taxes paid in the UK, Singapore and Germany are withholding taxes on royalties, group charges and dividends, deducted and paid at source in the following jurisdictions:

	2017 US$m
Indonesia	**3.3**
India	**2.1**
Bangladesh	**0.9**
Turkey	**0.8**
China	**0.8**
Sri Lanka	**0.5**
Others (each less than $0.5 million)	**3.8**
Total withholding taxes paid	**12.2**

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 operations):

		$m	**Year ended 31 December 2017 $m**	$m	Year ended 31 December 2016 $m
Defined contribution schemes			**4.0**		3.4
Defined benefit schemes –	Coats UK funded	**–**		1.8	
	Coats US funded	**3.5**		3.4	
	Staveley	**–**		–	
	Brunel	**–**		–	
	Other funded and unfunded	**4.4**		3.4	
			7.9		8.6
Administrative expenses for defined benefit schemes			**7.5**		8.7
			19.4		20.7

b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits.

c) Defined benefit schemes

The Group has three UK defined benefit schemes, namely the Brunel Holdings Pension Scheme ("Brunel"), the Staveley Industries Retirement Benefits Scheme ("Staveley") and the Coats Pension Plan ("Coats UK") which offer both pensions in retirement and death benefits to members. These schemes are all closed to new members and future benefit accrual.

The UK defined benefit schemes are administered by trustees, hold 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 boards of the schemes are composed of representatives of both the Group and scheme members together with independent trustees. The trustee boards are 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 boards are responsible for setting each scheme's investment policy following consultation with the Group.

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.

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 three UK plans and the Coats US plan are given in this note as the defined benefit obligations under these schemes represent 96% of all defined benefit obligations.

The UK funded schemes each operate an investment policy specific to the scheme. However these strategies all adopt a similar approach whereby a portion of the fund is invested in assets (Bonds) 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.

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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 114. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. The UK schemes are in aggregate approximately 70% hedged against interest rate movements.
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 114. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. The UK schemes are in aggregate approximately 70% hedged against inflation rate movements.
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 114. Currently this is not a risk that is hedged by the Group's pension schemes.
Investment risk	The scheme assets are shown on a marked-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 plans are diversified by asset class, at individual securities level; geography; and by investment managers. To the extent that any assets are not Sterling denominated the schemes hedge a portion 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 cashflows to meet members' benefits as they fall due.

ii) UK regulatory investigation
In 2013 and 2014 the UK Pension Regulator ('tPR') issued warning notices to the Group in respect of its three UK defined benefit schemes. During 2017 the Group signed binding settlement agreements with the Trustees of all three UK pension schemes. The binding settlement agreements in respect of the UK Coats Pension Plan and Brunel Holdings Pension Scheme were signed on 16 February 2017. The binding settlement agreement in respect of the Staveley Industries Retirement Benefit Scheme was signed on 25 June 2017. The settlements with the three schemes completed shortly after the signing of the binding settlement agreements, and as a result tPR confirmed that its regulatory action in respect of the warning notices issued to the Group in respect of the three UK schemes had ceased.

The principal commercial terms of the combined settlements were:

- Financial support on the basis of a combined technical provisions deficit as at April 2015 of £582 million to be repaired as set out in the UK funding commitments section iii) below; and
- Access to sponsor support from Coats Limited for future funding needs together with a Company guarantee.

iii) 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 2017. For the principal schemes, the date of the most recent actuarial valuations at the year end were 1 April 2015 for the Coats UK scheme, 31 December 2015 for the Coats US scheme, 5 April 2015 for the Staveley scheme and 31 March 2015 for the Brunel scheme.

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At the year end the position of the triennial actuarial valuations of the UK defined benefit pension schemes was as follows:

The triennial valuation of the Coats UK pension plan as at 1 April 2015 showed an actuarial deficit of £405 million, which equated to a funding level of 79%. A recovery plan has been agreed with the trustees comprising contributions from 1 April 2015 up to settlement, a one off settlement payment of £200 million in February 2017 and contributions of £8.2 million per annum payable from February 2017 until 30 June 2028.

The triennial valuation of the Brunel scheme as at 31 March 2015 showed an actuarial deficit of £80 million, which equated to a funding level of 59%. A recovery plan has been agreed with the trustees comprising contributions from 1 April 2015 up to settlement, a one off settlement payment of £34.5 million in February 2017 and contributions of £1.7 million per annum payable with effect from January 2017 until 31 March 2028.

The triennial valuation of the Staveley scheme as at 5 April 2015 showed an actuarial deficit of £97 million, which equated to a funding level of 66%. A recovery plan has been agreed with the trustees comprising contributions from 1 April 2015 up to settlement, a one off settlement payment of £34.5 million in June 2017 and contributions of £2.2 million per annum payable with effect from June 2017 until 31 March 2028.

The Group will also fund the administrative expenses of the three UK schemes; and the next triennial valuations are due as at 31 March 2018 and are anticipated to be completed by 30 June 2019.

The actuarial valuation deficits above are used to determine the level of deficit repair contributions that the Group is required to pay into the UK pension schemes. The actuarial valuation is different to the IAS 19 accounting valuation (set out below), which are 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 2017. The actuarial valuations were performed on the dates set out above and are before the one-off pension settlement payments and subsequent deficit repair contributions.

iv) Principal assumptions
For the principal assumptions for the 3 UK schemes and the US scheme are as follows:

Principal assumptions at 31 December 2017	**Coats UK %**	**Coats US %**	**Staveley %**	**Brunel %**	**Other %**
Rate of increase in salaries	**–**	**3.0**	**–**	**–**	**4.4**
Rate of increase for pensions in payment	**3.1**	**–**	**Various**	**Various**	**2.8**
Discount rate	**2.4**	**3.6**	**2.4**	**2.4**	**4.0**
Inflation assumption	**3.2**	**2.5**	**3.2**	**3.2**	**3.3**

Principal assumptions at 31 December 2016	Coats UK %	Coats US %	Staveley %	Brunel %	Other %
Rate of increase in salaries	–	3.0	–	–	3.6
Rate of increase for pensions in payment	3.2	–	Various	Various	2.7
Discount rate	2.5	4.2	2.5	2.5	3.8
Inflation assumption	3.3	2.5	3.3	3.3	2.7

The rate of increase for pensions in payment for the Staveley and Brunel schemes vary in accordance with each member's period of membership. For the Staveley scheme the majority of the increases for pensions in payments fall within the range 2.4% – 3.1% (2016: 2.4% – 3.2%). For the Brunel scheme the majority of the increases for pensions in payments fall within the range 3.1% – 4.0% (2016: 3.2% – 4.02%).

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The assumed life expectancy on retirement is:

	Year ended 31 December 2017				Year ended 31 December 2016			
	Coats UK Years	**Coats US Years**	**Staveley Years**	**Brunel Years**	Coats UK Years	Coats US Years	Staveley Years	Brunel Years
Retiring today at age 60:								
Males	**25.7**	**25.0**	**25.4**	**26.0**	25.8	26.2	25.5	26.2
Females	**27.5**	**27.2**	**28.2**	**28.5**	27.8	28.6	28.7	28.8
Retiring in 20 years at age 60:								
Males	**27.3**	**26.7**	**27.0**	**27.6**	27.7	28.0	27.4	28.1
Females	**29.1**	**28.9**	**29.9**	**30.1**	29.6	30.4	30.7	30.9

v) Amounts recognised in the consolidated income statement
Amounts recognised in income in respect of these defined benefit schemes are as follows:

For the year ended 31 December 2017	**Coats UK US$m**	**Coats US US$m**	**Staveley US$m**	**Brunel US$m**	**Other US$m**	**Group US$m**
Current service cost	**–**	**(3.5)**	**–**	**–**	**(4.4)**	**(7.9)**
Administrative expenses	**(4.1)**	**(1.1)**	**(1.5)**	**(0.7)**	**(0.1)**	**(7.5)**
	(4.1)	**(4.6)**	**(1.5)**	**(0.7)**	**(4.5)**	**(15.4)**
Interest on defined benefit obligations – unwinding of discount	**(59.7)**	**(5.8)**	**(8.1)**	**(5.6)**	**(5.2)**	**(84.4)**
Interest income on pension scheme assets	**53.0**	**8.7**	**7.5**	**4.9**	**1.7**	**75.8**
Effect of asset cap	**–**	**(0.5)**	**–**	**–**	**(0.3)**	**(0.8)**
	(6.7)	**2.4**	**(0.6)**	**(0.7)**	**(3.8)**	**(9.4)**

For the year ended 31 December 2016	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Group US$m
Current service cost	(1.8)	(3.4)	–	–	(3.4)	(8.6)
Administrative expenses	(4.6)	(1.0)	(1.8)	(1.2)	(0.1)	(8.7)
	(6.4)	(4.4)	(1.8)	(1.2)	(3.5)	(17.3)
Interest on defined benefit obligations – unwinding of discount	(77.1)	(6.0)	(10.8)	(7.5)	(4.8)	(106.2)
Interest income on pension scheme assets	68.6	8.7	8.9	5.3	1.6	93.1
Effect of asset cap	–	(0.2)	–	–	(0.3)	(0.5)
	(8.5)	2.5	(1.9)	(2.2)	(3.5)	(13.6)

vi) Amounts recognised in the consolidated statement of comprehensive income
Actuarial gains and losses were as follows:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Effect of changes in demographic assumptions	**10.2**	(5.0)
Effect of changes in financial assumptions	**(40.7)**	(567.8)
Effect of experience adjustments	**(15.1)**	50.7
Remeasurement on assets (excluding interest income)	**199.9**	205.3
Adjustment due to surplus cap	**(9.1)**	(8.0)
Included in the statement of comprehensive income	**145.2**	(324.8)

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vii) 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:

As at 31 December 2017	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Total US$m
Cash and cash equivalents	61.1	2.1	17.0	8.8	4.9	93.9
Equity instruments:						
US	307.7	30.9	24.7	31.0	2.2	396.5
UK	74.2	2.9	9.5	5.2	–	91.8
Eurozone	98.1	8.1	7.1	10.3	–	123.6
Other regions	128.1	21.1	7.1	5.2	7.3	168.8
Debt instruments:						
Corporate bonds (Investment grade)	809.3	120.4	29.9	26.7	5.8	992.1
Corporate bonds (Non-investment grade)	72.4	1.3	72.4	19.2	–	165.3
Government/sovereign instruments	474.9	32.1	78.2	39.1	–	624.3
Global real estate	317.0	–	–	–	0.2	317.2
Derivatives:						
Total return, interest and inflation swaps	(25.9)	–	–	(2.3)	–	(28.2)
Assets held by insurance company:						
Insurance contracts	2.9	0.5	0.5	0.6	1.3	5.8
Diversified investment fund	97.1	–	112.8	77.2	7.3	294.4
Other	–	6.8	–	–	0.4	7.2
Total market value of assets	2,416.9	226.2	359.2	221.0	29.4	3,252.7
Actuarial value of scheme liabilities	(2,495.2)	(145.4)	(357.3)	(251.2)	(140.2)	(3,389.3)
Gross net (liability)/asset in the scheme	(78.3)	80.8	1.9	(30.2)	(110.8)	(136.6)
Adjustment due to surplus cap	–	(22.8)	–	–	(3.8)	(26.6)
Recoverable net (liability)/asset in the scheme	(78.3)	58.0	1.9	(30.2)	(114.6)	(163.2)

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For the year ended 31 December 2016 (Restated*)	Coats UK US$m	Coats US US$m	Staveley US$m	Brunel US$m	Other US$m	Total US$m
Cash and cash equivalents	59.3	2.4	11.7	12.6	0.1	86.1
Equity instruments:						
US	289.1	42.2	31.9	25.8	1.3	390.3
UK	137.8	3.5	3.5	4.3	–	149.1
Eurozone	55.4	7.0	6.0	8.6	–	77.0
Other regions	137.9	21.1	11.7	4.3	8.4	183.4
Debt instruments:						
Corporate bonds (Investment grade)	712.0	106.3	190.4	27.1	6.0	1,041.8
Corporate bonds (Non-investment grade)	40.1	2.2	0.7	17.3	0.2	60.5
Government/sovereign instruments	321.4	33.1	17.0	32.6	–	404.1
Global real estate	156.3	–	–	–	0.4	156.7
Derivatives:						
Total return, interest and Inflation swaps	(25.5)	–	–	(2.2)	–	(27.7)
Assets held by insurance company:						
Insurance contracts	2.7	0.5	0.9	0.7	1.3	6.1
Diversified investment fund	–	–	–	26.5	7.2	33.7
Other	–	(3.0)	–	–	0.5	(2.5)
Total market value of assets	1,886.5	215.3	273.8	157.6	25.4	2,558.6
Actuarial value of scheme liabilities	(2,353.0)	(146.2)	(318.6)	(222.1)	(129.1)	(3,169.0)
Gross net (liability)/asset in the scheme	(466.5)	69.1	(44.8)	(64.5)	(103.7)	(610.4)
Adjustment due to surplus cap	–	(13.1)	–	–	(3.2)	(16.3)
Recoverable net (liability)/asset in the scheme	(466.5)	56.0	(44.8)	(64.5)	(106.9)	(626.7)

* The above table has been restated to present asset categories on a consistent basis to 2017.

The amounts are presented in the consolidated statement of financial position as follows:

31 December	2017	2016
Non-current assets:		
Funded	**57.9**	50.8
Current assets:		
Funded	**6.9**	6.7
Current liabilities:		
Funded	**(16.9)**	(309.6)
Unfunded	**(7.4)**	(6.2)
Non-current liabilities:		
Funded	**(101.1)**	(272.0)
Unfunded	**(102.6)**	(96.4)
	(163.2)	(626.7)

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For the Staveley scheme contributions payable within the next 12 months have been included as a current liability, resulting in a non-current asset of $4.8 million. In addition, the schemes disclosed as part of the 'other' column in the tables above include surplus positions of $2.0 million (2016: $1.5 million).

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(3,169.0)**	(3,249.1)
Current service cost	**(7.9)**	(8.6)
Interest on defined benefit obligations – unwinding of discount	**(84.4)**	(106.2)
Actuarial losses on obligations	**(45.6)**	(522.1)
Contributions from members	**(0.2)**	(0.4)
Benefits paid	**198.1**	190.1
Exchange difference	**(280.3)**	527.3
At 31 December	**(3,389.3)**	(3,169.0)

Movements in the fair value of scheme assets were as follows:		
At 1 January	**2,558.6**	2,787.3
Interest income on scheme assets	**75.8**	93.1
Remeasurement on assets (excluding interest income)	**199.9**	205.3
Contributions from members	**0.2**	0.4
Contribution from sponsoring companies	**374.5**	104.9
Benefits paid	**(198.1)**	(190.1)
Administrative expenses paid from plan assets	**(1.9)**	(8.5)
Exchange difference	**243.7**	(433.8)
At 31 December	**3,252.7**	2,558.6

Administrative expenses paid from plan assets excludes those expenses paid directly by the Company.

The reconciliation of the effect of the asset ceiling is as follows:

Unrecognised surplus at 1 January	**16.3**	7.6
Interest cost on unrecognised surplus	**0.8**	0.5
Changes in the effect of limiting a net defined benefit asset to the asset ceiling (excluding interest)	**9.1**	8.0
Exchange difference	**0.4**	0.2
Unrecognised surplus at 31 December	**26.6**	16.3

viii) Assets without a quoted price in an active market

For the Coats UK scheme, included in the tables above are $Nil (2016: $80.8 million) of UK equity instruments, $50.8 million (2016: $Nil) of corporate bonds (Non-investment grade), $Nil (2016: $10.9 million) of government/sovereign instruments, Global real estate of $80.3 million (2016: $Nil), derivative liabilities of $25.9 million (2016: $25.5 million), diversified investment funds of $97.1million (2016: $Nil) and $2.9million (2016: $2.7 million) of insurance contracts without a quoted price in an active market. All other assets have a quoted price in an active market.

For the Coats US scheme, included in the tables above are $120.4 million (2016: $106.3 million) of corporate bonds (Investment grade), $1.3 million (2016: $2.2 million) of corporate bonds (Non-investment grade), government/sovereign instruments of $12.0 million (2016: $13.8 million), $0.5 million (2016: $0.5 million) of insurance contracts and $6.2 million (2016: $3.6 million of liabilities) of other assets without a quoted price in an active market. All other assets have a quoted price in an active market.

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For the Staveley scheme, included in the tables above are $24.7 million (2016: $31.9 million) of US equity instruments, $9.5 million (2016: $3.5 million) of UK equity instruments, $7.1 million (2016: $6.0 million) of Eurozone equity instruments, $7.1 million (2016: $11.7 million) of other region equity instruments, $29.9 million (2016: $98.7 million) of corporate bonds (Investment grade), $72.4 million (2016: $Nil) of corporate bonds (Non-investment grade), $78.2 million (2016: $17.0 million) of government/sovereign instruments, $112.8 million of diversified investment funds (2016: $Nil) and $0.5 million (2016: $0.5 million) of insurance contracts without a quoted price in an active market. All other assets have a quoted price in an active market.

For the Brunel scheme, included in the tables above are $31.0 million (2016: $25.8 million) of US equity instruments, $5.2 million (2016: $4.3 million) of UK equity instruments, $10.3 million (2016: $8.6 million) of Eurozone equity instruments, $5.2 million (2016: $4.3 million) of other region equity instruments, $26.7 million (2016: $27.1 million) of corporate bonds (Investment grade), $19.2 million (2016: $17.3 million) of corporate bonds (Non-investment grade), derivative liabilities of $2.3 million (2016: $2.2 million), $77.2 million of diversified investment funds (2016: $26.5 million) and $0.6 million (2016: $0.7 million) of insurance contracts without a quoted price in an active market. All other assets have a quoted price in an active market.

ix) 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;
- 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.

x) 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.

For the Coats UK 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. In addition the Staveley scheme is in an IAS 19 surplus at the balance sheet date. The Group notes that, for the Staveley scheme and in the event that a surplus emerges in the Coats 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 have been recognised.

For the Brunel scheme, which is in IAS19 deficit at the balance sheet date, committed contributions to the plan at the balance sheet date would not put the plan in an IAS19 surplus position and therefore no adjustments are required in respect of minimum funding requirements. This position will be kept under review.

xi) Duration of plan liabilities
The weighted average duration of benefit obligations is 15 years (2016: 15 years) for the Coats UK scheme and 8 years (2016: 9 years) for the Coats US scheme, 14 years (2016: 13 years) for the Staveley scheme and 13 years (2016: 12 years) for the Brunel scheme.

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xii) 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 2017		Year ended 31 December 2016
	+0.25% $m	**-0.25% $m**	+0.25% $m	-0.25% $m
Coats UK discount rate	**(89.9)**	**95.1**	(83.5)	86.8
Coats US discount rate	**(3.2)**	**3.4**	(3.2)	3.3
Staveley discount rate	**(11.8)**	**12.4**	(9.4)	9.7
Brunel discount rate	**(8.1)**	**8.5**	(6.2)	6.4
Coats UK inflation rate	**78.6**	**(76.3)**	73.6	(71.5)
Coats US inflation rate	**0.1**	**(0.1)**	0.1	(0.1)
Staveley inflation rate	**7.7**	**(7.5)**	8.4	(8.2)
Brunel inflation rate	**5.3**	**(4.0)**	3.1	(3.1)

If members of the Coats UK scheme live one year longer the scheme liabilities will increase by $120.3 million (2016: $104.6 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by $4.0 million (2016: $3.8 million), however, the would be no overall impact on the recoverable surplus. If members of the Staveley and Brunel schemes live one year longer scheme liabilities will increase by $15.2 million (2016: $12.3 million) and $11.5 million (2016: $10.4 million) respectively. The 2016 sensitivity for life expectancies for the Coats and Brunel schemes have been updated to ensure consistency with the 2017 numbers.

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 2017		Year ended 31 December 2016
	+1% $m	**-1% $m**	+1% $m	-1% $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	**2.2**	**(1.9)**	2.4	(2.1)

xiii) Expected contributions for 2018
The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2018 financial year (excluding administrative expenses paid by the Company) is $23.5 million.

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.

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	2017 US$m	2016 US$m
Profit from continuing operations attributable to equity shareholders	**80.8**	63.8
Profit from continuing and discontinued operations attributable to equity shareholders	**80.8**	59.3

	2017 Number of shares m	2016 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,399.2**	1,386.6
Adjustment for share options and LTIP awards	**27.4**	20.5
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,426.6**	1,407.1

Year ended 31 December	**2017 cents**	2016 cents
Continuing operations:		
Basic earnings per ordinary share	**5.78**	4.60
Diluted earnings per ordinary share	**5.67**	4.53
Continuing and discontinued operations:		
Basic earnings per ordinary share	**5.78**	4.28
Diluted earnings per ordinary share	**5.67**	4.22

12 Dividends

Year ended 31 December	**2017 US$m**	2016 US$m
2017 interim dividend paid – 0.44 cents per share	**6.1**	–
2016 final dividend paid – 0.84 cents per share	**11.7**	–
	17.8	–

The proposed final dividend of 1.00 cents per ordinary share for the year ended 31 December 2017 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 29 May 2018 to shareholders on the register at the close of business on 4 May 2018.

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13 Intangible Assets

Cost	Goodwill US$m	Acquired intangibles: Brands & trade names US$m	Acquired intangibles: Technology US$m	Acquired intangibles: Customer relationships US$m	Acquired intangibles: Total acquired US$m	Computer software US$m	Total US$m
At 1 January 2016	5.5	242.8	0.4	0.9	244.1	77.1	326.7
Currency translation differences	(2.3)	(0.4)	(1.2)	(0.8)	(2.4)	(0.4)	(5.1)
Acquisition of subsidiaries	18.1	1.4	12.5	6.1	20.0	–	38.1
Additions	–	–	–	–	–	8.7	8.7
Disposals	–	–	–	–	–	(4.7)	(4.7)
At 31 December 2016	**21.3**	**243.8**	**11.7**	**6.2**	**261.7**	**80.7**	**363.7**
Currency translation differences	**2.4**	**0.3**	**1.6**	**0.8**	**2.7**	**2.3**	**7.4**
Acquisition of subsidiaries	**4.6**	**–**	**–**	**–**	**–**	**0.1**	**4.7**
Additions	**–**	**–**	**–**	**–**	**–**	**5.6**	**5.6**
Disposals	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
At 31 December 2017	**28.3**	**244.1**	**13.3**	**7.0**	**264.4**	**87.9**	**380.6**

Cumulative amounts charged							
At 1 January 2016	–	0.1	–	0.1	0.2	65.3	65.5
Currency translation differences	–	–	–	–	–	(0.6)	(0.6)
Amortisation charge for the year	–	0.1	0.9	0.3	1.3	8.8	10.1
Disposals	–	–	–	–	–	(3.1)	(3.1)
At 31 December 2016	**–**	**0.2**	**0.9**	**0.4**	**1.5**	**70.4**	**71.9**
Currency translation differences	**–**	**–**	**0.2**	**–**	**0.2**	**2.0**	**2.2**
Amortisation charge for the year	**–**	**2.2**	**1.3**	**0.5**	**4.0**	**9.2**	**13.2**
Disposals	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
At 31 December 2017	**–**	**2.4**	**2.4**	**0.9**	**5.7**	**81.0**	**86.7**
Net book value at 31 December 2017	**28.3**	**241.7**	**10.9**	**6.1**	**258.7**	**6.9**	**293.9**
Net book value at 31 December 2016	21.3	243.6	10.8	5.8	260.2	10.3	291.8

The carrying value of Coats brands at 31 December 2017 and 31 December 2016 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 2020, applying a pre-tax discount rate of 9.8% and long term growth of 2.6%. Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

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. The carrying amount of goodwill has been allocated as follows:

31 December	**2017 US$m**	2016 US$m
Gotex	**13.7**	12.0
Patrick Yarn	**4.6**	–
Fast React Systems	**4.4**	4.0
GSD	**3.5**	3.1
Other	**2.1**	2.2
	28.3	21.3

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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, 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 2020;
- 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 2018 to 2020 and relate to revenue forecasts, expected project outcomes and forecast operating margins. A short-term growth rate is applied to the December 2020 plan to derive the cash flows arising in 2021–2022 and a long term rate is applied to 2022 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 base discount rate of 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 13.6% to 17.2% 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.

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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 2016	153.4	577.1	98.5	829.0
Currency translation differences	(3.8)	(10.5)	(0.5)	(14.8)
Subsidiaries bought externally	–	1.0	–	1.0
Additions	7.9	19.2	5.7	32.8
Transfer to non-current assets held for sale	(0.2)	–	–	(0.2)
Disposals	–	(12.7)	(5.4)	(18.1)
At 31 December 2016	**157.3**	**574.1**	**98.3**	**829.7**
Currency translation differences	**5.4**	**16.3**	**1.8**	**23.5**
Subsidiaries bought externally	**6.9**	**0.1**	**0.3**	**7.3**
Additions	**3.7**	**36.0**	**5.3**	**45.0**
Disposals	**(0.1)**	**(13.9)**	**(1.8)**	**(15.8)**
At 31 December 2017	**173.2**	**612.6**	**103.9**	**889.7**

Cumulative amounts charged				
At 1 January 2016	76.1	402.7	77.2	556.0
Currency translation differences	(1.7)	(6.2)	(0.3)	(8.2)
Depreciation charge for the year	3.8	24.3	3.8	31.9
Disposals	–	(11.1)	(4.8)	(15.9)
At 31 December 2016	**78.2**	**409.7**	**75.9**	**563.8**
Currency translation differences	**2.8**	**12.3**	**2.0**	**17.1**
Depreciation charge for the year	**3.5**	**23.7**	**3.7**	**30.9**
Disposals	**(0.5)**	**(12.7)**	**(1.6)**	**(14.8)**
At 31 December 2017	**84.0**	**433.0**	**80.0**	**597.0**

Net book value at 31 December 2017	**89.2**	**179.6**	**23.9**	**292.7**
Net book value at 31 December 2016	79.1	164.4	22.4	265.9

Assets charged as security for borrowings:				
31 December 2017	–	**0.4**	–	**0.4**
31 December 2016	–	0.4	–	0.4

Analysis of net book value of land and buildings 31 December	**2017 US$m**	2016 US$m
Freehold	**74.1**	64.3
Leasehold:		
Over 50 years unexpired	**1.4**	1.4
Under 50 years unexpired	**13.7**	13.4
	89.2	79.1

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15 Non-current investments

31 December	2017 US$m	2016 US$m
Interests in joint ventures (see below)	**12.0**	11.0
Available for sale investments:		
Unlisted investments	**1.2**	1.1
	13.2	12.1

Available for sale investments included within current assets were $0.2 million at 31 December 2017 (2016: $0.2 million).

Interests in joint ventures	US$m
At 1 January 2017	11.0
Additions	3.4
Dividends receivable	(1.1)
Share of loss after tax	(1.3)
At 31 December 2017	**12.0**

31 December	2017 US$m	2016 US$m
Share of net assets on acquisition	**10.6**	10.6
Share of post-acquisition retained profits	**1.4**	0.4
Share of net assets	**12.0**	11.0

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	2017 US$m	2016 US$m
Summarised income statement information:		
Revenue	**30.8**	31.0
(Loss)/profit before tax	**(0.6)**	0.2
Taxation	**(0.5)**	(0.4)
Loss after tax	**(1.1)**	(0.2)

31 December	2017 US$m	2016 US$m
Summarised balance sheet information:		
Non-current assets	**8.3**	7.9
Current assets	**12.4**	13.0
	20.7	20.9
Liabilities due within one year	**(7.8)**	(15.1)
Net assets	**12.9**	5.8

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16 Deferred tax assets

31 December	2017 US$m	2016 US$m
Deferred tax assets	**24.6**	18.1

The Group's deferred tax assets are included within the analysis in note 23.

The movements in the Group's deferred tax asset during the year were as follows:

	2017 US$m	2016 US$m
At 1 January	**18.1**	12.5
Currency translation differences	**0.4**	(1.3)
Transfer from deferred tax liability	**(9.2)**	–
Transfer to current tax	**–**	(2.4)
Credited to the income statement	**9.2**	9.1
Credited to other comprehensive income and expense	**0.5**	0.2
Credited to equity	**5.6**	–
At 31 December	**24.6**	18.1

17 Inventories

31 December	2017 US$m	2016 US$m
Raw materials and consumables	**91.7**	75.7
Work in progress	**39.5**	40.4
Finished goods and goods for resale	**101.0**	89.7
	232.2	205.8

18 Trade and other receivables

31 December	2017 US$m	2016 US$m
Non-current assets:		
Trade receivables	**–**	0.1
Income tax assets	**2.8**	1.2
Other receivables	**18.1**	14.5
Derivative financial instruments	**0.6**	0.3
	21.5	16.1
Current assets:		
Trade receivables	**216.1**	198.4
Amounts due from joint ventures	**–**	0.3
Current income tax assets	**4.6**	1.3
Prepayments and accrued income	**8.6**	6.7
Derivative financial instruments	**2.4**	3.3
Other receivables	**37.2**	38.4
	268.9	248.4

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 is 55 days (2016: 51 days). Interest charged in respect of overdue trade receivables is immaterial.

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Credit risk is minimised as the exposure is spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts on trade receivables of $10.4 million (2016: $11.8 million). This allowance has been determined by reference to past default experience, and the movements in the allowance are analysed as follows:

	2017 US$m	2016 US$m
At 1 January	**11.8**	11.3
Currency translation differences	**0.4**	(0.3)
Charged to the income statement	**0.4**	2.3
Amounts written off during the year	**(2.2)**	(1.5)
At 31 December	**10.4**	11.8

19 Derivative financial instruments – assets
Derivative financial instruments within non-current and current assets comprise:

31 December	**2017 US$m**	2016 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**1.9**	3.1
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**1.1**	0.5
	3.0	3.6
Amounts shown within non-current assets	**0.6**	0.3
Amounts shown within current assets	**2.4**	3.3

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.

20 Trade and other payables

31 December	**2017 US$m**	2016 US$m
Amounts falling due within one year:		
Trade payables	**195.1**	176.4
Amounts owed to joint ventures	**13.0**	11.5
Other tax and social security payable	**6.9**	7.8
Other payables	**43.2**	37.9
Accruals and deferred income	**52.7**	53.7
Derivative financial instruments	**1.8**	8.7
Employee entitlements (excluding pensions)	**17.7**	14.8
	330.4	310.8
Amounts falling due after more than one year:		
Other payables	**24.6**	14.6
Employee entitlements (excluding pensions)	**1.3**	1.2
Derivative financial instruments	**1.3**	–
	27.2	15.8

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.

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21 Derivative financial instruments – liabilities
Derivative financial instruments within non-current and current liabilities comprise:

31 December	2017 US$m	2016 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**1.5**	8.7
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**1.6**	–
	3.1	8.7
Amounts shown within non-current liabilities	**1.3**	–
Amounts shown within current liabilities	**1.8**	8.7

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.

22 Borrowings

31 December	2017 US$m	2016 US$m
Bank overdrafts	**1.6**	6.2
Borrowings repayable within one year	**0.1**	1.5
Due within one year	**1.7**	7.7
Borrowings repayable between one and two years	**0.3**	58.5
Borrowings repayable between two and five years	**132.9**	332.1
Due after more than five years	**225.0**	–
Due after more than one year	**358.2**	390.6
Bank overdrafts	**1.6**	6.2
Series A and Series B Senior Notes	**225.0**	–
Bank and other borrowings	**133.3**	392.1
	359.9	398.3

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 agreed a new $350.0 million five year bank facility. The Senior Notes and the new bank facility replace the Group's $680.0 million bank facility that was due to mature in March 2020.

At 31 December 2017, the Group's borrowings shown above comprised $133.3 million of secured borrowings (2016: $394.6 million) and $226.6 million of unsecured borrowings (2016: $3.7 million).

The currency and interest rate profile of the Group's borrowings is included in note 34 on page 137.

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23 Deferred tax liabilities

	2017 US$m	2016 US$m
At 1 January	**31.7**	33.0
Currency translation differences	**0.8**	(0.4)
Acquisition of subsidiaries	**–**	4.8
Reclassified from deferred tax assets	**(9.2)**	–
Transfer to current tax	**(4.5)**	(2.1)
Credited to the income statement	**(4.0)**	(3.7)
(Credited)/charged to the other comprehensive income and expense	**(0.5)**	0.1
At 31 December	**14.3**	31.7

	2017		2016	
	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	**12.1**	**(7.3)**	14.7	(5.8)
Other temporary differences	**(14.9)**	**(25.3)**	(6.7)	(13.0)
Revenue losses carried forward	**(16.4)**	**(313.8)**	(12.6)	(258.3)
Capital losses carried forward	**–**	**(265.2)**	–	(242.5)
Investment in subsidiaries	**7.1**	**3.9**	10.6	4.1
Brands	**40.7**	**–**	40.7	–
Retirement benefit obligations offset against brands	**(40.7)**	**–**	(40.7)	–
Retirement benefit obligations	**1.8**	**(5.3)**	7.6	(43.9)
	(10.3)	**(613.0)**	13.6	(559.4)

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 16)	**(24.6)**	(18.1)
Deferred tax liabilities	**14.3**	31.7
	(10.3)	13.6

At the year end, the Group had approximately $1.5 billion (2016: $1.2 billion) of unused gross income tax losses and approximately $1.5 billion (2016: $1.4 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of $16.4 million (2016: $12.6 million) has been recognised in respect of $66.0 million (2016: $45.0 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.

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The Group's income tax losses can be analysed as follows:

	2017 US$m	2016 US$m
Expiring within 5 years	**30.0**	30.8
Expiring in more than 5 years	**11.0**	7.2
Available indefinitely	**1,486.3**	1,188.1
	1,527.3	1,226.1

At 31 December 2017, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $3.9 million (2016: $4.1 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.

24 Provisions

31 December	2017 US$m	2016 US$m
Provisions are included as follows:		
Current liabilities	**18.3**	17.1
Non-current liabilities	**33.5**	34.8
	51.8	51.9

Provisions are analysed as follows:

31 December	2017 US$m	2016 US$m
Onerous leases	**4.0**	4.8
Other provisions	**47.8**	47.1
	51.8	51.9

	Onerous leases US$m	Other provisions US$m	Total US$m
At 1 January 2017	**4.8**	**47.1**	**51.9**
Currency translation differences	**0.4**	**1.3**	**1.7**
Utilised in year	**(0.4)**	**(9.0)**	**(9.4)**
(Credited)/charged to the income statement	**(0.8)**	**8.4**	**7.6**
At 31 December 2017	**4.0**	**47.8**	**51.8**

Provisions for onerous leases are held in respect of leasehold properties for which the Group has rent and other commitments in respect of properties which are vacant or sublet. The majority of head leases expire before 2020.

The currency profile of onerous leases is included in note 34 on page 137 and the maturity of onerous leases in included in note 34 on page 139.

Other provisions include the following 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.

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25 Operating lease commitments

31 December	2017 US$m	2016 US$m
Outstanding commitments under non-cancellable operating leases:		
Payable within one year	**17.1**	15.6
Payable between one and five years	**31.5**	25.0
Payable after more than five years	**13.8**	6.7
	62.4	47.3

At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

31 December	2017 US$m	2016 US$m
Receivable within one year	**0.2**	0.2
Receivable between one and five years	**0.5**	0.5
	0.7	0.7

Operating leases relate principally to land and buildings and vehicles.

26 Share capital

	2017		2016	
31 December	Number	US$m	Number	US$m
Ordinary Shares of 5p each	**1,413,300,648**	**87.5**	1,407,612,282	127.0

During the year ended 31 December 2017 the Company issued 5,688,366 Ordinary shares of 5p each (2016: Nil) following the exercise of share options as set out below:

	Number of shares	US$m
At 1 January 2017	**1,407,612,282**	**127.0**
Issue of ordinary shares	**5,688,366**	**0.4**
Change in functional currency (see note 1 (c))	**–**	**(39.9)**
At December 2017	**1,413,300,648**	**87.5**

The own shares reserve at 31 December 2017 of $7.7 million (2016: $10.5 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 2017 was 19,025,392 (2016: 25,746,861).

Options outstanding under the Group's 2002 share option scheme at 31 December 2017 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (pence per share)	Exercise period
2002 Share Option Scheme:				
Ordinary	6,245,700	10.04.08	49.9961	10.04.11 to 10.04.18
Ordinary	589,706	30.06.09	25.9529	30.06.12 to 30.06.19

During the year ended 31 December 2017 10,554,440 (2016: 947,389) options under the Group's 2002 share option scheme were exercised and 6,809,255 (2016: 13,150,014) options lapsed.

Details of share awards outstanding under the Group's LTIP and Deferred Bonus Plans are set out in note 35.

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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 2017	**11.6**	**(10.5)**	**(121.1)**	**85.2**	**250.9**	**(274.6)**	**22.5**
Change in functional currency	**(10.8)**	**1.8**	**78.5**	**(25.4)**	**(4.2)**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**(17.8)**	**(12.3)**
Currency translation differences	**–**	**–**	**(6.2)**	**–**	**–**	**–**	**0.1**
Decrease in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**(1.1)**	**–**	**–**
Transfer to income statement	**–**	**–**	**–**	**–**	**0.2**	**–**	**–**
Actuarial gains on employee benefits	**–**	**–**	**–**	**–**	**–**	**145.2**	**–**
Tax on actuarial gains and losses	**–**	**–**	**–**	**–**	**–**	**1.0**	**–**
Issue of ordinary shares	**2.6**	**–**	**–**	**–**	**–**	**–**	**–**
Movement in own shares	**4.3**	**1.0**	**–**	**–**	**–**	**(5.2)**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**6.4**	**–**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**5.6**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**80.8**	**14.3**
At December 2017	**7.7**	**(7.7)**	**(48.8)**	**59.8**	**245.8**	**(58.6)**	**24.6**

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 2017 US$m	Year ended 31 December 2016 US$m	**31 December 2017 US$m**	31 December 2016 US$m
EMEA	**0.4**	0.5	**1.8**	2.2
Asia & Rest of World	**13.9**	11.4	**22.8**	20.3
	14.3	11.9	**24.6**	22.5

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 153 to 159.

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28 Contingent liabilities and environmental matters

Guarantees

The Group previously provided a guarantee of the banking facilities of Australian Country Spinners Ltd ('ACS'), a joint venture, on a joint and several basis with the other shareholder. During the year ended 31 December 2017 ACS repaid amounts outstanding under the bank facilities. The Group's liability under the guarantee amounted to $1.9 million at 31 December 2016.

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. 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 April 2014, the EPA released a Focused Feasibility Study and Proposed Plan (FFS) for the lower 8 miles of the LPR. The FFS analyses a series of remedial alternatives. In March 2015, CC and other companies submitted a petition to EPA, asserting that they are de minimis parties and seeking a meeting to commence settlement discussions.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR pursuant to the FFS 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 the CPG's proposed remedial alternative 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 eight 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 duration and scope of the allocation process have yet to be finally determined.

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. As at 31 December 2017, $4.5 million of this provision had been utilised. The remaining provision at 31 December 2017, taking into account insurance reimbursement, was $11.3 million. The process concerning the LPR continues to evolve and these estimates are subject to change based upon the scope of the remedy selected by EPA for the upper 9 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, CC could record additional provisions and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

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29 Capital commitments
As at 31 December 2017, the Group had commitments of $7.4 million in respect of contracts placed for future capital expenditure (2016: $5.6 million).

30 Notes to the consolidated cash flow statement
a) Reconciliation of operating profit to net cash (outflow)/inflow from operations

31 December	**2017 US$m**	2016 US$m
Operating profit	**167.2**	153.3
Depreciation	**30.9**	31.9
Amortisation of intangible assets	**11.1**	8.8
Other operating exceptional and acquisition related items (see note 4)	**6.5**	4.6
Pre-exceptional operating profit before depreciation and amortisation (EBITDA)	**215.7**	198.6
Increase in inventories	**(14.6)**	(3.7)
(Increase)/decrease in debtors	**(7.2)**	5.9
Increase/(decrease) in creditors	**15.6**	(5.7)
Provision movements	**(372.8)**	(113.3)
Foreign exchange and other non-cash movements	**6.5**	2.5
Discontinued operations	**(0.6)**	(4.9)
Net cash (outflow)/inflow from operations	**(157.4)**	79.4

b) Investment income

31 December	**2017 US$m**	2016 US$m
Interest and other income	**0.2**	3.0
Dividends received from joint ventures	**1.1**	1.0
	1.3	4.0

c) Capital expenditure and financial investment

31 December	**2017 US$m**	2016 US$m
Acquisition of property, plant and equipment and intangible assets	**(50.1)**	(40.1)
Disposal of available-for-sale investments	**–**	0.3
Disposal of property, plant and equipment	**0.4**	1.1
	(49.7)	(38.7)

d) Acquisitions and disposals

31 December	**2017 US$m**	2016 US$m
Acquisition of businesses	**(19.9)**	(36.3)
Investment in joint venture	**(3.2)**	(0.4)
Discontinued operations	**–**	(3.7)
	(23.1)	(40.4)

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e) Summary of net (debt)/cash

31 December	2017 US$m	2016 US$m
Parent Group cash and cash equivalents[1]	**0.5**	343.1
Other group cash and cash equivalents	**117.9**	133.4
Total cash and cash equivalents	**118.4**	476.5
Bank overdrafts	**(1.6)**	(6.2)
Net cash and cash equivalents	**116.8**	470.3
Other borrowings	**(358.3)**	(392.1)
Total net (debt)/cash	**(241.5)**	78.2

1 Parent group cash and cash equivalents at 31 December 2016 related to the realisation of investments previously held by Coats Group plc. During the year ended 31 December 2017, upfront pension payments were made into the UK Coats Pension Plan, the Brunel Holdings Pension scheme and the Staveley Industries Retirement Benefit Scheme out of Parent group cash following the signing of binding settlement agreements with the Trustees of the schemes.

31 Acquisitions
In December 2017, the Group acquired 100% of the voting equity of Patrick Yarn Mill Inc., a company based in North Carolina, US that manufactures high-performance engineered yarns. It specialises in cut-resistant and flame retardant yarns. It also produces yarns from recycled fibres marketed under its earthspun® trademarks and with its large solar installation promotes its earth friendly yarns as 'Spun by the Sun'. Patrick Yarn Mill's unique spinning competencies in engineered performance yarns offer an opportunity to expand Coats' existing Performance Materials portfolio as well as to extend its innovation capability. Coats will support Patrick Yarn Mill's expansion into high-growth markets by leveraging Coats' unrivalled geographic footprint, breadth of global customer relationships and strong corporate brand.

The initial consideration transferred on the date of acquisition was $21.0 million and net of cash and cash equivalents acquired was $19.7 million.

Additional consideration of approximately $1.8 million is expected to be payable in early 2018 subject to 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 that have been treated as remuneration. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Amounts are therefore charged to the income statement over the period of service they relate to. Up to $4.0 million is payable over a service period of three years to 31 December 2020. The charge to the income statement for the year ended 31 December 2017 was $0.2 million.

Given the date of the acquisition of Patrick Yarn Mill, it has not been practicable to complete the assessment of the fair value of assets and liabilities acquired, including any intangible assets. Therefore, as permitted by IFRS 3, the excess of the consideration over the provisional net assets acquired has all been provisionally allocated to goodwill amounting to $4.6 million.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

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The provisional fair values of the identifiable assets and liabilities of Patrick Yarn Mill as at the date of acquisition were as follows:

	Provisional fair value recognised on acquisition US$m
Assets:	
Computer software	0.1
Property, plant and equipment	7.3
Inventories	6.7
Trade and other receivables	4.9
Cash and cash equivalents	1.3
	20.3
Liabilities:	
Trade and other payables	(2.1)
Total identifiable net assets acquired at fair value	**18.2**
Goodwill recognised on acquisition (provisional)	4.6
	22.8
Purchase consideration paid	21.0
Additional purchase consideration estimated to be payable	1.8
Total consideration	**22.8**

In accounting for the acquisition, adjustments will be made to the book values of the net assets of the companies acquired to reflect their provisional fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies will be aligned with those of the Group where appropriate. There are no material contingent liabilities recognised in the provisional amounts above in accordance with paragraph 23 of IFRS 3 (revised).

From the date of acquisition, Patrick Yarn Mill contributed $1.8 million to revenues and a loss of $0.3 million, after acquisition related items, to the profit before tax from continuing operations of the Group in the year to 31 December 2017.

If the acquisition had taken place at the beginning of the year, it is estimated that revenue from continuing operations for the year ended 31 December 2017 would have been $42 million and the profit before tax from continuing operations for the year ended 31 December 2017 would have been $2 million based on unaudited management accounts.

Transaction costs relating to the acquisitions totalling $0.4 million have been expensed and are included in administrative expenses in the consolidated income statement (see note 4). Transaction costs paid in the year ended 31 December 2017 were $0.2 million and are included in cash flows absorbed in investing activities in the consolidated cash flow statement.

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32 Discontinued operations

a) Discontinued operations

The results of discontinued operations are presented below. All amounts relate to the UK Crafts business which ceased operations during 2016.

31 December	**2017 US$m**	2016 US$m
Revenue	**–**	8.8
Cost of sales	**–**	(6.7)
Gross profit	**–**	2.1
Distribution costs	**–**	(3.8)
Administrative expenses	**–**	(2.8)
Operating loss and loss before taxation	**–**	(4.5)
Tax on loss	**–**	–
Total loss from discontinued operations	**–**	(4.5)

The UK Crafts results for the year ended 31 December 2016 include exceptional closure related costs of $1.2 million included in administrative expenses.

The loss per ordinary share from discontinued operations is as follows:

	2017 Cents	2016 Cents
Loss per ordinary share from discontinued operations:		
Basic and diluted	**–**	(0.32)

The table below sets out the cash flows from discontinued operations:

	2017 US$m	2016 US$m
Net cash outflow from operating activities	**(0.6)**	(4.9)
Net cash outflow from investing activities	**–**	(3.7)
Net cash flows from discontinued operations	**(0.6)**	(8.6)

b) Assets held for sale

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

31 December	**2017 US$m**	2016 US$m
Property, plant and equipment	**0.2**	0.2
	0.2	0.2

33 Related party transactions

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, 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 55 to 67 in the audited part of the Directors' remuneration report.

Year ended 31 December	**2017 US$m**	2016 US$m
Short-term employee benefits	**3.6**	5.1
Share based payments	**0.9**	1.3
	4.5	6.4

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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	
	2017 US$m	2016 US$m	**2017 US$m**	2016 US$m
Joint ventures	**2.9**	2.8	**52.7**	46.2

During the year ended 31 December 2017 funding of $3.2 million was provided to the joint venture, Australian Country Spinners Ltd, in connection with the sale and closure of its business.

Amounts owing by/(to) joint ventures at the year end are disclosed in notes 18 and 20.

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:

31 December	**2017 US$m**	2016 US$m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	**118.4**	476.5
Trade receivables (note 18)	**216.1**	198.5
Due from joint ventures (note 18)	**–**	0.3
Other receivables (note 18), net of non-financial assets $24.8 million (2016: $22.2 million)	**30.5**	30.7
	365.0	706.0
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 19)	**1.9**	3.1
	1.9	3.1
Other financial assets carried at fair value through the statement of comprehensive income:		
Available-for-sale investments (note 15)	**1.4**	1.3
Derivative financial instruments (note 19)	**1.1**	0.5
	2.5	1.8
Total financial assets	**369.4**	710.9

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Financial liabilities
The Group's financial liabilities are summarised below:

31 December	2017 US$m	2016 US$m
Financial liabilities carried at amortised cost:		
Trade payables (note 20)	**195.1**	176.4
Due to joint ventures (note 20)	**13.0**	11.5
Other financial liabilities	**114.2**	109.5
Provisions (note 24)	**4.0**	4.8
Borrowings (note 22)	**359.9**	398.3
	686.2	700.5
Financial liabilities carried at fair value through the income statement:		
Derivative financial instruments (note 21)	**1.5**	8.7
Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income:		
Derivative financial instruments (note 21)	**1.6**	–
Total financial liabilities	**689.3**	709.2

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:

	2017		2016	
	Book value US$m	Fair value US$m	Book value US$m	Fair value US$m
Primary financial instruments:				
Cash and cash equivalents	**118.4**	**118.4**	476.5	476.5
Trade receivables	**216.1**	**216.1**	198.5	198.5
Due from joint ventures	**–**	**–**	0.3	0.3
Other receivables	**30.5**	**30.5**	30.7	30.7
Available-for-sale investments	**1.4**	**1.4**	1.3	1.3
Trade payables	**(195.1)**	**(195.1)**	(176.4)	(176.4)
Due to joint ventures	**(13.0)**	**(13.0)**	(11.5)	(11.5)
Other financial liabilities and provisions	**(118.2)**	**(118.2)**	(114.3)	(114.3)
Borrowings	**(359.9)**	**(359.9)**	(398.3)	(398.3)
Derivative financial instruments:				
Forward foreign currency contracts	**0.4**	**0.4**	(5.6)	(5.6)
Interest rate swaps	**(0.5)**	**(0.5)**	0.5	0.5
Net financial (liabilities)/assets	**(319.9)**	**(319.9)**	1.7	1.7

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.

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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

31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2017				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**1.9**	**–**	**1.9**	**–**
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	**1.4**	**–**	**–**	**1.4**
Derivatives designated as effective hedging instruments	**1.1**	**–**	**1.1**	**–**
	4.4	**–**	**3.0**	**1.4**
2016				
Financial assets measured at fair value through the income statement:				
Trading derivatives	3.1	–	3.1	–
Financial assets measured at fair value through the statement of comprehensive income:				
Equity investments	1.3	–	–	1.3
Derivatives designated as effective hedging instruments	0.5	–	0.5	–
	4.9	–	3.6	1.3

Financial liabilities measured at fair value

	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2017				
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	**(1.6)**	**–**	**(1.6)**	**–**
	(3.1)	**–**	**(3.1)**	**–**
2016				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(8.7)	–	(8.7)	–
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	–	–	–	–
	(8.7)	–	(8.7)	–

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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. For equity instruments that are classified as level 3 financial instruments the carrying value approximates 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 135 to 141 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 Board takes the view that the major currencies in which the Group is invested move within a relatively stable range and that currency fluctuations should even out over the long term.

The Group uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted in currencies other than its own functional currency. Such foreign currency contracts are only entered into when there is a firm 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 2017, 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 million, of which $135 million had been drawn down at year end and $225 million of Senior Notes (see note 22).

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.

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 (2016: increase of $1.9 million), and would reduce shareholders' funds by approximately $7.0 million (2016: increase of $6.0 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 129), and share capital and reserves attributable to the equity shareholders of the Company.

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.

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Functional currency 2017	Net foreign currency financial assets/(liabilities)						
	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	**–**	**5.3**	**(2.8)**	**–**	**–**	**0.8**	**3.3**
US dollars	**(21.1)**	**–**	**(1.4)**	**–**	**–**	**30.4**	**7.9**
Euros	**(2.7)**	**4.1**	**–**	**–**	**–**	**0.5**	**1.9**
Indian Rupees	**–**	**1.6**	**–**	**–**	**–**	**–**	**1.6**
Brazilian Reals	**–**	**(3.1)**	**(0.1)**	**–**	**–**	**–**	**(3.2)**
Other currencies	**2.3**	**(33.3)**	**12.7**	**(0.3)**	**–**	**(0.7)**	**(19.3)**
	(21.5)	**(25.4)**	**8.4**	**(0.3)**	**–**	**31.0**	**(7.8)**

Functional currency 2016	Net foreign currency financial assets/(liabilities)						
	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	–	(0.2)	1.8	–	–	(0.4)	1.2
US dollars	(13.2)	–	(1.3)	0.1	0.7	29.2	15.5
Euros	0.5	(0.7)	–	–	–	0.6	0.4
Indian Rupees	–	(7.8)	(0.2)	–	–	–	(8.0)
Brazilian Reals	–	10.9	–	–	–	–	10.9
Other currencies	0.2	(24.4)	7.0	–	–	(2.1)	(19.3)
	(12.5)	(22.2)	7.3	0.1	0.7	27.3	0.7

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:

2017	**Sterling US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**
Increase in US dollar exchange rate	**10%**	**10%**	**10%**	**10%**
Increase/(decrease) in profit before tax	**(3.9)**	**(0.6)**	**(0.2)**	**0.3**
Increase/(decrease) in shareholders' funds	**(12.3)**	**(0.9)**	**4.5**	**4.4**

2016	Sterling US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m
Increase in US dollar exchange rate	10%	10%	10%	10%
Increase/(decrease) in profit before tax	(1.3)	(0.1)	0.8	(1.0)
Increase/(decrease) in shareholders' funds	(24.2)	1.5	6.1	1.7

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Currency profile of financial assets
The currency profile of the Group's financial assets was as follows:

31 December	2017					2016				
Currency	**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
Sterling	**–**	**0.4**	**6.7**	**(75.9)**	**(68.8)**	–	343.4	4.5	–	347.9
United States dollars	**0.1**	**56.0**	**101.5**	**102.5**	**260.1**	0.1	48.4	94.6	8.4	151.5
Euros	**0.1**	**3.9**	**27.4**	**2.1**	**33.5**	0.1	6.5	22.5	(22.3)	6.8
Indian Rupees	**1.2**	**5.1**	**26.7**	**(16.2)**	**16.8**	1.1	12.6	21.8	20.0	55.5
Brazilian Reals	**–**	**3.1**	**17.6**	**1.4**	**22.1**	–	5.5	14.5	(1.4)	18.6
Other currencies	**–**	**49.9**	**66.7**	**(10.9)**	**105.7**	–	60.1	71.6	(1.1)	130.6
Total financial assets	**1.4**	**118.4**	**246.6**	**3.0**	**369.4**	1.3	476.5	229.5	3.6	710.9

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:

31 December	2017					2016				
	Floating rate US$m	**Fixed rate US$m**	**Interest free 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	**–**	**–**	**15.1**	**(16.3)**	**(1.2)**	–	–	12.9	(81.8)	(68.9)
United States dollars	**136.8**	**220.2**	**144.1**	**(8.0)**	**493.1**	156.4	200.3	141.0	165.4	663.1
Euros	**–**	**–**	**20.8**	**40.1**	**60.9**	37.5	–	17.9	(27.8)	27.6
Indian Rupees	**–**	**–**	**42.7**	**–**	**42.7**	0.4	–	39.3	(18.5)	21.2
Brazilian Reals	**–**	**1.1**	**17.8**	**–**	**18.9**	–	–	14.7	2.3	17.0
Other currencies	**1.6**	**0.2**	**85.8**	**(12.7)**	**74.9**	3.5	0.2	76.4	(30.9)	49.2
Total financial liabilities	**138.4**	**221.5**	**326.3**	**3.1**	**689.3**	197.8	200.5	302.2	8.7	709.2

The benchmark for determining floating rate liabilities in the UK is LIBOR for both sterling and US$ loans.

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Details of fixed and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

31 December	2017 Fixed rate financial liabilities		2017 Financial liabilities on which no interest is paid	2016 Fixed rate financial liabilities		2016 Financial liabilities on which no interest is paid
	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**	–	–	17
United States dollars	**3.40%**	**70**	**–**	2.80%	19	–
Weighted average	**3.40%**	**70**	**18**	2.80%	19	17

Currency profile of foreign exchange derivatives

31 December	Assets 2017 US$m	Assets 2016 US$m	Liabilities 2017 US$m	Liabilities 2016 US$m
Currency:				
Sterling	**103.8**	83.6	**(10.3)**	(1.8)
United States dollars	**82.6**	60.5	**(174.7)**	(176.2)
Euros	**10.2**	28.8	**(52.3)**	(33.3)
Indian Rupee	**16.9**	19.8	**–**	–
Brazilian Real	**–**	–	**(1.3)**	(2.3)
Other currencies	**50.6**	38.9	**(25.1)**	(23.6)
	264.1	231.6	**(263.7)**	(237.2)

Market price risk

The Group has equity and bond available-for-sale investments at 31 December 2017 of $1.4 million ($1.3 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.

31 December	2017 US$m	2016 US$m
Impact of a 10% increase in prices:		
Increase in pre-tax profit for the year	**–**	–
Increase in equity shareholders' funds	**0.1**	0.1

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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:

31 December	**2017 US$m**	2016 US$m
Expiring between two and five years	**215.0**	239.9

Maturity of undiscounted financial assets (excluding derivatives)
The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

31 December	**2017 US$m**	2016 US$m
In one year or less, or on demand	**351.3**	692.0
In more than one year but not more than two years	**7.8**	7.5
In more than two years but not more than five years	**1.7**	3.5
In more than five years	**5.6**	5.3
	366.4	708.3

Maturity of undiscounted financial liabilities (excluding derivatives)
The expected maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

31 December	**2017 US$m**	2016 US$m
In one year or less, or on demand	**323.9**	303.0
In more than one year but not more than two years	**7.0**	36.6
In more than two years but not more than five years	**136.8**	360.4
In more than five years	**225.0**	–
	692.7	700.0

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	
31 December	**2017 US$m**	2016 US$m	**2017 US$m**	2016 US$m
In one year or less, or on demand	**264.7**	232.0	**(264.3)**	(237.2)
In more than one year but not more than two years	**0.6**	0.1	**(0.6)**	–
In more than two years but not more than five years	**0.2**	0.2	**(1.7)**	–
In more than five years	**–**	–	**(1.1)**	–
	265.5	232.3	**(267.7)**	(237.2)

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Credit risk

31 December	2017 US$m	2016 US$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**118.4**	476.5
Derivative financial instruments	**3.0**	3.6
Trade receivables (net of bad debt provision)	**216.1**	198.5
Due from joint ventures	**–**	0.3
Other receivables	**30.5**	30.7
	368.0	709.6
Financial assets considered not to have exposure to credit risk:		
Available-for-sale investments	**1.4**	1.3
Total financial assets	**369.4**	710.9
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**17.5**	20.3
Trade receivables between 1 and 2 months over permitted credit period	**5.6**	4.6
Trade receivables between 2 and 3 months over permitted credit period	**1.7**	1.1
Trade receivables between 3 and 6 months over permitted credit period	**1.3**	1.6
Trade receivables in excess of 6 months over permitted credit period	**0.2**	–
Total gross trade receivables in excess of permitted credit period	**26.3**	27.6
Trade receivables within permitted credit period	**189.8**	170.9
Total net trade receivables	**216.1**	198.5
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**0.2**	0.2
Trade receivables between 1 and 2 months over permitted credit period	**0.3**	0.3
Trade receivables between 2 and 3 months over permitted credit period	**0.3**	0.1
Trade receivables between 3 and 6 months over permitted credit period	**0.6**	0.4
Trade receivables in excess of 6 months over permitted credit period	**9.0**	10.8
Total impairment provision	**10.4**	11.8

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 does not have a significant credit risk exposure to any single customer.

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Hedges
During 2017, 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 2017, the fair value of such hedging instruments was a net liability of $0.1 million (2016: $5.1 million).

Cash flow hedges outstanding at 31 December are expected to impact the income statement in the following periods:

	2017 US$m Profit/(loss)	2016 US$m Profit/(loss)
Within one year	**–**	0.2
Within one to two years	**0.2**	0.1
Within two to five years	**(0.5)**	0.1
In more than five years	**(0.2)**	–
	(0.5)	0.4

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 share-based payment plans was as follows:

	2017			2016		
Year ended 31 December	**Equity-settled US$m**	**Cash-settled US$m**	**Total US$m**	Equity-settled US$m	Cash-settled US$m	Total US$m
Long term incentive plan ('LTIP')	**5.5**	**–**	**5.5**	4.7	(1.6)	3.1
Deferred bonuses	**0.9**	**–**	**0.9**	0.4	–	0.4
	6.4	**–**	**6.4**	5.1	(1.6)	3.5

The average share price for the year ended 31 December 2017 was 71.4p (2016: 30.7p).

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:

	2017 Options	2016 Options
Outstanding at 1 January	**81,328,453**	54,034,129
Granted during the year	**17,201,479**	33,425,357
Vested during the year	**(11,333,072)**	–
Lapsed during the year	**(11,026,303)**	(6,131,033)
Exercised during the year	**(6,329,587)**	–
Outstanding at 31 December	**69,840,970**	81,328,453
Exercisable at 31 December	**2,429,441**	–

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The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 8.0 years (2016: 8.3 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% (2016: 20%) of the award, being met, using the following assumptions:

	2017	2016
Vesting period	**3 years**	3 years
Share price at valuation date	**52.0p**	26.0p
Exercise price	**Nil**	Nil
Risk free rate	**0.12%**	0.37%
Expected dividend yield	**0%**	0%
Expected volatility	**28.04%**	26.14%
Fair value per share	**38.6p**	14.9p

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 33% 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 2017 had a weighted average remaining contractual life of 1.3 years (2016: 2.0 years).

Share option scheme
The Company granted a number of awards under a share option scheme prior to 2010. All share options under this scheme have fully vested and can be exercised up to 10 years from the date of grant.

Outstanding options granted after November 2002 are as follows:

	2017		2016	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**24,199,101**	**50.46p**	38,296,504	52.18p
Lapsed during the year	**(6,809,255)**	**56.55p**	(13,150,014)	57.23p
Exercised during the year	**(10,554,440)**	**48.18p**	(947,389)	25.95p
Outstanding at 31 December	**6,835,406**	**47.92p**	24,199,101	50.46p
Exercisable at 31 December	**6,835,406**	**47.92p**	24,199,101	50.46p

The options outstanding at 31 December 2017 had a weighted average remaining contractual life of 0.4 years (2016: 0.9 years).

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36 Post balance sheet events
Connecting for Growth is a two year transformation programme to drive agility across the organisation, enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age. This programme will focus on simplification across many aspects of the organisation, connecting the business end to end, and releasing funds for reinvestment in customer-focussed initiatives and people.

Subsequent to the 31 December 2017 year end, on 27 February 2018 it was announced that estimated exceptional reorganisation costs of $30 million are expected to be incurred in connection with this programme, with the majority of these costs expected to be incurred in the year ending 31 December 2018.

It is expected that the majority of savings from this transformation programme will be achieved from reducing complexity in the existing Group. For example transitioning from market-focussed support functions (e.g. Finance, HR and Technology) to realigned globally integrated support functions, redesigning the way the Group services a number of its peripheral markets, and moving from a business which is currently operated by individual local management teams into 10 scalable clusters.

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 143 to 146.

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[1] 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[1] 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	**2017 US$m**	2016 US$m	% Growth
Revenue from continuing operations	**1,510.3**	1,457.3	4%
Constant currency adjustment	**–**	0.1	
Revenue on a CER basis	**1,510.3**	1,457.4	4%
Revenue from acquisitions	**(14.9)**	–	
Organic revenue on a CER basis	**1,495.4**	1,457.4	3%

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Year ended 31 December	2017 US$m	2016 US$m	% Growth
Operating profit from continuing operations[1]	**167.2**	153.3	9%
Exceptional and acquisition related items (note 4)	**6.5**	4.6	
Adjusted operating profit from continuing operations	**173.7**	157.9	10%
Constant currency adjustment	**–**	(1.0)	
Adjusted operating profit on a CER basis	**173.7**	156.9	11%
Operating profit from acquisitions[1]	**(2.9)**	-	
Organic adjusted operating profit on a CER basis	**170.8**	156.9	9%

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.

Operating profit before exceptional and acquisition related items and before depreciation and amortisation (Adjusted EBITDA) for the year ended 31 December 2017 was $215.7 million (2016: $198.6 million).

Net debt for the Coats operating business (excluding Parent Group cash) at 31 December 2017 was $242.0 million (2016: $264.9 million).

This gives a leverage ratio of net debt to Adjusted EBITDA at 31 December 2017 of 1.1 (2016: 1.3).

Refer to notes 30(a) and 30(e) for definitions and calculations of Adjusted EBITDA and net debt.

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	2017 US$m	2016 US$m
Profit before taxation	**142.9**	122.5
Exceptional and acquisition related items (note 4)	**9.1**	4.6
Net interest on pension scheme assets and liabilities	**9.4**	13.6
Underlying profit before taxation	**161.4**	140.7
Taxation charge	**47.8**	46.8
Tax credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**0.8**	0.4
Underlying tax charge	**48.6**	47.2
Underlying effective tax rate	**30%**	34%

The taxation charge for the year ended 31 December 2017 includes a one-off non-cash tax credit of $3.0 million as a result of the revaluation of the net US deferred tax liabilities following the tax reform measures introduced by the US Government in the Tax Cuts & Jobs Act (see note 9). The Group's underlying effective tax rate for the year ended 31 December 2017 excluding this one-off impact is 32%.

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d) Adjusted earnings per share
Adjusted earnings per share growth measures the underlying progression of the benefits generated for shareholders.

Year ended 31 December	2017 US$m	2016 US$m
Profit from continuing operations	**95.1**	75.7
Non-controlling interests	**(14.3)**	(11.9)
Profit from continuing operations attributable to equity shareholders	**80.8**	63.8
Exceptional and acquisition related items (note 4)	**9.1**	4.6
Tax credit in respect of exceptional and acquisition related items	**(0.7)**	(0.4)
Adjusted profit from continuing operations	**89.2**	68.0
Weighted average number of Ordinary Shares	**1,399,209,804**	1,386,628,130
Adjusted earnings per share (cents)	**6.37**	4.91
Adjusted earnings per share (growth %)	**30%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2017 is 1,399,209,804 (2016: 1,386,628,130), the same as that used for basic earnings per Ordinary Share from continuing operations (see note 11).

e) Adjusted free cash flow
Net cash (absorbed in)/generated by 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.

Year ended 31 December	2017 US$m	2016 US$m
Change in net debt resulting from cash flows (free cash flow)	**(330.0)**	(83.7)
Acquisition of businesses (note 30(d))	**19.9**	36.3
Net cash flows from discontinued operations (note 32)	**0.6**	8.6
Net cash outflow in respect of reorganisation costs	**0.2**	8.0
UK Pensions Regulator ('TPR') investigation costs	**3.5**	3.7
Payments to UK pension schemes	**373.2**	99.1
Net cash flows in respect of other exceptional items	**5.8**	4.2
Purchase of own shares by Employee Benefit Trust	**–**	2.9
Receipts from exercise of share options	**(3.0)**	(0.2)
Dividends paid to equity shareholders	**17.6**	–
Tax inflow in respect of adjusted cash flow items	**(0.6)**	(0.8)
Adjusted free cash flow	**87.2**	78.1

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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.

31 December	**2017 US$m**	2016 US$m
Operating profit before exceptional and acquisition related items[1]	**173.7**	157.9
Non-current assets:		
Acquired Intangible assets[2]	**45.2**	37.9
Property, plant and equipment	**292.7**	265.9
Trade and other receivables	**21.5**	16.1
Current assets:		
Inventories	**232.2**	205.8
Trade and other receivables	**268.9**	248.4
Current liabilities:		
Trade and other payables	**(330.4)**	(310.8)
Non-current liabilities:		
Trade and other payables	**(27.2)**	(15.8)
Capital employed	**502.9**	447.5
ROCE	**35%**	35%[2]

1 Refer to note 4 for details of exceptional and acquisition related items.

2 With effect from 1 January 2017 capital employed used in the definition of ROCE includes intangible assets acquired in connection with the acquisitions of GSD, Fast React, Gotex and Patrick Yarn Mill. ROCE for the prior year has been restated consistent with the current year definition. This change has been made to better measure the ability of the Group's assets to deliver returns by including intangible assets acquired through acquisitions of businesses by Coats.

COMPANY BALANCE SHEET

31 December	Notes	2017 $m	2016 $m
Fixed assets:			
Investments	4	**1,235.7**	465.7
Current assets:			
Trade and other receivables		**0.1**	–
Cash at bank and in hand		**0.3**	–
		0.4	–
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		**(70.9)**	(256.9)
Trade and other payables		**(0.6)**	-
Net current liabilities		**(71.1)**	(256.9)
Total assets less current liabilities		**1,164.6**	208.8
Provisions for liabilities	5	**(0.8)**	(3.3)
Net assets		**1,163.8**	205.5
Capital and reserves:			
Share capital	7	**87.5**	127.0
Share premium account		**7.7**	11.6
Capital redemption reserve		**14.1**	18.3
Share options reserve		**18.5**	18.4
Capital reduction reserve		**59.8**	85.2
Own shares	7	**(7.7)**	(10.5)
Functional currency reserve		**–**	(78.9)
Profit and loss account		**983.9**	34.4
Shareholders' funds		**1,163.8**	205.5

The Company reported a profit for the financial year ended 31 December 2017 of $144.7 million (2016: loss of $3.7 million).

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 6 March 2018

Company Registration No.103548

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital $m	Share premium account $m	Capital redemption reserve $m	Share options reserve $m	Capital reduction reserve $m	Own shares $m	Functional currency reserve $m	Profit and loss account $m	Total $m
1 January 2016	127.0	11.6	18.3	17.0	85.2	(7.6)	(49.0)	45.0	247.5
Change in functional currency*	–	–	–	(3.2)	–	–	(29.9)	(6.9)	(40.0)
Net comprehensive income and expense for the year	–	–	–	–	–	–	–	(3.7)	(3.7)
Issue in ordinary shares	–	–	–	4.6	–	–	–	–	4.6
Movement in own shares	–	–	–	–	–	(2.9)	–	–	(2.9)
31 December 2016	127.0	11.6	18.3	18.4	85.2	(10.5)	(78.9)	34.4	205.5
Change in functional currency*	**(39.9)**	**(10.8)**	**(4.2)**	**0.1**	**(25.4)**	**1.8**	**78.9**	**0.2**	**0.7**
Net comprehensive income and expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**144.7**	**144.7**
Issue of ordinary shares	**0.4**	**2.6**	**–**	**–**	**–**	**–**	**–**	**–**	**3.0**
Movement in own shares	**–**	**4.3**	**–**	**–**	**–**	**1.0**	**–**	**–**	**5.3**
Dividend received in specie	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**822.4**	**822.4**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17.8)**	**(17.8)**
31 December 2017	**87.5**	**7.7**	**14.1**	**18.5**	**59.8**	**(7.7)**	**–**	**983.9**	**1,163.8**

* The functional currency of the Company was changed during the year ended 31 December 2017. See note 1 to the Company financial statements for further details.

COMPANY CASH FLOW STATEMENT

For the year ended 31 December	2017 $m	2016 $m
Net cash flows from operating activities:		
Operating profit/(loss)	**153.7**	(0.1)
Decrease in debtors	**0.3**	3.8
(Decrease)/increase in creditors	**(8.1)**	4.6
Impairment of investments in subsidiary undertakings	**54.9**	–
Non cash dividend	**(187.8)**	–
Movement in provisions	**(2.5)**	(8.4)
Foreign exchange	**(0.7)**	–
Net cash flows from operating activities	**9.8**	(0.1)
Net cash flows from financing activities:		
Purchase of own shares	**–**	(3.9)
Proceeds from sale of own shares	**5.1**	–
Receipts from exercise of share options	**3.0**	0.4
Dividends paid to equity shareholders	**(17.6)**	–
Net cash flows from financing activities	**(9.5)**	(3.5)
Net increase/(decrease) in cash and cash equivalents	**0.3**	(3.6)
Cash at bank and in hand at the beginning of the year	**–**	3.6
Cash at bank and in hand at the end of the year	**0.3**	–

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.

Change in functional currency
Following the settlement reached with the Trustees of the UK Coats Pension Plan and the Brunel Holdings Pension scheme it was determined the functional currency of Coats Group plc had changed from Great Britain pounds ('Sterling') to United States dollars ('USD'), effective 1 March 2017. To give effect to the change in functional currency, the assets, liabilities and equity of Coats Group plc in Sterling at 1 March 2017 were converted into USD at an exchange rate of US$1:£0.8078.

Comparative financial information for the year ended 31 December 2016 was originally presented in GBP, the Company's functional currency at that time. The comparative financial information has been restated from Sterling into USD as follows:

- Income and expenses were translated into USD at the average exchange rate for the year ended of US$1:£0.738;
- Assets and liabilities were translated into USD at the 31 December 2016 year end exchange rate of US$1:£0.8106; and
- Opening balances as of 1 January 2016 were translated into USD at the 31 December 2015 exchange rate of US$1:£0.678.

The comparative financial information for equity items has been restated from Sterling into USD as follows:

Share capital, share premium account, capital redemption reserve, capital reduction reserve and own shares reserve were stated in USD in the Coats Group plc consolidated financial statements. In order to keep these balances consistent with the Group's consolidated financial statements the balances have not been retranslated as at 1 January 2016 or 31 December 2016. The resulting exchange differences were held temporarily within a functional currency translation reserve.

The share options reserve and profit and loss account reserve balances were originally stated in Sterling and were retranslated USD as follows:

- as at 1 January 2016 using an exchange rate of US$1:£0.678.
- as at 31 December 2016 using an exchange rate of US$1:£0.8106.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

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.

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 $144.7 million (2016: loss of $3.7 million).

Details of directors' remuneration are set out on pages 55 to 67 within the Remuneration Report and form part of these financial statements.

3 Dividends
Dividends amounting to $17.8 million in respect of the year ended 31 December 2017 were paid to Coats Group plc shareholders during the year (2016: $nil). Details of the proposed final dividend for the year ended 31 December 2017 are set out in note 12 of the consolidated financial statements.

4 Investments

	Investments in subsidiary undertakings $m
At 1 January 2016	551.8
Change in functional currency	(90.7)
Additions	4.6
At 31 December 2016	465.7
Change in functional currency	1.6
Additions	823.3
Impairment	(54.9)
At 31 December 2017	**1,235.7**

Additions to investments during the year ended 31 December 2017 of $823.3 million represents additional investments in existing subsidiary undertakings. Further information about subsidiaries is provided on pages 153 to 159.

5 Provisions
Provisions are analysed as follows:

	Other provisions $m	Total $m
At 1 January 2017	3.3	3.3
Utilised in year	(2.4)	(2.4)
At 31 December 2017	**0.9**	**0.9**

Other provisions includes costs expected to be incurred in connection with the Group's three UK pension schemes. Settlements with the three UK pension schemes were completed in the first half of 2017, and as a result the UK Pensions Regulator confirmed that its regulatory action has ceased in relation to the warning notices issued to the Company in 2013 and 2014.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

6 Share capital
There are 1,413,300,648 Ordinary Shares of 5p issued at 31 December 2017 (2016: 1,407,612,282).

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 2017 of $7.7 million (2016: $10.5 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 2017 was 19,025,372 (2016: 25,746,861).

7 Related party transactions
Amounts due from and to other Group companies are disclosed on the face of the Balance sheet on page 147.

Interest payable to other Group companies during 2017 was $2.6 million (2016: $3.4 million).

8 Share based payments
The cost of equity share based payments of $4.6 million were charged to investments during the year ended 31 December 2016 as no amounts were recharged to subsidiaries in that year.

The charge related to the Long Term Incentive Plan and Deferred bonuses. Further details on these schemes are set out in note 33 of the consolidated financial statements.

GROUP STRUCTURE

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
Bermuda	Guinness Peat International Capital Assets Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	BMD1.00 Ordinary
British Virgin Islands	Coats Group (BVI) Ltd	Craigmuir Chambers, PO Box 71, Road Town, Tortola, Virgin Islands, British	£0.01 Ordinary
United Kingdom	Arrow HJC	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	B. M. Estates Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Blackwood Hodge Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	BMM (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	CE (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Contractors' Aggregates Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG (UK) Holdings Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG Coats Finance Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG March 2004 Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG Pension Investments Trustees Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	MFC (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	S G Warburg Group Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Staveley Guarantee Company Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	Guarantee Company
United Kingdom	Thomas Robinson Industrial Controls Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£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 JGL Investments Pty. Ltd, Level 9 South, 161 Collins Street, Melbourne VIC 3000, Australia	AUD1.00 Ordinary
Australia	Australian Country Spinners Unit Trust[1]	c/o JGL Investments Pty. Ltd, Level 9 South, 161 Collins Street, Melbourne VIC 3000, Australia	AUD1.00 Units
Australia	Coats Australian Pty Ltd	Unit 2, 56 Keys Road, Moorabbin VIC 3189, Australia	AUD0.54 Ordinary
Australia	Gosford Quarries Investments Pty Limited	Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary, AUD1.00 7% Cumulative Preference
Australia	GPG (Australia Trading) Pty. Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	GPG (No.6) Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	GPG Nominees Pty Ltd	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	GPG Services Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	GPG Tyndall Holdings 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	Kuvondo Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	Sabatica Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Bangladesh	Coats Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)

1 100% owned by the joint venture ACS Nominees Pty Limited.

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
Bangladesh	Coats Crafts Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Bermuda	Guinness Peat CH Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
Bolivarian Republic of Venezuela	Coats Cadena SA - Venezuela	Circunscripcion Judicial, del Distrito Capital y Estado Miranda, Bolivarian Republic of Venezuela	VEB1,000.00 Ordinary
Bolivarian Republic of Venezuela	Coats Moderm Accessories C.A. (Comaca)	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	VEB1.00 Ordinary
Bolivarian Republic of Venezuela	Cothilca S.A.	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	VEB1.00 Ordinary (97%)
Bolivarian Republic of Venezuela	Distribuidora El Costurero, S.A. (DICOSA)	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	VEB1,000.00 Ordinary
Bolivarian Republic of Venezuela	Hilanderia San Joaquin, S.A.	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	VEB1.00 Ordinary
Bolivarian Republic of Venezuela	Hilos Cadena, S.A.	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	VEB1.00 Ordinary
Bolivarian Republic of Venezuela	Hilos Elefante C.A.	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	VEB1,000.00 Ordinary
Bolivarian Republic of Venezuela	Hilos Francia S.A.	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	US$1.385 Ordinary
Bolivarian Republic of Venezuela	Informatica Robox, S.R.L	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	US$84.746 Ordinary
Bolivarian Republic of Venezuela	International Kroob CA	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	US$0.6835 Ordinary
Bolivarian Republic of Venezuela	Representaciones Glenifa, S.A.	Av Principal de los Ruices Don Diego Cisneros, Caracas, Venezuela	US$1,000.00 Ordinary
Bolivarian Republic of Venezuela	Venexport S.R.L	Ciudad Industrial la Union, Sector Fundo la Union - Autopisa Regional del Centro, Parcela L-23, Galpones G38, G39 and G40, San Diego District, Valencia - Estado Carabobo, Venezuela	US$26.59 Ordinary
Bolivarian Republic of Venezuela	Cambridge Medical Production CA (Cameproca)	Av. Principal de los Ruices, "Don Diego Cisneros", Caracas, Venezuela	VEB1.00 Ordinary
Brazil	Coats Corrente Ltda	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	BRL1.00 Ordinary
Brazil	Coats Corrente Textil Ltda	Distrito Industrial, Rodovia RN 160, s/n, Km 2, Sao Goncalo do Amarante - RN, CEP 59290-000, Brazil	BRL1.00 Ordinary
British Virgin Islands	Coats Andean Limited	Newhaven Trustees (BVI) Limited, 3rd Floor, Omar Hodge Building, Road Town, Tortola, Virgin Islands, British	US$1.00 Ordinary
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	Marathon 4046, Macul, Santiago, Chile	US$1.00 Ordinary
Chile	The Central Agency Limited - Chile	Marathon 4046, 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	Dalian Coats Limited	48-1 Shengli Road, Nanshan Complex, Jinzhou Economic Development Zone, Jinzhou District, Dalian, 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
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	EGP100.00 Ordinary
El Salvador	Coats El Salvador, S.A. de C.V.	Zona Franca Export Salva, Edificio No 18C, San Salvador, El Salvador	SVC100.00 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
Estonia	Coats Eesti AS - Estonia	Ampri tee 9/4, Haabaneeme, 74010 Viimsi Vald, Harjumaa, Estonia	€63.90 Ordinary
Finland	Coats Opti Oy	Ayritie 8A, Vantaa, 01510, Finland	€312.682902 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	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats (China) Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats China Holdings Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats Hong Kong Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	HKD10.00 Ordinary (90%)
Hong Kong	Coats Opti Hong Kong Limited	21/F, 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	HKD1.00 Ordinary
Hong Kong	Coats Thread HK Limited	21/F, 9 Chong Yip Street, Kwun Tong, 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	Kor Investments Private Limited	144 M.G. Road, Bangalore - 560 001, India	INR10.00 Ordinary
India	Madura Coats Private Limited	Head Office, 144 Mahatma Gandhi Road, Bangalore 560 001, 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$100,000.00 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 Thread Italy Srl	Viale SARCA, No. 223, Milano, Italy	€5,000,000.00 Quota
Korea, Republic of	Coats Korea Co., Limited	74 Siu-ro, Danwon-gu, Ansan, Korea, Republic of	KRW10,000.00 Ordinary
Latvia	Coats Latvija SIA	Delu iela 4, Riga, LV-1004, Latvia	€28.00 Ordinary
Lithuania	Coats Lietuva UAB	Juozapaviciaus 6/2, LT - 09310 Vilnius, Lithuania	€289.62 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
Mexico	Administraciones Timon SA de CV	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXP1.00 Ordinary-A, MXP1.00 Ordinary-B
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

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
Mexico	Grupo Coats Timon S A de C V	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXP10.00 B1, MXP10.00 B2, MXP10.00 B2 SPECIAL SERIES
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.	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
Netherlands	Coats Industrial Thread Holdings B.V	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
Netherlands	Coats Northern Holdings B.V.	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
Netherlands	Coats South America Holdings B.V.	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
Netherlands	Coats South Asia Holdings B.V.	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
Netherlands	Coats Southern Holdings B.V.	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
Netherlands	Guinness Peat Group International Holdings BV	Strawinskylaan 1113, 1077XX, Amsterdam, 1077XX, The Netherlands	€500.00 Ordinary
New Zealand	Australian Country Spinners (NZ) Limited[2]	c/o David Barker & Co Limited, 52 Cashel Street, Christchurch, New Zealand	NZD1.00 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	Office No. 112-113, Park Towers, Sharae Firdousi, Clifton, Karachi, 75600, Pakistan	PKR100.00 Ordinary
Peru	Coats Cadena Investment SA	Av Nicolas de Ayllon No.2925, Lima 10, Peru	PEN0.01 Ordinary (99%)
Peru	Coats Cadena SA - Peru	Av Nicolas de Ayllon No.2925, Lima 10, 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.	Quinta De Cravel, Oporto, Vila Nova de Gaia, 4430 073, Mafamude, Portugal	€1.00 Bare Shares
Romania	Coats Romania SRL	Municipiul Odorheiu Secuiesc, Str. Nicolae Balcescu, Nr. 71, Judetul Harghita	ROL169.38 Ordinary
Russian Federation	Coats LLC	House 53a, Lenin Str., pos. Oktyabrsky, Luberetskij District, 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	14 Kelly Road, PO Box 14, Hammarsdale, 3700, 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	14 Kelly Road, PO Box 14, Hammarsdale, 3700, 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 4, Sri Lanka	LKR100.00 Ordinary (99%)
Sri Lanka	Coats Thread Lanka (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 4, Sri Lanka	LKR10.00 Ordinary (99%)
Sweden	Coats Expotex AB	Box 25, Stationsvagen 2, SE-516 21, Dalsjofors, Sweden	SEK10.00 Bearer
Sweden	Coats Industrial Scandinavia AB	Box 109, SE-516 22 Dalsjofors, Sweden	SEK1,000.00 Bearer
Switzerland	Coats Stroppel AG	Untersiggenthal, Postfach, 5300 Turgi, Switzerland	CHF10,000.00
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, 16371 Bursa, Turkey	TRY1.00 New Ordinary (92%)
Ukraine	Coats Ukraine Ltd	Moskovskiy ave. 28A, litera B, Kiev, 04655, Ukraine	UAH1.00 Ordinary

2 100% owned by Australian Country Spinners Pty Limited.

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
United Kingdom	Allen, Solly & Company Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Allied Mutual Insurance Services Ltd	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Anfield 1 Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Anfield 2 Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£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	Blackwood Hodge Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.25 Ordinary
United Kingdom	Brown Shipley Asset Management Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Brown Shipley Holdings Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Brown Shipley Investment Management	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Brunel Pension Trustees Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	BSH Acquisition Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Cardpad Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats (UK) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary, £1.00 Ordinary-A
United Kingdom	Coats Finance Co. Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Global Services Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Group Finance Company Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.33 Ordinary
United Kingdom	Coats Holding Company (No. 1) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.125 Ordinary
United Kingdom	Coats Holding Company (No. 2) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.25 Ordinary
United Kingdom	Coats Holdings Ltd	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.000000000554 Ordinary
United Kingdom	Coats Industrial Thread Brands Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£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	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Property Management Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Shelfco (BDA) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Shelfco (CV Nominees) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Shelfco (VV) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.01 Ordinary, £0.075 Deferred
United Kingdom	Coats Shelfco (WMB) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats Thread (UK) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Corah Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.25 Ordinary, £1.00 4.2% Cumulative Preference
United Kingdom	CV Woven Fabrics Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	D. Byford & Co Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.20 Ordinary, £1.00 Preference
United Kingdom	Embergrange	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Fast React Systems (Bangladesh) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Fast React Systems Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary, £1.00 Special redeemable non-voting shares
United Kingdom	GPG (UK) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary, AUD1.00 Ordinary
United Kingdom	GPG Acquisitions No. 3 Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG Europe Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	€1.00 Ordinary
United Kingdom	GPG Finance Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG Pension Trustees Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GPG Securities Trading Ltd	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
United Kingdom	Griffin SA Ltd	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GSD (Corporate) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	GSD Holdings Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary-A, £1.00 Ordinary-B
United Kingdom	Guinness Peat Overseas Holdings Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Hicking Pentecost Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.50 Ordinary
United Kingdom	I.P. Clarke & Co. Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	J.& P. Coats, Limited	1 George Square, Glasgow, Scotland, G2 1AL, United Kingdom	£1.00 Ordinary
United Kingdom	John Murgatroyd Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.05 Ordinary, £1.00 6% Preference, £1.00 Deferred
United Kingdom	KEP (Predecessors) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Marshaide Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	MCG LIMITED	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary, £1.00 Preference
United Kingdom	Needle Industries Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	NUH No. 1 Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Patons & Baldwins Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Patons Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary, £1.00 7% Preference
United Kingdom	Simpson, Wright & Lowe, Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Sir Richard Arkwright & Co. Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	SIRBS Pension Trustee Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Staveley 2005 No 3 Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Staveley Industries Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Staveley Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Staveley Services Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£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	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Thomas Burnley & Sons, Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£10.00 Ordinary
United Kingdom	Tootal Group Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£0.25 Ordinary, £1.00 3.5 % Cumulative Preference
United Kingdom	Tootal Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United States	Coats & Clark Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$100.00 Ordinary
United States	Coats & Clark's Sales Corporation	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	US$100.00 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 American, LLC	Corporation Trust Center, 1209 Orange Street, Wilmington DE, United States	US$1.00 Ordinary
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 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$1.00 Ordinary
United States	Jaeger Sportswear Ltd	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	US$ 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	401 Merritt 7, NORWALK, Connecticut, 06856	US$0.01 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
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 Fibres, Inc.	c/o The Corporation Trust, 1209 Orange Street, Wilmington, Delaware	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%)

Joint Ventures

Country of Incorporation	Company Name	Registered Office address	Share class
Australia	ACS Nominees Pty Limited	c/o JGL Investments Pty. Ltd, Level 9 South, 161 Collins Street, Melbourne VIC 3000, 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	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	US$0.01 Ordinary (50%)

FIVE-YEAR SUMMARY

For the year ended 31 December	2013[3] US$m	2014[2] US$m	2015 US$m	2016 US$m	**2017 US$m**
Continuing operations (before exceptional and acquisition related items):					
Revenue	1,531.1	1,539.1	1,472.5	1,457.3	**1,510.3**
Cost of sales	(989.7)	(982.1)	(921.2)	(892.3)	**(932.9)**
Gross profit	541.4	557.0	551.3	565.0	**577.4**
Operating costs	(418.2)	(434.7)	(411.4)	(407.1)	**(403.7)**
Operating profit	123.2	122.3	139.9	157.9	**173.7**
Share of profits from joint ventures	0.7	1.5	1.5	0.8	**1.3**
Investment income	14.1	11.5	10.5	4.3	**2.1**
Finance costs[4]	(46.2)	(19.5)	(41.7)	(35.9)	**(25.1)**
Profit before taxation	91.8	115.8	110.2	127.1	**152.0**
Taxation	(50.8)	(45.0)	(46.2)	(47.2)	**(48.5)**
Profit from continuing operations	41.0	70.8	64.0	79.9	**103.5**
Adjusted earnings per share (cents)	2.36	3.01	4.00	4.91	**6.37**
Dividend per share (cents)	–	–	–	1.25[1]	**1.44**
Adjusted free cash flow ($m)	65.9	86.9	71.0	78.1	**87.2**
Return on capital employed (%)	21%	25%	33%	35%	**35%**

Notes:

1 On a pro-forma basis (final dividend in 2016: 0.84c per share).

2 Restated following the closure of UK Crafts in 2016, and disposal of EMEA Crafts in 2015.

3 Presented on a pro-forma basis to include an allocation of amounts from Guinness Peat Group plc, whilst Coats was still a subsidiary company of the investment Group. Restated following the disposal of EMEA Crafts and closure of UK Crafts. Adjusted earnings per share based on 2014 share numbers as Guinness Peat Group plc performed share buybacks in 2013, significantly changing the capital structure.

4 Includes foreign exchange gains / losses on parent group cash balances.

SHAREHOLDER INFORMATION

United Kingdom
1 The Square, Stockley Park, Uxbridge,
Middlesex UB11 1TD

Tel: 020 8210 5000
www.coats.com

Incorporated and registered in England No. 103548

Registered office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD

Managing your shareholding online

UK registered members
To manage your shareholding online, please visit: www.investorcentre.co.uk

Location of share registers
The Company's register of members is maintained in the UK

Register enquiries may be addressed direct to the Company's share registrars named below:

Registrar	Telephone and postal enquiries	Inspection of 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

WWW.COATS.COM/ARA2017

A full copy of our Annual Report can be downloaded, along with other relevant documents from www.coats.com/ara2017

Coats Group plc
1 The Square
Stockley Park
Uxbridge
Middlesex UB11 1TD

Tel: 020 8210 5000
www.coats.com

Incorporated and registered in England No. 103548
Registered office: 1 The Square, Stockley Park
Uxbridge, Middlesex UB11 1TD