COATS GROUP PLC
ANNUAL REPORT 2018

Transforming for Growth

Connecting – Pioneering – Trusted

TRANSFORMING FOR GROWTH

CONTENTS

WE ARE TRANSFORMING FOR GROWTH TO DELIVER LONG TERM SUSTAINABLE VALUE

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

We will achieve this by being true to how we operate:

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

Pioneering – we are restless pioneers, always seeking to create new advanced materials and partner with customers across multiple industries to realise the challenges they face.

Trusted – we recognise that our success rests on our reputation and the trust and confidence of the people with whom we do business and the communities in which we operate. Our sustainability agenda sits at the heart of this.

Find out more online:

- For a more visually engaging way to read about our progress in the year see our online 'Year in Review' at **www.coats.com/ara2018**
- To access 'Year in Review' on a mobile device, point your camera at the QR Code below:
- A full copy of this Annual Report can also be downloaded from **www.coats.com/investors**
- Throughout this document you will see references to where supporting information can also be found online at **www.coats.com**

Sustainability Report

- To read our Sustainability Report, and for more on our policies, their impact and our approach to 'Pioneering a sustainable future', at **www.coats.com/sustainability**
- To access our '2018 Sustainability Report' on a mobile device use the QR code below:

2018 FULL YEAR RESULTS AND HIGHLIGHTS

Continuing operations: Revenue ($m)

Ⓐ Adjusted operating profit ($m)

Operating profit ($m)

Key Performance Indicators
We have indicated with * those measures we consider KPIs. See page 16 for more details and historical performance.

1 All Non-statutory measures (Alternative Performance Measures) are reconciled to the nearest corresponding statutory measure in note 37. Organic growth is on a CER basis excluding contributions from bolt-on acquisitions. Constant exchange rate (CER) figures are 2017 restated at 2018 exchange rates. Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.

2 Net cash generated by operating activities includes $373 million payments into the three UK defined benefit schemes in 2017.

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

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

5 Restated to include continuing results following North America Crafts disposal and to reflect the adoption of IFRS15

Financial performance

	2018	2017 (restated[5])	Change	Ⓐ CER change[1]	Ⓐ Organic change[1]
Continuing operations[4]					
Revenue	**$1,415m**	$1,356m	4%	6%	3%*
Adjusted[1]					
Ⓐ Operating profit	**$195m**	$161m	21%	24%	23%*
Ⓐ Operating margin	**13.8%**	11.8%	190bps	200bps	220bps
Ⓐ Basic earnings per share	**6.9c**	5.7c	21%*		
Ⓐ Free cash flow	**$96m***	$76m	26%		
Ⓐ Return on capital employed (ROCE)	**43%***	35%	800bps		
Reported[3,4]					
Operating profit	**$147m**	$154m	(5)%		
Basic earnings per share	**3.9c**	5.1c	(25)%		
Net cash generated by operating activities[2]	**$102m**	$(232)m	n/a		
Full year dividend per share	**1.66c**	1.44c	15%		
(Loss)/profit from discontinued operations	**$(16)m**	$10m	n/a		

- Revenue growth of 6% on a CER basis (4% reported), with 3% organic growth and a 3% contribution from the acquisition of Patrick Yarn Mill. Continued organic revenue growth in Apparel and Footwear (thread up 4%) and accelerated organic growth in Performance Materials (up 7%).
- Adjusted operating profit up 24% (CER basis); adjusted operating margin up 200bps to 13.8%.
- Adjusted EPS up 21% to 6.9 cents as a result of higher adjusted operating profits, a further reduction in effective tax rate, a lower pension finance charge, with some offset from foreign exchange and interest.
- Adjusted free cash flow of $96 million; up 26% on prior year due to increased adjusted operating profits and controlled NWC, whilst maintaining capital expenditure ahead of depreciation.
- Reported operating profit of $147 million (down 5%) and basic EPS of 3.9 cents (down 25%), primarily due to increased exceptional costs of $48 million (most of which did not lead to a lower overall current tax charge when incurred) in relation to Connecting for Growth, the UK guaranteed minimum pension equalisation, and Lower Passaic River legal costs.

Strategic highlights

- Sale of non-core North America Crafts business completed on 20 February 2019 for $37 million, with resulting exceptional impairment to recognise net assets at fair value.
- Connecting for Growth programme benefits being realised faster than initially anticipated; $15 million net benefits delivered in 2018 (reorganisation cost of $23 million incurred in year).
- Agreement of Coats UK Pension Scheme triennial valuation with agreed annual deficit contributions (including estimated administrative expenses) of $31 million p.a. from 1 April 2019 (currently $24 million p.a.).

Non-financial highlights

- Employee Engagement for 2018 maintained at 83%* (2017: 83%), continuing our global top decile performance.
- Our global Recordable Accident Rate for the year was 0.58* (2017: 0.56), and no fatalities were recorded within the business.

Ⓐ Alternative Performance Measures – see note 37 on page 152.

COATS AT A GLANCE

COATS IS THE WORLD'S LEADING INDUSTRIAL THREAD COMPANY. HEADQUARTERED IN THE UK, WE OPERATE GLOBALLY AND IN 2018 GENERATED REVENUES OF $1.4BN.

Group 2018 revenue: $1,415m (2017: $1,356m)

Apparel & Footwear

2018: $1,083m (2017: $1,081m)

The trusted, value adding partner, providing critical supply chain components and services to the global Apparel and Footwear industry. Our portfolio of world class products and services exist to serve the needs and requirements of our customers and brands.

Apparel, footwear & accessories threads

End uses include: Menswear, ladies-wear, activewear, outdoor, denim, workwear, intimates and footwear

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

Zips and Trims products

Products include: Zips, interlinings, reflective tapes

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, Vision, GSD, Evolve, ThreadSol, Intellocut and Intellobuy

Performance Materials

2018: $332m (2017: $275m)

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

Hi-tech – End uses include: Automotive, composites, conductive, extrusion, fibre optics, flame retardant, performance fabrics and knits

Traditional – End uses include: Outdoor, home textiles, feminine hygiene, tea bags, bedding and quilting, upholstered furniture, filtration and sports goods

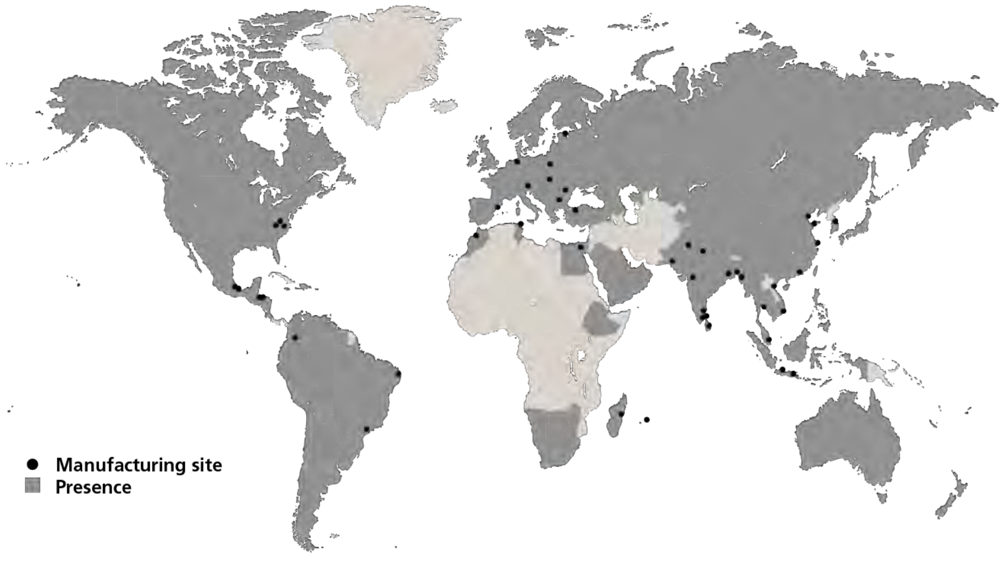
Key brands include: Firefly, Flamepro, Protos, Synergex, Lattice, Magellan, Gotex, Ultrabloc, Neophil, Dabond, Nylbond, Aptan, Gral, Admiral, Patrick Yarn and earthspun®

2018 Financial Performance

Our global footprint

Our global sales presence, digital platforms and region based operating model enable us to serve customers wherever they are located at speed and with efficiency.

For more information see **www.coats.com/about**



OUR INVESTMENT CASE

There are four 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.

Throughout 2018 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.

With the sale of the North America Crafts operation in early 2019, we have removed Crafts from the table below to reflect that we are now predominantly a global Industrial manufacturer.

Element	Which provides us as an organisation with:	Key attributes of this element	Highlights in 2018
1. Global market leader in Apparel and Footwear (A&F)	A strong and defendable core business representing some 77% of Group sales	Global leader in A&F thread market Consistently increasing market share in stable market Leading the response to meet changing industry needs – speed, productivity, innovation, quality, responsibility and sustainability	**+4%** Sales growth in A&F thread **+6%** Sales growth in premium brands such as Epic and Nylbond Secured new multi-year specified programmes with leading global brands
2. Leading player in Performance Materials market	Ability to build scale through technology, innovation and acquisition. Representing some 23% of Group sales	Global presence in multiple but focused hi-tech end use sectors Performance Materials offer hi-tech products that guarantee performance and safety Innovation in developing or acquiring new competencies and technologies – such as lightweight carbon and innovative composites	**+7%** Accelerated organic revenue growth **+21%** Double digit organic sales growth in hi-tech end uses e.g. personal protection U.S. consumer durables markets (e.g. bedding) remained relatively soft **>20%** Of revenues from products that did not exist 5 years ago
3. Delivering self-help initiatives	Focused improvement programmes and experienced management to deliver margin and other financial improvements	Productivity gains and procurement initiatives Investing in energy / waste reduction to improve operational efficiencies Global strategic change programme – Connecting for Growth General cost discipline around the organisation	**+23%** Adjusted organic operating profit growth through operational leverage, procurement and productivity savings, general cost control and C4G successfully offsetting input cost pressures **$15m** Net benefits from C4G programme
4. 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 and shareholder returns Continue to identify strategic and value add bolt-on acquisitions principally in the areas of hi-tech Performance Materials and software solutions Increased ROCE over recent years	**+15%** Full year dividend payment of 1.66c per share **$96m** (A) Adjusted free cash flow Investments in ThreadSol and Twine

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

(A) Alternative Performance Measure – see note 37 on page 152

CHAIRMAN'S STATEMENT

Mike Clasper
Chairman

Highlights for 2018
- Coats enters FTSE4Good Index
- Successful delivery of our global strategic transformation programme Connecting for Growth (C4G)
- Our continued focus on innovation demonstrated by the opening of our first Innovation Hub
- Good progress in the FTSE 250 with full year performance in line with management expectations

Priorities for 2019
- Maintain our customer-led approach to service, digital solutions and corporate responsibility
- Focus on leading innovation in disruptive environments
- Remain positioned to gain market share in core business and continue expansion in higher growth sectors

'We are an increasingly agile business that is focused on speed to market and we are fully committed to accelerating our transition from industrial to digital.'

'Entering the FTSE4Good Index is a recognition of the values and actions of our workforce of 18,000 across the world who support our foundations of compliance and sustainability.'

'WORKING WITH OUR STAKEHOLDERS TO DELIVER INNOVATION, DIGITAL SOLUTIONS AND SUSTAINABLE VALUE CREATING LONG TERM BENEFITS.'

Dear Shareholder
Substantial progress has been made over the past year and we continue to maintain our position as the world's leading industrial thread business, pioneering new applications and delivering sustainable value to all stakeholders. Quality, corporate responsibility and innovation have been a part of the history and legacy of Coats for over two centuries. We have added speed and agility and melded it with technology to deliver digital solutions to all our stakeholders. We are now at an exciting time in our history, being on the cusp of a new world of digital disruption, which is set to provide tremendous opportunities for Coats.

A recent milestone for our business was the sale of our North America Crafts business. We are proud of our 120 years of crafts heritage in North America but the crafting market has evolved in the past decade and it requires a higher degree of specialisation, scale and digital capabilities to succeed. This sale now enables us to focus and drive for excellence in our high performing business-to-business global Apparel and Footwear, and Performance Materials businesses.

Coats – where heritage meets innovation
As a global business with a longstanding pedigree and heritage, Coats has consistently evolved and innovated to meet the needs of its stakeholders. As such we are committed to pioneering the application of digital technologies to legacy manufacturing. We are an increasingly agile business that is focused on speed to market and we are fully committed to accelerating our transition from the industrial age to the digital age. Our customers require an increased emphasis on speed, quality, value and corporate responsibility so we have repositioned Coats to achieve greater pace and productivity to support this aim – at the same time delivering improved earnings and consistent cash flows while maintaining unrivalled ethical compliance.

Connecting, pioneering, trusted
Innovation is at the heart of everything we do and is crucial to our success. A highlight of the year was opening the first Innovation Hub in Sevier, US, this is a symbol of the modern Coats. We look forward to the opening of a further two hubs – our EMEA hub in Bursa, Turkey and our Asia hub in Shenzhen, China, in 2019.

The Board undertook visits to partner sites, such as its visit to Microsoft's regional hub in Charlotte, US. The Board also discussed innovation within the brands we serve, visiting a significant customer in October to tour its Innovation Hub and research laboratory. We saw how some of Coats innovations are being used to help develop new products for our customers.

I have visited many of our sites over the course of my years as Chairman and I am constantly struck by the professionalism and specialist knowledge of all our teams across the business and I recognise the strength of our culture at every site visit I undertake. Two visits in particular stand out for me this year. Some members of our Board visited Gotex, our site in Sabadell, near Barcelona. Then in October, the Board visited Patrick Yarn Mill, the business we acquired in December 2017.

It is a source of great pride to us that family businesses such as Patrick Yarn Mill and Gotex trust in Coats to take them forward. Acquiring these pioneering family businesses which offer high quality innovative products, provides an excellent alignment and fit for us. We continue to strive for excellence in our business activities and won several industry awards in 2018. For example, in November, Coats was recognised for its outstanding achievements in increasing growth and shareholder value by the Institute of Chartered Accountants in England and Wales (ICAEW). The Corporate Development Award recognises London-listed companies whose innovative strategy have made the most effective use of M&A to grow their business, and increase shareholder value.

Governance
Responsible business practice is at the core of everything that we do and we are very proud that in July, we entered the FTSE4Good Index. This is a recognition of the values and actions

CHAIRMAN'S STATEMENT
CONTINUED

'We continue to deliver good financial results with revenues up 6% driven by strong performances in Apparel and Footwear, and hi-tech Performance Materials.'

'In recognition that good business behaviour supports strong financial performance, a global code of ethics and conduct is reinforced through continuous communication throughout the business.'

'We are focused on aligning our purpose, values, behaviours and strategy to both maintain stakeholder confidence and deliver value for shareholders.'

Governance (continued)
of our workforce of 18,000 across the world who support our foundations of compliance and sustainability. We are particularly proud that we scored especially highly on the metrics around governance, particularly corporate governance and anti-corruption.

Board changes
As reported last year, I am pleased to welcome another female Non-Executive to the Board. Anne Fahy joined the Board in March 2018. Mike Allen, a Non-Executive Director since 2010, has announced he will not be standing for re-election as a Director at the 2019 AGM, to be held on 23 May 2019. On behalf of the Board I would like to thank Mike for his insightful guidance and contribution to the Board over the nine years of his tenure. Mike has played a key part in steering significant change to the Group, as we restructured the Guinness Peat Group and Coats Boards, transitioned from an investment holding company to a UK headquartered manufacturing business, normalised our UK pension obligations following the settlement of the regulatory investigations, and entered the FTSE 250.

Performance
2018 was a year of strong financial performance. Revenues were up 6% on a constant currency basis to $1,415m with continued momentum in Apparel & Footwear thread and Performance Materials. There were continued share gains in Apparel and Footwear thread, and double digit hi-tech Performance Materials growth; underpinned by innovation, digital, service and sustainability.

Dividend
I am pleased to report that the Board has been able to continue with the progressive dividend policy I outlined last year. As a result of this established policy, and reflecting the financial performance in 2018, the Board is proposing a final dividend of 1.16c per share which, combined with the interim dividend of 0.50c per share, gives a total dividend for the year of 1.66c (2017 full year dividend: 1.44c 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 28 May 2019 to ordinary shareholders on the register at 3 May 2019, with an ex-dividend date of 2 May 2019.

A world class team
Our people are what makes Coats the success it is today. We have a world class and increasingly diverse team. In recognition of the fact that good business behaviour supports strong financial performance, a global code of ethics and conduct is reinforced through continuous communication throughout the business. Coats demonstrates progressive diversity and ethical standards as well as economic added value. Moving forward, a key part of our strategy is to attract, retain and grow talent and we constantly seek to identify ways to ensure our employee value proposition remains attractive and rewarding. In a year of change, we are pleased to report that our eighth employee engagement survey score has been maintained at 83%, which keeps Coats in the top 10% of companies globally for the fifth year in a row. This reflects strong support for the company's vision, strategy, values, culture, priorities and delivery.

Our Connecting for Growth transformation programme has been a significant undertaking and we are pleased to report that its delivery this year has been an enormous success. This is due to the management, time and attention that has been invested in delivering this transformation programme. In my experience in matrix managed organisations, I have never seen a change programme being executed so well. This is a testament to the leadership, commitment and resilience of the team leading this programme. It is now being embedded across the business and we are already realising benefits faster than initially anticipated.

Looking ahead
We are focused on aligning our purpose, values, behaviours and strategy to both maintain stakeholder confidence and deliver value for shareholders while always pursuing our goals in a sustainable and responsible way that also creates long term value for society. Melding the legacy, strengths and the trademark Coats' quality, with the speed and agility of our digital disruption is going to deliver benefits for all our stakeholders, including our shareholders. Coats is a business teeming with new ideas – our challenge now is to harness, commercialise and deliver to our customers at pace. I want to thank the Group Executive Team and all our employees across the world for their contribution to making Coats the successful group it is today and for once again delivering another successful year.

Mike Clasper,
Chairman
7 March 2019

GROUP CHIEF EXECUTIVE'S STATEMENT

Rajiv Sharma
Group Chief Executive

Highlights for 2018

- Continued growth in sales, profit margin and cash
- Connecting for Growth – accelerating our transition from the industrial to the digital age
- ThreadSol acquisition and investment in Twine bring hi-tech to the textile industry
- Successful UK pensions triennial valuation

Priorities for 2019

- Continuing our focus on our key strategic areas of simplification, digital and innovation
- Delivery of our comprehensive five year sustainability plan with bold targets
- Embed technology to enhance value delivery
- Integrate and optimise recent acquisitions

'Transforming for growth by leveraging talent and technology.'

'WE ENTER 2019 WITH GREATER RESOLVE AND STRONG MOMENTUM.'

Dear Shareholder

Coats is entering 2019 with greater resolve and strong momentum enabled by an ongoing focus on innovation, world class service, digital solutions and sustainability. We have the largest global footprint and widest product selection of our industry. This gives our customers more choice and product consistency, as well as best in class colour management to differentiate their goods in store and online. We have made good progress on our growth strategy that focuses on simplification, digital, innovation, acquisitions and sustainability. That combined with the high quality of our talent enables us to adapt and future proof the business in an ever changing, hyper-connected world. Staying ahead of changing market and customer needs is at the heart of us transforming for growth.

2018 performance

Coats delivered a strong performance in 2018. Our Apparel and Footwear thread business delivered continued market share gains by providing on-going high service levels, and we saw increased momentum in our Performance Materials business. In an environment of rising input costs, we were able to grow our operating margins, through realising price increases, delivering productivity and procurement gains, as well as keeping tight control of our cost base and delivering significant savings from our Connecting for Growth programme in its first year.

For more information, see operating and financial review on pages 29 to 36.

Strategic progress

Our strategy has two key themes: 'Digital' and 'Going beyond the stitch line'. Digital helps us to improve speed and agility, make smarter decisions faster, lower cost and enables new revenue streams. Advancing our digital strategy is connected to our business goals and clearly defined business outcomes. Going beyond the stitch line is a focused effort to bring scale, specialisation and new technologies within adjacencies. This results in sales growth and building of in-house specialist capabilities. We also recognise that in order to remain successful in the future we must continue to adapt with speed and scale.

The recent sale of our standalone North America Crafts business allows us to focus completely on our high performing business-to-business global Apparel and Footwear, and Performance Materials businesses. Now Coats is primarily a B2B global manufacturing business.

Connecting for Growth programme

Our Connecting for Growth global, strategic transformation programme is designed to leverage simplification and digitisation. This allowed us to take cost out and reinvest the savings in digital and talent, bringing enhanced capabilities and innovation.

During the year we have been implementing a new operating model – delayering the organisation by moving away from a country based model to one based around eight geographic clusters. While doing so, we changed the business model in seven smaller markets and discontinued manufacturing in two countries. We also moved to global functionalisation of finance, HR, legal, marketing, procurement and technology. This allows us to lower costs, have more control and compliance, and supports better decision making.

Connecting for Growth has also introduced a strong emphasis on using digital technology for automation and connecting of disparate processes. One example of this is deploying robotic process automation within our 'order to cash' financial transactions or the use of data science to predict late payments or processes.

Another example is our 'Factory of the Future' project where digitisation is again delivering efficiencies in our manufacturing. Through collecting data from spindles in our factories we are able to gain an understanding of the root causes of efficiency losses and so improve our final winding operations processes.

These successes are achieving savings which we are re-investing to build our innovation and technology capabilities. We are also investing in up-skilling, training and developing our people. Hiring new talent with new capabilities is core to our people strategy.

GROUP CHIEF EXECUTIVE'S STATEMENT
CONTINUED

'We recognise that in order to remain successful in the future, we must adapt to the fast changing markets in which we operate.'

'Pioneering a sustainable future is central to our growth strategy.'

Digital
We put the needs of our customers at the heart of everything we do and recognise that digital can help offset the ongoing industry pressures to increase speed and improve sustainability. This year, we established the Digital Advisory Council, which was set up to bring in external expertise to help steer our digital and technology strategy, and advise on its execution. Leaders from the digital sector sit on the council and provide us with insights on emerging technology, digital business and change management. In December 2018, we put our digital strategy into action by investing in Twine Solutions, a company that has developed a revolutionary digital thread dyeing system. It will also feature in built colour software integrated with our proprietary Coats ColourStitch software. With this investment, we are using digital to disrupt traditional boundaries and putting us at the forefront of this emerging field.

Innovation
Innovation is also crucial to our success. As a pioneering company we continually aim to deliver further revenue growth from creating value enhancing new products that do not currently exist. We measure this progress through our vitality index and it is pleasing to note that over 20% of our organic Performance Materials revenues were in relation to products that did not exist some five years ago.

To structure our approach to innovation we have established an Innovation Hub in North America, and a further two will be completed by H1, 2019 in China and EMEA. These are dedicated centres to foster collaboration with a range of partners including customers, brands and suppliers. The rapid prototyping offered in the Hubs is helping us to understand how to assist our customers in solving their big problems with speed. This approach to innovation is also helping us develop an eco-system built around universities, start-ups and suppliers.

Acquisition
We see acquisition as a key part of our growth strategy and actively look for opportunities that will allow us to apply hi-tech solutions to our, at times, low tech industry. We will look to acquire specialisation rather than simply market share.

In December 2018, we announced we were acquiring ThreadSol, a cloud-based digital applications provider which uses proprietary algorithms built on artificial neural networks to optimise the purchasing and consumption of fabric which helps reduce costs and waste.

ThreadSol is an exciting acquisition for us and we will be able to draw upon our demonstrable track record of successfully integrating bolt-on companies following the acquisitions of Patrick Yarn Mill, Gotex, Fast React Systems and GSD, all of which are performing well under our ownership.

Sustainability
During the year we undertook a strategic review of our sustainability programme and agreed with the Board a new programme of investment to drive our development in this area over the next five years. 'Pioneering a sustainable future' will be increasingly central to our growth strategy and is aligned to the needs of our customers. It will move us away from a position of defending value to one of creating long-term value though transforming our business, investing in technologies and identifying new opportunities for sustainable growth.

We have five strategic priorities which we announced on 1 March 2019. For more details, see our Sustainability Report: **www.coats.com/sustainability**

Looking ahead
We enter 2019 in a strong position, with continued positive momentum in our core Apparel and Footwear and hi-tech Performance Materials businesses. The exit of our non-core North America Crafts business will ensure complete focus on growing our remaining businesses organically and identifying further value-add bolt-on acquisitions.

Whilst we are cautious around the current macroeconomic uncertainties, based on our current assessment of business trends we remain confident in delivering another year of improving performance through effective execution of our strategy.

Rajiv Sharma
Group Chief Executive
7 March 2019

MARKET TRENDS

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

'Coats is the market leader in supplying premium thread to the Apparel and Footwear industries.'

'Demand for Performance Materials threads and yarns is increasing due to the pace of urbanisation.'

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 and efficiency of the production process. We are a key supply chain component in the $1.5 trillion global apparel and c.$350 billion footwear industries, which are projected to grow at low single digits in the medium term.

Performance Materials

We are global experts in the design and supply of high technology, high performance technical threads and yarn used in a range of industries which include automotive, household and recreation, medical, health and food, safety, telecoms, oil and gas, 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 and personal protection). We anticipate upper single digit medium term organic % growth in this area, with growth weighted towards high technology end uses.

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 retail sales in North America and Western Europe for the first time accounted for less than 50% of all global sales. Not only will Asian consumers demand more garments in the future – but more affluent consumers will demand higher-end garments, so we expect that regional sales from our many factories in Asia will increase over time.

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

Trend #1: Our response in the year

To meet changing trends in footwear in the China domestic market we developed an engineered footwear yarn solution, Coats Knit.

During the year, we developed one of our sites in Vietnam and the additional capacity now makes it one of our largest manufacturing units.

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.

Trend #2: Our response in the year

We are investing in customer system integration enabling faster, more effective streamlined transactions. Tools such as our digital colour palettes enable customers to increase the speed of supply and response.

MARKET TRENDS
CONTINUED

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

Trend #3: Our response in the year
We opened our first regional Innovation Hub in North America providing a structured way to work with customers to develop new ideas. We also launched new products such as Flamepro fabric yarn.

4. Operating sustainably, increasing compliance and ethical standards
A growing share of consumers, shareholders, authorities, brands/retailers and manufacturers are demanding more sustainable products and becoming increasingly focused on operating in a compliant and ethical way. Entire supply chains are coming under pressure not just to conform to local requirements but also to higher international standards as well – be these environmental, labour or sourcing. Increasingly shareholders seek to protect the long-term viability of their businesses and investments and, Environmental, Social and Governance (ESG) standards are being used by current and potential investors as a critical part of their assessment criteria. These challenges present both a need for driving change at scale but also an opportunity for long-term value creation. This goes to the heart of Coats values and standards. Our sustainability programme is integrated with our business strategy and helps us build and maintain both our reputation and our relationships with key stakeholders.

Trend #4: Our response in the year
During the year we undertook a strategic review of our Sustainability activities and launched the 'Pioneering a sustainable future' programme based around our five key priority areas and aligned to clear targets to be achieved by 2022.

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, giving us a market leading online proposition. Ecommerce adoption had reached 85% by the end of 2018 and we have 120 thousand users accessing ecommerce to manage their orders over the last 12 months. This is a crucial platform for us to engage with our customers online to deliver speed, convenience, transparency and efficiency and we continue to improve customer experience through further digitisation of the order to cash process.

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

Trend #5: Our response in the year
We have invested in Twine Solutions, a start-up company that offers a digital on-demand thread dyeing system that can continuously dye a single raw white thread to one of millions of shade choices. We also acquired ThreadSol, an exciting acquisition that supports a key aspect of our growth strategy: to build an innovative software solutions business for the apparel and footwear industries.

BUSINESS MODEL

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

Our business model

The elements of our business model

How Coats creates value

Our vision is to be the world's leading Industrial textiles company delivering innovation, digital solutions and sustainable value to all our stakeholders. 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 safeguard our reputation.

'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.'

1. Our resources: 'Core strengths'

Customer relationships – we work with nearly 30,000 apparel, footwear and accessories customers, approx. 4,000 retailers and brands globally and around 7,000 customers in our Performance Materials business. These strong relationships, across all levels of our customers' organisations provides us with deep market insight.

'Strong relationships, across all levels of our customers' organisations provides us with deep market insight.'

Global asset base – we manufacture at some 50 sites, on six continents, with 100+ warehouses, the majority of which are connected by a global ERP system; this ensures we are uniquely positioned to deliver consistently high services levels for the industries we serve on a short lead time basis.

People – our diverse international workforce of nearly 18,000 is both highly engaged and committed, with an employee engagement score of 83% in 2018 (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 other materials (cones and chemicals). We proactively review market developments and continue to monitor and manage our supply chain carefully. See Supplier Risk in the Principal Risks and Uncertainties table on page 27.

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.

BUSINESS MODEL
CONTINUED

'We use our expertise to support our customers by making thousands of technical interventions on the shop floor every year.'

'We offer a technology business with deep industry expertise delivering great customer value and ideally placed to solve the Apparel and Footwear industry's big problems – cost, speed, transparency.'

'Through our activities we make an economic impact that stretches far beyond the boundaries of our own operations as we buy from local, regional and global suppliers.'

Ⓐ Alternative Performance Measures – see note 37 on page 152

2. Our capabilities: '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, brands and manufacturers and are able to respond quickly to their specific needs, pressures and aspirations.

Manufacturing – we are able to service our customers with a globally consistent quality and colour that has been manufactured to high ethical, 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. Above all, we provide 'peace of mind' to our customers.

New product / process innovation – through our global network we are always seeking to innovate in the industries in which we operate. In 2018 we opened the first innovation hub in the US, and two others are due to be opened in Turkey and China in H1 2019. 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 thousands of technical interventions on the shop floor every year.

Digital – by offering an industry leading set of services, from colour sampling to online training, ecommerce and supply chain management tools, this makes it easier to do business with us and offers greater value and time benefits to customers.

3. 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 (composite tapes for reinforcing pipes), protective clothing (flame retardant yarn) and composites (combinations of carbon fibre aramids, para and meta aramids, fibre glass, nylon, polyester).

SERVICES

Operating under Coats Global Services we offer a technology business with deep industry expertise delivering great customer value and ideally placed to solve the Apparel and Footwear industry's big problems – cost, speed, transparency.

Our most recent acquisition ThreadSol, perfectly complements our previous acquisitions of GSD and Fast React allowing us to offer an ever broader suite of industry leading consultancy, tools (e.g. cost benchmarking) and PLM software to garment manufacturers and brands / retailers.

4. Our outputs: 'Benefits for stakeholders'

Through our activities we make an economic impact that stretches far beyond the boundaries of our own operations as we buy from local, regional and global suppliers; 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 impact we make.

In 2018 we generated a total of $1.5 billion of economic contribution, of which the majority was distributed to our suppliers 62% and employees 22%. A further 4% corporation tax was paid in taxes to local and national governments.

OUR STRATEGIC FRAMEWORK

For an interactive version go online:
www.coats.com/investors

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

Our Vision

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

Our Strategic Goals

• These support us as we work towards achieving our vision • They are aligned to the strengths of our investment case and business model	1 **Profitable sales growth**	2 **Increased productivity**	3 **Delivering value**

Our Strategic Pillars

• This is our response to the macro challenges presented by digital technologies and changes in consumer demands and behaviours • They provide us with levers for change and the tools that will enable us to deliver value and competitive advantage	**Simplification**	**Digital**
	Innovation	**Acquisition**
	Sustainability	

'Connecting for Growth'

A two year global strategic change programme to accelerate our transition from the industrial to the digital age

DELIVERING LONG TERM VALUE FOR ALL OUR STAKEHOLDERS

OUR STRATEGIC GOALS

OUR STRATEGIC GOALS ARE ALIGNED TO OUR INVESTMENT CASE AND BUSINESS MODEL

Below is an overview of what they mean for the organisation, strategic achievements during 2018 and looking ahead to 2019.

1 PROFITABLE SALES GROWTH

As a Group this means constantly working to ensure we pursue a growth agenda with strong sustainability credentials that are aligned to the requirements of major global brands and customers.

For Apparel and Footwear this means we must remain relevant to the global Apparel and Footwear industry supply chain be ensuring we meet the industry imperatives of speed, productivity, quality, innovation and sustainability. We achieve this through continually developing our industry leading brands, strong market positions and customer relationships, and by offering new software services and operational excellence tools delivered digitally. During 2018 successes in this area included: the expansion of our operational capability in key markets such as Vietnam, where we expanded capacity at an existing factory; development of a new engineered yarn footwear product, Coats Knit; and increasing the size of our global Technical Service teams to meet customer requirements.

For Performance Materials this means focusing our efforts in those markets where we have the ability to build scale through innovation, technical excellence and acquisition. Our global footprint allows us to connect growth technologies to new markets and customers. During 2018 successes in this area included the globalisation of Gotex's Wire and Cable offer by opening a new production line in India.

For 2019 our priority is to strive to generate sales growth across all our regions. Incremental sales from innovation will be key, as well as continuing to meet customer needs for speed, quality, peace of mind, innovation and sustainability to drive further market share gains.

Relevant principal risks → Economic risk; Talent & capability; Product and services liability.

2 INCREASED PRODUCTIVITY

As a Group this means we are always focused on meeting our commitments to generate consistent and strong free cash flow each year. This allows us to fund organic growth initiatives, meet our pension recovery payments, facilitate bolt on acquisitions and make shareholder returns. We are continually looking for initiatives to increase sales and employee productivity to help offset factors such as structural labour, energy and raw material inflation and support operating margins.

During 2018 we made good progress in this area through delivering savings and growth via the Connecting for Growth (C4G) global strategic transformation programme. In addition our ROCE performance was 43% and our On Time and In Full (OTIF) rate increased by 5%.

Looking ahead to 2019 we are committed to consolidating the C4G gains and embedding the new ways of working. A strong focus on cost management will enable us to continue to invest in the priority areas of Digital, Innovation and Talent.

Relevant principal risks → Connecting for Growth; Environmental non-performance; Supplier non-performance; Cyber risk; Talent & capability.

3 VALUE DELIVERY

For us as a Group this means providing superior value to our customers and delivering shareholder value through balancing our growth and efficiency agenda by providing a value proposition to our employees where they can develop to their full potential within a safe, respectful and inclusive workplace.

During 2018 we worked to meet customer needs for speed, productivity and peace of mind, maintained progressive shareholder returns policy and made progress in our Journey to Zero through enhanced ISO19001 digital reporting and an increasing focus on identification of risks and near misses and consequent remedial actions.

Looking ahead to 2019 our commercial and operational teams remain focused on delivering superior value to customers. We need to manage regulatory requirements and supply chain intricacies in an increasingly competitive environment; enhance our functional model to deliver world class service at reduced cost and risk; and further strengthen our health and safety management programme.

Relevant principal risks → Connecting for Growth; Pensions scheme deficit funding risk; Talent & capability; Supplier non-performance/raw materials risk.

OUR STRATEGIC PILLARS

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

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

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

Pillar	Description	Example
SIMPLIFICATION	In today's digital age, and operating in the fast-moving industries we are in, we recognise the need to be agile and capable of efficient delivery in the quickest possible timeframes. To achieve this, we are adopting lean and integrated processes, and an organisational culture focused on speed and simplification.	Operating model – During the year we implemented a new streamlined operating model. We moved from a previous model of almost 50 countries with separate management teams and operations to eight geographic clusters supported by global functions eg Finance, Human Resources. This has delivered savings not only in operational costs but also in our speed to execute.
DIGITAL	To stay relevant, we recognise the need to evolve in new directions. This requires us to think 'beyond the stitch line' to collaborate with internal and external stakeholders, to repurpose our products into new areas and use machine learning and artificial intelligence for new ways of operating, fit for the digital age.	Twine Solutions – In 2018 we made a strategic investment in Twine Solutions, an Israeli based technology start-up which has developed a revolutionary digital thread dyeing system which applies the features of small-scale digital printing to the traditional dyeing process. We are leveraging data science and artificial intelligence; We have 2,500 machines streaming data with two million new data points every day.
INNOVATION	This is at the heart of everything we do. We recognise that big, bold, game-changing ideas are crucial to our success.	Innovation Hubs – These are areas dedicated to innovation and new product development which will help us to deliver sales growth from new product launches and to put the customer at the heart of innovation by providing dedicated spaces to collaborate with them on, creating exciting new products together. More than 20% of our organic Performance Materials revenues are in relation to products that didn't exist five years ago.
ACQUISITION	We look to identify companies with unique capabilities, technology, innovations, or Intellectual Property that can be scaled to deliver value for customers and shareholders. Any acquisition must allow us to solve complex customer problems with ease.	ThreadSol – In December 2018 we acquired ThreadSol, whose 'big data' technology focuses on fabric usage optimisation in apparel manufacturing. This helps customers reduce fabric waste and cost and fits well with our customer base and infrastructure. The acquisition is for a cash consideration of up to $12 million over four years.
SUSTAINABILITY	Our customers are increasingly pursuing their own ambitious sustainability agendas, so it is fundamental to our success to support them and align our material issues with theirs. Leading in this area will enable us to access new markets and opportunities to grow our business.	Real time monitoring of effluent and emissions – we are using technology to bring greater visibility and transparency across our manufacturing operations. In 2018 we reduced Green House Gas emissions by a further 3% per unit of output, continuing the trend that has seen us reduce emissions by 25% over the last six years.

CONNECTING FOR GROWTH

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

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

During 2018 leadership of the programme was provided by a Group Executive Team member, Ronan Cox, supported by a team of project managers. The programme is reviewed regularly, including through the use of key performance and risk indicators, at both executive management and Board level.

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

Activities in 2018

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.

Leaner processes	Organisational agility	Speed and harmonisation	Empowering teams
• 'Factory of the Future' – A programme for enhancing our manufacturing effectiveness – for example, collecting digital data from the thousands of machines we have across our supply chain allows us to gather data and insights to better understand root causes of efficiency losses and address them proactively. • HR Information System – We have deployed a new 'unified' system for employee records – a single, global platform is providing faster and more informed decision making thanks to automated workflows.	• Smaller markets – In a number of smaller markets we have changed our operating model. This has led to us helping local management teams buy Coats businesses in Latvia, Lithuania and Ecuador. • Direct export – We have moved to a direct export model in Chile, Uruguay and Malaysia, where we also ceased manufacturing. In South Africa, we ceased manufacturing and moved to a sales and distribution operating model.	• Financial Reporting – Adoption of online dashboards to automate and simplify the production of financial information. • Product harmonisation – Simplifying our product ranges and portfolios has allowed us to improve our speed of operation and customer service. We have moved from a range of 300+ brands to less than 150 and delivered a reduction of some 390,000 SKUs.	• Training and tools – To support and embed the new function operating model training programmes have been developed. These include Business Partner Training and Sales Accelerator Programmes. • New talent – Introducing new specialists into the organisations – such as new Data Scientists. These hires provide the skills, talents and experience to deliver new digital growth programmes.

Good progress was made in 2018, and as a result, initial net benefits (after reinvestments), are being realised faster than initially anticipated with $15 million net benefits to adjusted operating profit realised in 2018. $23 million of the anticipated $30 million total exceptional reorganisation charge has been incurred in 2018, with the remainder anticipated to be incurred in 2019.

These exceptional reorganisation costs comprised severance costs of $20.5 million, fixed asset disposals and write offs of $0.6 million and closure and other one off costs of $1.7 million.

As a result of the good progress made to date we anticipate net benefits (after reinvestments) of $23 million in 2020 when the programme is scheduled to complete.

Approach in 2019

As we move into 2019 the focus on the programme will be to deliver agreed plans and to ensure new ways of working are embedded across the organisation.

KEY PERFORMANCE INDICATORS

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

During 2018 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 152.

KPI	Definition	Why we measure this	Performance (% year on year)	2018 commentary
Revenue growth[1] **Linked to our strategic goal** 1	Annual organic growth in sales at like-for-like exchange rates.	Measures the ability of the Company to grow sales by operating in selected geographies and segments and offering differentiated, cost competitive products and services.	2018: 3 2017: 5 2016: 2	Continued momentum in A&F thread business driven by volumes, price and mix, with some offset from temporary fashion trends in Zips and a decline in LatAm Crafts. Accelerated organic growth in Performance Materials driven by hi-tech end uses, with the US consumer durables market (e.g. bedding) remaining soft.
A 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.	2018: 23 2017: 14 2016: 25	Volume growth, price, productivity, procurement and cost savings (including C4G) have more than offset inflationary cost pressures.
A Adjusted earnings per share growth[3] **Linked to our strategic goal** 2	Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.	Measures the underlying progression of the benefits generated for shareholders.	2018: 21 2017: 42 2016: 47	EPS growth was driven by adjusted operating profit growth, a reduction in the underlying tax rate and pension finance charge, with some offset from foreign exchange and interest, and a strong performance in our key markets where we have minorities interest. The lower growth compared to 2017 is mainly due to one off exchange losses in 2016 of $5m and a smaller decrease in the effective tax rate.
A Adjusted free cash flow[4] **Linked to our strategic goal** 2	Cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, and UK pension recovery payments.	Measures the Company's underlying cash generation that is available to service capital demands.	2018: 96 2017: 76 2016: 59 All figures are in $(m)	Generated good levels of free cash, and higher year on year, driven by increased adjusted operating profits, alongside controlled net working capital, whilst maintain CAPEX above depreciation.

KEY PERFORMANCE INDICATORS
CONTINUED

KPI	Description	Why we measure this	Performance (%)	2018 commentary
Return on capital employed (ROCE)[5] **Linked to our strategic goal** 2	Pre-exceptional operating profit from continuing operations for the year divided by capital employed (property, plant and equipment plus net working capital) at year end.	Measures the ability of the Company's assets to deliver returns.		Higher operating profits whilst successfully controlling our asset base.
Recordable accident rate (RAR) **Linked to our strategic goal** 3	Number of work-related injuries and illnesses per 100 Full Time Employees (FTEs) per year that are considered recordable by the US Occupational Safety and Health Administration ('OSHA').	Measures the performance of the Company in delivering a safe and healthy working environment for employees.	 Work-related Injuries per 100 FTEs	As a result of our new digital reporting system, which is more effective in capturing all incidents, both recordable and near misses, there has been a slight increase in the number of recordable incidents. At the same time the average lost time per incident has dropped substantially from 14.7 days in 2017 to 10.6 in 2018, reflecting a significant reduction in the severity of incidents.
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 2017 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 57 to 71.

1 Revenue growth in 2017 and 2016 excludes contribution from acquisitions made during the period. Revenue growth in 2017 and 2016 also excludes the discontinued North America Crafts business.
2 Adjusted operating profit growth in 2017 and 2016 excludes contribution from acquisitions made during the period. Adjusted operating profit growth in 2017 and 2016 also excludes the discontinued North America Crafts business.
3 Adjusted EPS growth in 2017 and 2016 excludes the discontinued North America Crafts business.
4 Adjusted free cash flow in 2017 and 2016 excludes the discontinued North America Crafts business.
5 ROCE based on adjusted operating profits and excludes the discontinued North America Crafts business. With effect from 1 January 2017 capital employed used in the definition of ROCE includes intangible assets in relation to recent acquisitions. ROCE for 2016 has been restated consistent with the current definition.

PEOPLE

Highlights for 2018
- Further strengthened H&S management programme moving from lagging to leading indicators
- Developed 'Doing the right thing' campaign to cover wider ethics and human rights issues
- Continued investment in leadership and management capability programmes

Priorities for 2019
- Establish H&S strategy for Journey to Zero
- Enhance our focus on health and well-being
- Embed capability building through world class talent and leadership programmes
- Diversity and inclusion strategy acceleration
- Simplify and standardise our key People processes and data analytics

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

CREATING A FAIR, SAFE AND INCLUSIVE PLACE TO WORK FOR ALL OUR EMPLOYEES IS OUR KEY PRIORITY.

Building capability and growing talent
Coats is a global organisation with thousands of team members spread across more than 50 countries around the world. It is vitally important that we harness the benefits that this diversity brings, while at the same time building a consistent and robust way of working. We are operating in changing times, as we transition from an industrial to an increasingly digital world.

Recognising that we must adapt and evolve our culture, we are engaging the right people with the right skills to support this change to ensure we remain competitive in the future. We are also actively embracing technology and new ways of working, while at the same time remaining respectful and inclusive, promoting positive teamwork and ensuring the well-being of all our employees.

This year we have made great progress. Our People strategy is helping us to deliver our Connecting for Growth global transformation programme. We have reviewed our management structures and business processes, and created a new global banding structure, which has resulted in a less complex organisational structure. This move is aligned with our company priority of simplification, and gives us greater flexibility and global consistency of job roles and responsibilities. It also offers our employees clearer career pathways to support their personal development.

We have continued to embrace digitisation, and in 2018 implemented a new online platform – SAP SuccessFactors, to improve and standardise the way we support and manage our people across the business. This is a powerful tool that allows us to have complete visibility of our talent pool globally. Data reports and analytics from this platform will provide us with better insights on talent utilisation, requirements, attraction, development and retention.

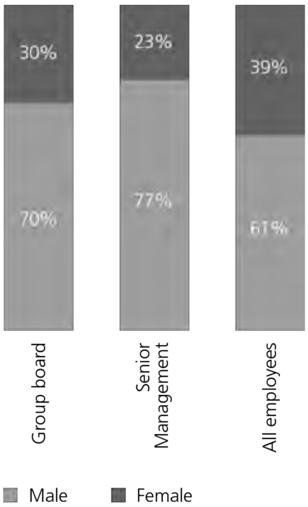
Growing our leadership capability
To meet our commercial goals and support the evolution of our culture, we are developing our technical and management capabilities. We are also focusing on attracting and retaining a talented workforce that delivers through innovation, collaboration and a growth mind-set.

Our two flagship leadership training programmes, Management Capability Development (MCD) and Transcend are designed to develop 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. In 2018, we deliberately increased the numbers of women engaged in both. This year, the role of functional Business Partner was introduced across the company. Business Partners take a proactive approach to working with other internal stakeholders to become trusted advisors and help advise on strategic planning and decision making.

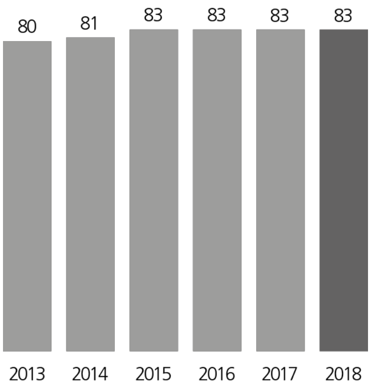
To support these employees, a new training programme was rolled out to help embed a growth mind-set, and develop the skills and knowledge needed to perform their new roles. We also ran a Sales Accelerator training programme for around 100 of our commercial leaders. The training built on the foundations that were laid with the salesforce effectiveness training that took place in 2014 and 2015. It enables participants to deliver profitable sales growth by taking full advantage of new opportunities unlocked by innovation and digitisation. To help deliver value to all our employees, we have significantly expanded the content on our digital learning portal. There are now approximately 2000 titles available in multiple languages, covering a whole range of topics from business skills to leadership and management.

PEOPLE
CONTINUED

Gender diversity[1]



Employee engagement score (%)



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

1 Senior management: Coats employees Grade 3 and below, excluding Board Directors.
2 As benchmarked by IBM Kenexa, a leading specialist survey organisation

Employee engagement and our inclusive culture

We strive to create an inclusive culture in an organisation where employees from diverse backgrounds can be comfortable, confident and aspirational at work. Our Diversity and Inclusion (D&I) strategy is centred around four key pillars: providing education and capability building through training in inclusive leadership and unconscious bias; establishing local D&I resource groups to share best practice; regularly measuring our demographics to track progress and establishing talent acceleration programmes to develop female, multicultural and millennial leaders of the future. Our D&I strategy is led by the Group Executive Team and through our Steering Group, which conducts regular global D&I Network calls.

We continue to identify relevant programmes and activities to identify opportunities and push for positive change so everyone has an equal opportunity to succeed. In March 2018, we celebrated International Women's Day under the global theme #PressforProgress. Both teams and individuals across the world identified actions that could be taken locally to support inclusion and increase gender diversity. We were pleased to see an increase in the percentage of females at senior levels and 32 nationalities represented amongst our 213 senior leaders this year.

Employees are our greatest asset and their well-being, happiness and professional fulfillment are of paramount importance to us. To measure our performance, we carry out a global employee engagement survey on an annual basis. The results of the 2018 survey showed a maintained engagement score of 83%, keeping Coats in the top 10% of companies globally[2] for the fifth year in a row. Participation rates remained high with 98% of people taking part. The results also included the Performance Enablement Index and the Manager Effectiveness Index which were 86% and 82% respectively. It is encouraging to see that overall scores continue to be high with all indices significantly exceeding the IBM global norm, and our engagement and enablement scores are amongst the top 10% of companies globally. This reflects strong support for the company's vision, strategy, values, culture, priorities and delivery. Coats' culture and performance has been recognised externally. There has been a selection of awards across the globe which recognise Coats' progressive position in this area. For example, Coats Brazil was included in the best 80 companies to work for in Brazil, Coats Indonesia was awarded 'Best company in Bogor' and Coats Vietnam was also named as one of the best companies to work for. These awards are testament to our commitment to the operation of a highly ethical business with high employment standards and a culture of openness and integrity, which in turn creates value for all stakeholders.

Ensuring a safe and healthy working environment

We are committed to maintaining high standards of employee safety and this remains our number one priority. In 2018, there was a focus on risk reduction in the workplace around the key risk areas of working at heights, electrical and forklifts. We are actively embedding a positive safety culture in our workplaces. During 2018 we undertook a project to install advance warning lights on all our forklift trucks, leading to a 25% reduction in safety incidents with these vehicles. Our second health and safety climate survey took place in May 2018 and we were pleased to see that 91% of our units scored better than the industry benchmark.

We have established a centralised H&S management system and during 2018 developed a new online incident and audit management system using the Intelex Management Software. We championed the use of Intelex through a global reporting campaign. This is now giving us increased visibility of our safety performance down to a local level. The data lake we are building within Intelex will enable us to become more predictive by mining data on areas of potential hazards. Our aim is to ensure that the working environments of all our employees across the world meet industry best practice standards and to date 13 of our manufacturing sites are certified to OHSAS18001. We are gradually moving over to ISO 45001, the new standard, with the target of having all our manufacturing sites certified by 2025. Our global total recordable injury rate was 0.58. This compares to 0.56 in 2017.

Our goal is an injury free workplace – our Journey to Zero strategy is now in place and we have established global objectives based on the top risks in the workplace. We are pushing to eliminate reactivity and instead are promoting the consideration of future accidents and then taking actions to prevent them. We are improving the dashboarding for real-time KPI tracking, insight and steer, and we are establishing learning processes and best practice networks. Our goal is to instil a true safety culture into the hearts and minds of all our teams; promoting an open mind-set to find smarter and more efficient ways to operate; and in this way transform our working practices for growth.

CORPORATE RESPONSIBILITY

Highlights for 2018
- New strategy with ambitious targets announced
- Continued savings in water use. 28% reduction per kilo produced over last 6 years
- Significant increase in water recycling, now 20%
- Continued reduction in manufacturing energy use, down 22% per kilo in last 6 years

Priorities for 2019
- Develop detailed plans to deliver strategy targets through to 2022
- Continue development of more sustainable product options
- Broaden the scope of our renewable energy programmes

For more about our approach to Sustainability see **www.coats.com/sustainability**

The priority areas in our new strategy cover all our top 10 material issues:

Priority area	Materiality issue
Water	Water consumption
Energy	Energy consumption
Effluent & emissions	Environmental footprint Environmental legal compliance
Living Sustainably	Waste generation & recycling Resource scarcity
Social	Health & safety Child Labour Forced Labour
All underpinned by	Transparency & reporting

WE HAVE SET AN AMBITIOUS NEW STRATEGY THAT WILL ACCELERATE OUR PROGRESS TOWARDS A MORE SUSTAINABLE FUTURE.

Sustainability is one of the foundations guiding all that we do. These foundations underpin our decision making and are an important part of our commercial success. This goes well beyond just doing the right thing in the communities where we work or protecting the environment near our factories, it's about enhancing our business and creating new opportunities to be more efficient, develop better products and build stronger relationships with our stakeholders.

Our customers are increasingly pursuing their own ambitious sustainability agendas, so it is to our advantage if we can help them do this. In turn, this enables us to access new markets and opportunities to grow our business. Our investors value this growth, as well as the protection of their investment as we manage the social and environmental risks faced by a global manufacturing business. And our employees are motivated and proud to work for a company that is innovative, well managed and takes its responsibilities seriously.

Managing our environmental, social and governance responsibilities
Sustainability is part of our everyday business, not just a siloed activity of the few. Achievement of the objectives we set rests within the functions that have the expertise and resources to realise them. Oversight and monitoring of our progress is provided by a Sustainability Delivery Team of senior leaders from across the business, chaired by three Global Executive Team members.

Last year we reported on the work we had undertaken to establish key areas of focus for our sustainability programme. This included a global materiality assessment to identify the key issues for our business based on relevance to the achievement of our commercial goals and relevance to our stakeholders. During 2018, we have gone further to develop an ambitious new strategy for Coats which we are proud to launch this year. More details on our strategy and our key targets can be found within our 2018 Sustainability Report, downloadable from our website.

Our strategy 'Pioneering a sustainable future' focusses on five priority areas where we can accelerate progress, through the targeted investment of capital and resources. These are:

- Water: Managing precious resources wisely
- Energy: Renewables for sustainable future
- Effluent and emissions: Working for a cleaner world
- Living Sustainably: Protecting our planet
- Social: Creating safe and sustainable places to work

CORPORATE RESPONSIBILITY
CONTINUED

Economic contribution ($m)

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

63%

Of our packaging is now from recycled material, up from 57% in 2017

20%

Of all our water is internally recycled and reused. In some plants up to 95% of water is reused

Water usage
(litres per kg of dyed product)

Managing precious resources wisely

Without water we could not make thread. Most of the water we use is in dyeing our products, but it's also used to produce the raw materials we need and throughout the manufacturing process. It is a vital and shared resource and we need to make sure we use it efficiently, particularly as water is scarce in some parts of the world.

We have continued to reduce water use per kg of dyed product by 3% compared to 2017. This is mainly through changes to processes we use, but also through increased awareness amongst our employees.

In all the new dyeing machines that we install, we are now able to dye with half the amount of water used in traditional machines, so as we replace old machines or expand capacity, we will utilise increasingly less water.

We have also increased the amount of water we recycle, which now represents over 20% of the total amount we use. For example, at our manufacturing unit in Sevier, in the US, we have started to recycle water discharged from the water-cooled air conditioning system saving 10% of the site's total water use every year.

Working for a cleaner world

At Coats, we aim to ensure that the water we discharge is safe and will not damage the environment around our factories. 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 and ensure that effluent is properly treated.

We have robust programmes in place to ensure we comply with local legislation, which is becoming more and more stringent, but often we will go further than this investing in new technology to treat the effluent we produce. Since 2016, we have committed over $10 million in the construction of new treatment plants at our facilities in Bangladesh, Honduras, India and Vietnam.

We have also started a programme to automate and enhance the testing of wastewater from our manufacturing sites. The new system automatically measures the water quality and triggers an alarm if any of the key parameters gets close to, or above, the limits we have set. This enables us to monitor wastewater quality in real time and decide what action to take to continuously ensure our compliance with our standards.

Renewables for sustainable future

The use of fossil fuels and the associated greenhouse gas emissions contribute to climate change. Climate change can potentially damage our business and the communities we serve, as global temperatures increase, and weather patterns are affected. We have a responsibility to reduce our contribution and mitigate these risks.

In 2018, we generated 302 thousand tonnes of greenhouse gas emissions. This is reduction of 2.7% compared to the same period the previous year, despite production increasing by 0.7%. As a result, emissions per kilo of dyed product we produced fell by 3.4%, as we have invested in more efficient production processes and sourcing of more renewable energy. Last year, the latter accounted for 28% of all the energy we used.

Protecting our planet

To ensure growth, now and in the future, it is important that we use resources efficiently. We reduce, reuse and recycle our waste, using resources economically and limiting the disposal of waste to landfill.

In 2018, we have focused on extending our waste reporting to include all areas of our business activities and to form the basis for our future reduction targets. In 2018, 8% of our purchased materials became waste of which 76% was reused or recycled.

Furthermore, we are increasingly using others' waste to produce innovative new recycled products. For example, we manufacture our recycled EcoVerde threads from discarded plastic (PET) drinks bottles. Coats EcoVerde is the only globally available 100% recycled range of premium sewing threads on the market today and offers the same proven level of performance as the industry's leading non-recycled threads. The core products in this range were launched in 2018 so sales are currently small but demand is growing rapidly. We also manufacture recycled metal and plastic zips, Opti M EcoVerde and Opti S EcoVerde. We have also increased the use of recycled material in our product packaging. This now accounts for 63% of our packaging (compared to 57% in 2017).

CORPORATE RESPONSIBILITY
CONTINUED

Energy use
(Kwh per kg of dyed product)

Emissions intensity*
(tonnes CO_2e/$m sales)

* For a table of results ranging from 2011-2018 see Directors' Report page 72. These figures are based on continuing and discontinued operations, so NA Crafts, sold on 20/02/19, is included.

Renewable energy
(% of total energy used in year)

We also work closely with our customers to help them use more sustainable materials and reduce their waste. For example, we have developed advanced, high-performance thermoplastic products that are lightweight yet extremely strong for use in the automotive and aerospace industries. This can help reduce the weight of vehicles making them more efficient to run, but that can also be moulded into the right shape and size, so reducing waste during the manufacturing process. They are also recyclable.

Creating safe and sustainable places to work
We attach great importance to running our business and partnerships in a transparent and ethical manner. We maintain high standards, and this applies to our everyday decision-making and how we communicate with our stakeholders.

Our global Ethics Code, Business Code of Conduct and Anti-Bribery Policy apply to all employees, and we expect our suppliers to abide by the principles laid out in these documents. All senior employees and those with customer facing roles undertake ethics and compliance training. These courses are done as part of the induction for new starters and every 2 years to refresh. In 2018, over 4100 employees completed the course. Our 'Doing the right thing' programme embeds this further into our culture, with around 41 Ethical Culture Champions in 32 countries acting as points of contact and support across the world. In October we held our second Global Ethics Day with the theme of #Ethics&Me.

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. 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. This year we have also developed and launched online training to raise awareness of the risks of Modern Slavery and how to prevent it within our supply chain.

We are committed to maintaining high standards of employee safety and engaging with our workforce on issues that matter to them. More information on this can be found on page 19.

Non-Financial Information Statement
We aim to comply with the Non-Financial Reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. Further information on the basis of preparation of our non-financial information can be found in our 2018 Sustainability Report and online at **www.coats.com/sustainability**

PRINCIPAL RISKS AND UNCERTAINTIES

Highlights for 2018
- Strong execution of the global transformation programme resulting in this risk now becoming stabilised
- Consolidating of the three UK defined benefit pensions schemes into one single scheme and simplifying our governance requirements; and agreeing a single funding valuation which sets our UK pension deficit contributions for the next three years at an affordable level
- Implementing a global digital platform to ensure prudent management of our environmental non-performance risk
- Conducting a comprehensive review of the Principal Risk Register resulting in movement of principal risks both upwards and downwards to reflect the changing internal and external risk landscape
- Risk management discussions as a standing agenda item at every Board meeting

Priorities for 2019
- Ongoing monitoring and management of the increasing supplier risk
- Focus on economic risk ensuring there is continuous assessment of, and contingency planning for, the evolving economic environment
- Ensuring the global strategic transformation programme is fully embedded across the business
- Through our Supplier Code and other programmes, ensuring we are continuing to consistently embed our values and compliance requirements

'Good risk management drives better commercial decisions, ensuring the growth of a resilient and sustainable business.'

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

Overview
Risk is inherent in all business activities and as a global industrial manufacturer, we maintain a comprehensive risk management framework that serves to identify, assess and respond to such principal risks. We also operate in a meritocratic culture with a clear commitment to maintain, foster and promote an ethical, legal and sustainable business environment.

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

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

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.

Culture
The Board is keenly aware that the effectiveness of our risk management is dependent not only on systems and processes but also on behaviours. At Coats, there is a culture of openness and transparency in how we make decisions and manage risk.

During 2018 we continued to review and reinforce our Ethics Code and supporting policies, training, communications and compliance activities – this also included further training and auditing in relation to our comprehensive Supplier Code.

Our focus on reinforcing ethical business behaviour and compliance has been enhanced through an ongoing Coats Ethical Culture programme at both Group and local levels. Ethics and integrity, along with Health & Safety, are at the core of our organisation's DNA, and we continue to embed our ethical culture in order to mitigate against potential scenarios which could put the organisation at risk. Employees are proactively encouraged, through training, discussions and other means, to act with integrity and to question any unethical behaviour. Our programme of 'Doing the Right Thing' in 2018 also included sharing numerous positive examples of when employees clearly did the right thing, as well as examples of employees calling out unethical practices and behaviours – all of which drives greater understanding, engagement, discussion and transparency among employees across the Group. As demonstration of that, the 2018 whistleblowing figures compared to 2017 show that twice as many concerns were raised in 2018 but also show a one third drop in the number of those concerns which were upheld after investigation, indicating an increasingly sensitised and ethically engaged workforce, along with a decrease in the proportion of actual ethical incidents. See whistle blowing procedure on page 55.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

'Health and safety, ethics and integrity are at the core of our organisation's DNA.'

'Understanding the risks that our business is exposed to, and deploying strategies that ensure residual exposures remain within acceptable parameters is key to managing our business well.'

Identification and management of risk
Understanding the risks that our business is exposed to, and deploying strategies that ensure residual exposures remain within acceptable parameters, is key to managing our business well. Our risk framework is based around four categories, which are used to build the Group Risk Register. Focusing on the risks that may impact the strategic objectives of Coats, the Board has then defined 10 principal risks within that Group Risk Register. These risks, and the steps we have taken to mitigate these risks, are detailed on the following pages.

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, the Audit & Risk Committee 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 aggregated 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 further below.

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.

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

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

The Principal Risks that the company is exposed to fall into the categories of:

- 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.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Throughout the year, the Board has kept each of the principal risks under review with support from the Group Risk Management Committee. The Board also undertook a comprehensive assessment of the principal risks facing the Group, along with the current levels of risk tolerance for each of those risks. Due to the ever-changing global risk environment, the following risks have been updated since 2017:

NEW	'Risk of supplier non-performance and/or unavailability and/or price increases of raw materials' has been moved up from a Key Risk to the category of Principal Risk in light of various market developments leading to limited availability of a number of key raw materials and a restricted number of suppliers for certain such raw materials.
DEMOTED	'Risk of failure to identify, understand and respond to customer and end user expectations' has been moved down and off the list of Principal Risks and is now categorised as a Key Risk due to the ongoing focus, monitoring and actions taken by the management team throughout the course of 2018.
DEMOTED IN PART	'Risk of legacy environmental matters': with the exception of the Lower Passaic River matter. This has also been moved down to become a Key Risk in light of the ongoing focus, monitoring and mitigating actions taken by the management team.
FROM STABLE TO INCREASING	'Economic Risk' is increasing in light of the ongoing political uncertainty in various parts of the world and the uncertainty that this brings in particular in relation to free trade conventions.
FROM INCREASING TO STABLE	'Connecting for Growth programme': the execution risk in relation to this programme is now stabilised as a result of the progress in the structural, operational and financial deliverables during 2018 – the focus is now very largely on fully embedding the programme in 2019.
FROM INCREASING TO STABLE	'Cyber Risk': the trend for this risk has now stabilised as a result on the ongoing focus, monitoring and actions, including various technology enhancements as well as a range of policies, standards and training programmes, implemented by the management team throughout the course of 2018.
FROM STABLE TO DECREASING	'Pension scheme deficit funding risk': has gone from stable to decreasing because of the agreement of a single funding valuation setting our UK pension deficit contributions, for the next three years, at an affordable level.

Our principal risks, along with a summary of the measures we have put in place to manage and mitigate them, are set out in the table below.

As stated above, the Board will continue to keep these principal risks, as well as the appropriateness of this list and the ever evolving broader risk environment, under ongoing review.

Principal risk	Risk nature / potential impact	Action / mitigation
1. STRATEGIC:		
Connecting for Growth programme **Trend on year:** Stable ~ (2017: New risk)	Execution of global transformation programme – in particular implementation of digital offering and global functional model.	The Group is continuing to make changes to its operating model in order to increase productivity, promote efficiency in its supply chain and thereby enhance 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 Group Executive Team member, Ronan Cox, supported by a team of project managers. The programme is monitored regularly, including through the use of key performance and risk indicators, and regular pulse surveys are carried out to ensure the programme continues to drive colleague engagement in terms of the change process. Financial savings are checked monthly by the finance function. Regular reviews are held at executive management and Board level to ensure the programme continues its very positive progress in delivering on its change management programme and in fully embedding the relevant processes and behaviours to become part of business as usual in 2019.Leadership of the programme is provided by a Chief Transformation Officer supported by a team of project managers. The programme is monitored regularly, including through the use of key performance and risk indicators and regular pulse surveys are carried out to ensure the programme continues to drive colleague engagement in terms of the change process. Financial savings are audited monthly by the finance function. Regular reviews are held at executive management and Board level to ensure the programme continues its very positive progress in delivering on its change management programme and in fully embedding the relevant processes and behaviours to become part of business as usual in 2019.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk nature / potential impact	Action / mitigation
Appropriate talent and capability development **Trend on year:** Stable ~ (2017: Stable ~)	Risk of failure to develop 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. 2018 capability development actions included training new cohorts on a range of management and senior leader development programmes such as Transcend, Business Partnering and Sales Accelerator training. 2018 also saw Board approval of an updated People Strategy to support the changing roles and capabilities required by the business over the next three years. In 2019, we will offer specific training in order to develop our senior business leaders for future Group Executive Team opportunities.
2. EXTERNAL:		
Economic risk **Trend on year:** Increasing ↑ (2017: Stable ~)	Economic risk arising from political and demand uncertainty – including risk to free trade conventions.	The economic outlook for many of the markets in which Coats operates remains highly uncertain. Geopolitical events in recent years and, in particular, the risks to free trade, including in light of ongoing US/China trade discussions, and the potential consequences for economic growth, add to this uncertainty. However, the breadth of our portfolio and our geographic reach help to mitigate our exposure to any particular localised risk and enable us to meet demand if brands/customers were to transition to other countries. As a global industrial manufacturing company with no UK manufacturing facilities and minimal direct sales in the UK, Coats is of the view that there would be limited direct adverse impacts on the Group from 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 for our business. We also maintain an appropriate dialogue with our key customers and suppliers regarding their own risk management and mitigation plans including in relation to Brexit. Whilst there continue to be a number of uncertainties in connection with the 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. Many years of exposure to emerging markets have given us experience of operating and developing our business successfully during periods of economic and political volatility. We continually monitor and analyse economic and demand indicators to ensure that our supply chain remains flexible and our product portfolio remains relevant. This analysis provides a key input to our product development, business planning and pricing strategies. The Group's international footprint and comprehensive portfolio also provide a mitigating balance in our exposure to both EU and non-EU markets.
Cyber risk **Trend on year:** Stable ~ (2017: Increasing ↑)	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 loss of data. We deployed a new vulnerability management solution to enhance the ability to detect common vulnerabilities. This enables us to detect issues before they are able to harm our environment. In 2018, we also delivered a programme of online training to the Group. Technology enhancements were also put in place, including further firewall blocking of non-approved applications, the expanded deployment of multi-factor authentication, deployment of an email encryption solution for all high-risk users and centralisation of data into Microsoft Azure which both protects the data and creates enhanced tracking capabilities. We also deployed a data loss prevention solution to allow us to detect and/or block sensitive data transfers when data is sent to a non-Coats location. Plans for 2019 include adding a managed security operations centre which will bring the monitoring of our network from a security perspective up to 24x7x365. We also plan to add enhanced technology such as intrusion detection, data and asset labelling, asset tracking, improving our identity and access management, and mobile device management to better control our phones and tablets.
Environmental non-performance risk **Trend on year:** Stable ~ (2017: Stable ~)	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. The Coats Global Environmental Policy was updated during 2018 with a greater focus on Leadership and Commitment. A communications campaign took place to assist in communicating the policy and its meaning to teams across the Group. We also implemented a global digital platform for environmental incident reporting. This further reduces our environmental risk by leveraging risk-assessed improvement actions to prevent re-occurrence of environmental incidents. Compliance with all applicable environmental legal requirements is a minimum standard for the Group and is monitored very closely at both a local and Group level. In 2018, a pilot for an advanced environmental legal register with enhanced evaluation of legal compliance took place in China and discussions regarding a broader roll-out are ongoing. The Board have sanctioned the implementation of a harmonised global system for management of energy and environment aligned to ISO 50001 and ISO 14001 respectively, as part of the wider materiality strategy. During 2018, the Group eliminated the persistent organic pollutant, polychlorinated biphenyl, from the high voltage electrical infrastructure.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk nature / potential impact	Action / mitigation
3. OPERATIONAL:		
Risk of supplier non-performance and/or unavailability and/or price increases of raw materials **Trend on year:** Increasing ↑ (2017: Key risk)	Risk of local and broader economic and regulatory market developments leading to limited availability of key raw materials and/or restricted number of suppliers for such materials.	The Group conducts scenario analysis on each of our key raw materials to assess what counter measures can be put in place if certain events were to occur. Regular assessment of financial performance of key suppliers and evaluation of suppliers' own risk management plans is undertaken and our dependency on key suppliers and raw materials is reviewed frequently. Our supplier portfolio is also kept balanced with a view to further minimising risk. There is ongoing development of a pipeline for alternative suppliers and product substitution. In order to remain alert to market developments, procurement teams maintain access to good market intelligence on key raw materials and feedstocks. In addition to this we continue to work with third party experts on market developments and market insights.
Products and services liability risk **Trend on year:** Stable ~ (2017: Stable ~)	Products and services liability risk arising in particular from Performance Materials and software services.	Our products and services are tested and measured against stringent quality standards. As a result of our ongoing strengthening of controls in the Performance Materials area with enhanced batch by batch testing of safety critical products, pass rates are at an all-time high. In 2018, we drove digital automation with direct Internet of Things (IoT) linkage implemented between testing equipment and the SAP quality module in order to minimise the risk of human error. We worked towards fail-safe restrictive programming to prevent the risk of the sale of unapproved products to safety-critical customer sectors and we introduced additional key risk indicators to track monthly and quarterly progress. Due to these actions, there have been a reduction in the rate of customer quality complaints and zero major non-conformances reported in key automotive management systems audited during 2018. There were also zero incidences of contamination reported in feminine hygiene during 2018. In 2019, Coats will be deploying a failsafe digital solution to eliminate product mislabelling and will continue to extend the deployment of IoT connectivity beyond existing safety critical testing, using IoT data to continue to increase the internal safety critical pass rates. Coats' global insurance programme includes product liability cover.
Bribery and anti-competitive behaviour risk **Trend on year:** Stable ~ (2017: Stable ~)	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, training, ongoing compliance and auditing). These policies are reviewed annually. There is extensive online and face-to-face training and regular communications through a range of channels including through our global ethical champions network. A sub-committee of the 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. Awareness of the system, together with the risk and the policies, has been increased through an ongoing Ethical Culture Campaign which operates at a Group and local level. See page 22 for more details.
4. LEGACY RISKS:		
Pension scheme deficit funding risk **Trend on year:** Decreasing ↓ (2017: Stable ~)	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 UK pension scheme is overseen by its Trustee Board, which is required to have the appropriate knowledge and understanding in this area. Independent professional trustee Directors are appointed to the Trustee Board to provide additional expertise. In particular, professional investment advice is taken as necessary; and assets diversified by class and geography and currency exposures hedged where appropriate. Interest rate and inflation exposures are hedged at appropriate levels (currently >80% of interest rate and inflation linked liabilities are hedged). Consolidation of the three UK defined benefit pensions schemes into one single scheme has simplified our governance requirements; and the agreement of a single funding valuation has set our UK pension deficit contributions for the next three years at an affordable level. The Group and the Trustee Board routinely review de-risking of the scheme through liability management and investment strategies. See note 10 on page 112 for more details.
Lower Passaic River Legacy environmental matter risk **Trend on year:** Stable ~ (2017: Stable ~)	Detail of the Lower Passaic River legacy environmental matter can be found in note 28 on page 134.	The Board continues to monitor developments very closely and oversee the strategy in relation to the Lower Passaic River proceedings. More details can be found in note 28 on page 134.

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 2021.

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 2021 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 25 to 27 as well as other risks that could crystallise during the medium term. The Directors also considered the Brexit risk which sits within the Group's principal Economic Risk, but for the reasons set out on page 26 in the principal risks table, did not include that element within the set of risks specifically modelled in preparing this statement.

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

- A global economic downturn;
- 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

Industrial continuing operations

	2018 $m	2017[6] $m	Inc/(dec) %	2017 CER[1]	CER[1] inc/(dec) %	Organic[5] inc/(dec) %
Revenue[2]						
By business						
Apparel and Footwear[3]	**1,083**	1,081	0%	1,059	**2%**	**2%**
Performance Materials	**332**	275	20%	271	**23%**	**7%**
Total	**1,415**	**1,356**	**4%**	**1,329**	**6%**	**3%**
By region						
Asia	**791**	759	4%	750	**5%**	**5%**
Americas[3]	**349**	323	8%	312	**12%**	**(1)%**
EMEA	**275**	274	0%	267	**3%**	**3%**
Total	**1,415**	**1,356**	**4%**	**1,329**	**6%**	**3%**
Adjusted operating profit[2,4]	**195**	**161**	**21%**	**157**	**24%**	**23%**
Adjusted operating margin[2,4]	**13.8%**	**11.8%**	**190bps**	**11.8%**	**200bps**	**220bps**

1 2017 figures at 2018 exchange rates.
2 Includes contribution from bolt-on acquisitions made during the period.
3 Now includes Latin America Crafts
4 On an adjusted basis which excludes exceptional and acquisition related items.
5 On a CER basis excluding contributions from bolt-on acquisitions
6 Restated to include continuing results following NA Crafts disposal and to reflect the adoption of IFRS15.

Revenues from Industrial continuing operations increased 4% on a reported basis, with 6% growth on a CER basis offset by a 2% foreign exchange translation headwind. The 6% CER growth consisted of 3% organic growth and a 3% contribution from the acquisition of Patrick Yarn Mill (acquired in December 2017). This strong performance was due to continued momentum in the Apparel and Footwear business (~75% of Group revenues) which was up 2% on a restated basis, and accelerated growth in our Performance Materials business with 23% growth (7% organic growth and 16% contribution from the Patrick Yarn Mill acquisition).

Adjusted operating profit A from Industrial continuing operations increased 24% to $195 million on a CER basis (2017: $157 million) and operating margins were up 200 bps to 13.8% (2017: 11.8%). Year-on-year productivity and procurement improvements broadly offset other structural inflation (e.g. wages and energy) and manufacturing variances due to lower activity levels in certain territories (e.g. Americas). The raw material cost increases seen during the year (partly linked to the rising oil price) were recovered in full through price however this one-to-one value recovery resulted in a dampening of the reported gross margin percentage. Operating margin progression was driven by continued cost control and the initial benefits from the Connecting for Growth programme that have been realised faster than initially anticipated ($15 million net savings, after reinvestments).

On an organic basis, operating margins increased by 220bps, which is above the CER increase of 200bps, as the latter was impacted by the anticipated initial dilution of margins from the Patrick Yarn Mill acquisition. Over time and in line with the business plan, it is anticipated that Patrick Yarn margins will trend towards Group levels.

On a reported basis, operating profit (which is after exceptional and acquisition related items) decreased 5% to $147 million (2017: $154 million), primarily due to the initial exceptional reorganisation cost incurred in relation to the Connecting for Growth programme, the UK guaranteed minimum pension equalisation, and a further accrual for Lower Passaic River (LPR) legal costs.

OPERATING REVIEW
CONTINUED

Apparel and Footwear (A&F)
In A&F, our core thread business continued its strong growth (up 4%) as key Asian markets performed strongly, although the headline growth of 2% was impacted by slower demand for zips due to certain in year fashion trends, and a 15% decline in Latin America Craft sales (previously reported within the Crafts division). This strong thread performance delivered further market share gains, despite continued mixed demand from retailers, and was underpinned by our continued focus on product innovation, digital solutions and our strong corporate responsibility and sustainability 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. For example, there were further enhancements to our customer facing eCommerce platform, such as automated payment reminders via the use of data analytics. In addition, revenue growth was further supported by the launch of innovative new products, for example providing an engineered footwear yarn solution for the China domestic market, and we have developed various new innovative threads to enhance customers' quality of products in high impact end uses (e.g. denim and anti-wicking). Our innovation credentials have been further enhanced by the opening of our first global Innovation Hub in North Carolina, US, and two new hubs will be opened in Turkey and China in H1 2019. These facilities provide opportunities to collaborate with our customers and brands, and work with them to create innovative new product solutions to meet their specific design needs.

Performance Materials
Performance Materials revenues grew 23% in the period on a CER basis (20% reported), which includes a 16% contribution from the acquisition of Patrick Yarn Mill (acquired in December 2017). Organic growth of 7% showed an accelerating trend during the year (5% organic growth in H1) and was driven by strong growth in many of our key emerging markets as we continued to drive geographic expansion of existing products across the Coats portfolio, and leveraging Coats' global customer base.

Growth in hi-tech end uses (for example flame retardant yarns and telecommunications) which now account for around 60% of Performance Materials revenues remained strong throughout the period delivering 21% organic growth. The business also continued to grow revenues in new, innovative products, and over 20% of our organic Performance Materials revenues were in relation to products that did not exist five years ago (for example, Coats Synergex and Flamepro). The US consumer durables market (e.g. 'traditional' end uses such as bedding) remained relatively soft.

Geographical performance
By geography, we saw strong organic revenue growth in Asia (up 5% on a CER basis) as momentum in key A&F markets (e.g. Vietnam, Indonesia, Bangladesh and India) continued. Revenues in EMEA rose 3%, which followed the strong growth seen in 2017 of 9%. This reduced growth was partly due to lost revenues from certain peripheral markets that were exited in the period (as part of the Connecting for Growth programme), and softer zips demands. In the Americas, organic revenues decreased marginally, where an encouraging performance in certain Latam markets (e.g. Performance Materials revenues in Brazil and Mexico which both saw strong double digit growth), was offset by the US consumer durables market remaining relatively soft, and a 15% decline in Latin America Crafts revenues (previously reported within Crafts division) due to weakness in the key markets of Brazil and Argentina.

FINANCIAL REVIEW

Simon Boddie
Chief Financial Officer

Highlights for 2018

- Agreement of Coats UK Pension Scheme triennial valuation
- Sale of non-core North America Crafts business complete 20 February 2019

Priorities for 2019

- Delivering another year of improving performance through effective execution of our strategy
- Continue implementation of Connecting for Growth

A Alternative Performance Measures – see note 37 on page 152

UK pensions triennial valuation update

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

The Group has agreed ongoing annual deficit recovery payments of £20 million ($26 million) per annum increasing annually by the increase in the Retail Price Index (first increase in January 2020) based on a Technical Provisions deficit of £252 million ($322 million). The latest Technical Provisions deficit is significantly lower than the last triennial valuation deficit (31 March 2015) of £582 million ($743 million) due to upfront lump-sum payments into the scheme of £329 million ($420 million), the ongoing deficit recovery payments, with some offset from other valuation factors (primarily as a consequence of a reduction in real UK discount rates since March 2015).

As before, the Group will also meet Scheme administrative expenses and levies estimated at £4 million ($5 million) per annum in the future (i.e. total ongoing payments of £24 million ($31 million) per annum). The new deficit recovery payments will be effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous three UK schemes.

The previously agreed level of deficit recovery contributions was £17.5 million ($24 million), including estimated administration expenses and levies. As a result of the timing of the start of the new contributions, 2019 deficit recovery contributions, including estimated administration expenses and levies, are anticipated to be £22 million ($29 million).

Discontinued operations – sale of North America Crafts

On 22 January 2019, it was announced that we had agreed to sell the non-core North America Crafts business to Spinrite Acquisition Corp, a leading provider of craft products in North America. This transaction was subsequently completed on 20 February 2019. The headline acquisition proceeds were $37 million, which was on a debt and cash free basis, and was subject to an adjustment for the level of net working capital as at the time of completion.

The sale of our standalone North America Crafts business allows the Group to focus completely on the high performing business-to-business global Apparel and Footwear, and Performance Materials businesses. The sale proceeds will initially be used to reduce Group net debt, and subsequently to fund further value accretive bolt-on acquisitions principally in the strategic focus areas of high growth and hi-tech Performance Materials and Software Solutions businesses.

In 2018 the North America Crafts business generated sales of $128 million (2017: $150 million) and an operating profit of $3 million (pre an allocation of corporate costs) (2017: $13 million). The declining revenues in 2018 reflect the impact of the first half sale of the smaller lifestyle fabrics business ($10 million revenues in H2 2017), the introduction of own-label handknitting products at a major customer (which commenced in H2 2017), and general weak market conditions.

North America Crafts results, which include the results of the smaller lifestyles fabrics business, are reported as discontinued operations in the Group financial results (2017 results also restated), and an exceptional impairment charge to reduce the net assets to fair value of $18 million (which includes costs to complete the transaction) has been recorded in 2018 accordingly. We anticipate approximately $2 million of stranded costs will remain with the continuing Industrial business in North America following the disposal of the Crafts business.

The segmental reporting of Coats Group plc has been amended (with 2017 comparatives restated accordingly) to report the smaller Latin America Crafts business within the Industrial segment following its integration with the wider Latin America business. Following the sale of the North America Crafts business future segmental reporting is under review, and is anticipated to be reflected in the H1 2019 financial results due to be released in August.

FINANCIAL REVIEW
CONTINUED

Financial review

Adjusted operating profit Ⓐ from continuing operations increased 24% to $195 million on a CER basis (2017: $157 million) and operating margins were up 200 bps to 13.8% (2017: 11.8%). On a reported basis, operating profit (which is after exceptional and acquisition related items) decreased 5% to $147 million (2017: $154 million), primarily due to the initial exceptional reorganisation cost incurred in relation to the Connecting for Growth programme, the UK guaranteed minimum pension equalisation, and a further accrual for LPR legal costs.

Financials on a reported basis were impacted by the relative strength of the US Dollar compared to 2017, resulting in 4% growth in reported revenues year on year (vs a 6% growth on a CER basis), and 21% growth in adjusted operating profit (vs a 24% growth on a CER basis). As the Company reports in US Dollars and given that its global footprint generates significant revenues and expenses in a number of other currencies, a translational currency impact can arise. The main currency impact during the year was the strengthening US Dollar against the Indian Rupee, Chinese Yuan, and Turkish Lira. If the reported 2018 results had been translated at exchange rates as at 31 December 2018 then Group revenue and adjusted operating profit would have been $30 million and $4 million lower respectively, and therefore we expect a further FX headwind to continue into 2019.

Adjusted earnings per share ('EPS') Ⓐ for the year increased 21% to 6.9 cents (2017: 5.7 cents) due to higher adjusted operating profits (21% reported growth), a 100bps reduction in underlying effective tax rate to 31% (excluding 2017 benefits from US tax reforms), and a $6 million reduction in the IAS19 pension finance charge. These year-on-year improvements were offset by certain foreign exchange impacts, notably a $1.6 million MTM foreign exchange losses on future hedging contracts (vs a $1.3 million MTM gain in 2017), and an increase in interest costs.

On a reported basis, the Group generated an attributable profit from continuing operations of $55 million compared to $71 million in 2017. The reduction primarily being due to a $35 million increase in exceptional and acquisition related items (net of tax) arising mainly from the initial Connecting for Growth programme reorganisation charges, the UK guaranteed minimum pension equalisation, and a further accrual for LPR legal costs (see later for details). Including the impact of discontinued operations in relation to North America Crafts, and the associated loss on disposal, reported attributable profit for the Group was $39 million compared to $81 million in 2017.

The Group delivered an adjusted free cash flow Ⓐ of $96 million in 2018 (2017: $76 million) which reflects the strong adjusted operating profit performance and controlled working capital, whilst sustaining the previously indicated higher levels of capital expenditure. As a percentage of revenues, net working capital as at 31 December 2018, is broadly in line with the same time last year at 9.5% (continuing operations).

Return on capital employed (ROCE) Ⓐ improved significantly on 2017 to 43%, due to higher adjusted operating profits from continuing operations and controlled working capital.

Non-operating results

Net finance costs in the year were $24.4 million, marginally up from $23.3 million in 2017. The key drivers of the increase in net finance costs in the period were higher interest on borrowings ($1.1 million increase) due to a larger proportion of fixed rate debt (following the USPP issuance in December 2017) and increasing rates on the floating debt element, a $1.6 million MTM foreign exchange loss (Dec 2017 $1.3 million MTM foreign exchange gain), and a $2 million increase in other finance costs (e.g. local FX impacts and interest on VAT balances (vs a credit in 2017)). These were offset by a $5.6 million reduction in the pensions finance charge (as a result of the significant reduction in IAS19 pension deficit following the lump-sum cash settlement payments made in 2017).

The taxation charge for the year was $49 million (2017: $44 million) resulting in a reported tax rate of 40% (2017: 34%). Excluding exceptional and acquisition related items, the impact of IAS19 finance charges and the one-off impact of the US tax reform (in 2017), the underlying effective rate on pre-tax profits reduced year-on-year by 100bps to 31% (2017: 32%) which was driven by Advanced Pricing Agreement ('APA') negotiations with India and Indonesia and a reduction in the total unrelieved losses in the year compared to the prior year, partially offset by an unfavourable movement in profit mix.

Ⓐ Alternative Performance Measures – see note 37 on page 152.

FINANCIAL REVIEW
CONTINUED

Profit attributable to minority interests was $19 million (2017: $14 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 $48 million in the period. These primarily relate to the exceptional reorganisation charge arising from the Connecting for Growth programme ($23 million out of a total expected charge of $30 million for the programme), the UK guaranteed minimum pension equalisation ($10 million), and an increase to the legal provision costs in relation the to the Lower Passaic River (LPR) environmental matter ($8 million).

In addition, there was amortisation of intangible assets acquired in the recent acquisitions ($2.3 million), contingent consideration in relation to these acquisitions ($4.3 million), offset by an exceptional pension gain following the wind up of the three UK pension schemes ($1.8 million). In 2017 net exceptional and acquisition related items before taxation totaled $9.1 million.

UK Guaranteed Minimum Pension Equalisation
During the year an estimated past service charge of $10 million has been recognised following the Lloyds Banking Group judgement in October 2018 and the requirement for all UK pension schemes to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions. This represents an increase of approximately 0.35% of pension scheme liabilities and is included in the Technical Provisions deficit of £252 million resulting from the recent triennial valuation.

Lower Passaic River
In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that it 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.

On 30 June 2018, Occidental Chemical Corporation ('OCC'), the party that has been identified as being responsible for the most significant contamination in the river, filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC has since released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's belief that it is a de minimis party.

During the year ended 31 December 2018, an additional provision of $8.0 million has been recorded as an exceptional item to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues. There has been no change to the level of provision for potential remediation costs, beyond the $9.0 million provision made in 2015, which was based on the estimated share of CC's de minimis costs. As a result of this further provision for legal and professional fees the total LPR provision at 31 December 2018 was $17.6 million (31 December 2017 $11.3 million).

Following the sale of North America Crafts, which was announced on 22 January 2019 and subsequently completed on 20 February 2019, Coats retains the control and responsibility for the eventual outcome of the ongoing Lower Passaic River environmental matters. There is no change in the Group's overall position in relation to this matter as a result of the sale of North America Crafts.

See note 28 for further details.

Discontinued operations
In addition to the above exceptional and acquisition related items, and as referred to earlier, as a result of the disposal of the non-core North American Crafts business (completed on 20 February 2019) an exceptional loss on disposal of $18.4 million has been incurred in 2018. This relates to a partial write down of operating assets to the level of sales proceeds, as well as the costs incurred to complete the transaction.

FINANCIAL REVIEW
CONTINUED

Investment
Capital expenditure in the year, in addition to ongoing maintenance requirements, related to new product development (e.g. on-going development of our three global innovation hubs, the first of which opened in North Carolina, US, in the second half of the year), process improvements, digital tools, capacity expansion, health and safety, and environmental spend. The latter includes projects such as effluent treatment plants (of which one went live in our Honduras facility during the year) 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 benefiting the local communities that we do business in. Total capital spend for the year amounted to $48 million (1.3x depreciation and amortisation).

In order to continue to support our growth strategy and further reinforce our strong environmental compliance credentials we anticipate capital spend to be in the $45-55 million range for 2019.

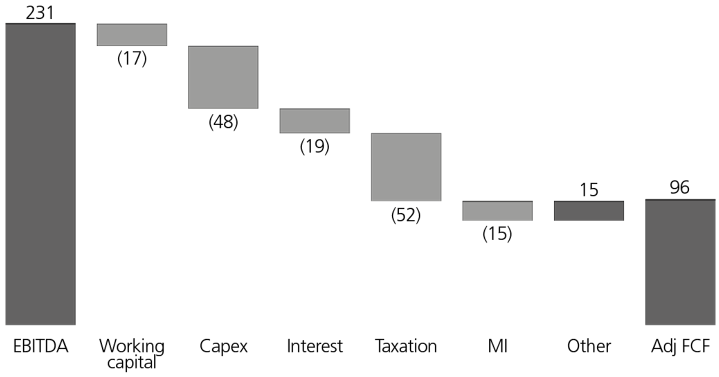
Corporate activity
On 4 December 2018, the Group announced that it had become a strategic investor in Twine Solutions, an Israeli based technology start-up that has developed a revolutionary digital thread dyeing system, having invested $5 million for a 9.5% share in the company and a seat on the Board. Twine has created a proprietary digital thread dyeing system which combines the features of small-scale digital printing with the traditional dyeing process and enables thread to be produced, on demand, to any colour and length which aims to directly address the key needs of our customers: speed, innovation and sustainability.

On 20 December 2018, the Group agreed to acquire ThreadSol, a cloud-based digital application provider whose technology focuses on fabric usage optimisation in apparel manufacturing, for a cash consideration of up to $12 million. The initial cash outflow is circa. $5 million, with further payments of up to $7 million over the period to 2022 based on certain performance criteria. The acquisition was subsequently completed on 12 February 2019.

ThreadSol's cloud-based digital applications provide an excellent fit with the existing Coats Global Services business. The complementary suite of software solutions for the apparel and footwear industries will enable brands, retailers and manufacturers to drive productivity gains, supply chain control and speed to market.

Cash flow
The Group generated $96 million of adjusted free cash flow A in 2018. This was a 26% increase on 2017 ($76 million) due to the increase in adjusted operating profit, controlled net working capital, alongside continued capital expenditure ($48 million) which was in excess of depreciation. This free cash flow measure is before annual pension recovery payments, acquisitions and dividends, and excludes exceptional items such as the Connecting for Growth exceptional reorganisation cost.

Adjusted free cash flow 2018 ($m)



FINANCIAL REVIEW
CONTINUED

Adjusted EBITDA Ⓐ (defined as pre-exceptional operating profit before depreciation and amortisation) from continuing operations for the year was $231 million (2017: $198 million). Net working capital as a percentage of sales (continuing operations) remained broadly in line with 2017 at 9.5% as working capital continues to be effectively controlled. Interest paid was $19 million, $5 million higher than 2017 due to marginally higher interest on floating rate debt. Tax paid (continuing operations) was $52 million, a $5 million reduction on 2017, primarily due to the initial APA benefits in India and the timing of a US refund for tax overpaid in 2017.

On a non-adjusted basis, there was a free cash inflow of $25 million in the year, compared to a $330 million outflow in 2017. The improvement was primarily related to $373 million of payments into the three UK defined benefit pension schemes in H1 2017 following settlement with their respective trustees (including $348 million of upfront payments out of parent group cash) and the acquisition of Patrick Yarn Mill ($20 million).

Net debt as at 31 December 2018 was $223 million, $19 million below 31 December 2017 ($241.5 million), which reflects the $25 million free cash inflow and $6 million adverse foreign exchange. The $25 million free cash inflow reflects adjusted free cash flow for the year of $96 million offset by exceptional cash costs of $27 million (primarily in relation to the Connecting for Growth programme), the strategic investment in Twine Solutions of $5 million, shareholder dividends of $21 million, and ongoing pension deficit recovery payments $24 million.

Balance sheet

An important metric for the operating business is the leverage ratio of net debt to adjusted EBITDA Ⓐ, which improved to 1.0x adjusted EBITDA (from continuing operations) at 31 December 2018 (1.2x at 31 December 2017), and is at the lower end of the 1-2x stated target leverage range. The recent sale of the North America Crafts business further supports our strong balance sheet and will enable us to invest in our business organically, self-finance further bolt-on acquisitions, as well as meet our other key capital demands of funding our pension schemes and making returns to shareholders.

Pensions and other post-employment benefits

Following agreement with the UK Pension Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the Coats UK, Brunel and Staveley schemes (the Current Schemes) have been transferred to a single new scheme (named the Coats UK Pension Scheme). The consolidation of the three UK schemes into a single scheme is expected to result in future savings in administration expenses and efficiencies in investment management.

The net obligation for the Group’s retirement and other post-employment defined benefit liabilities (UK and other group schemes), on an IAS19 financial reporting basis, was $168 million as at 31 December 2018, which is broadly in line with the $163 million as at 31 December 2017.

The Group’s UK defined benefit scheme, namely the Coats UK Pension Scheme, shows a $109 million (£85 million) IAS19 deficit at 31 December 2018, which is in line with the deficit position at 31 December 2017 ($107 million, £79 million). The movement in the period of $3 million consisted of an exceptional charge of $10 million in relation to the guaranteed minimum pension equalisation, employer contributions of $16 million (excludes administrative expenses and levies), a $14 million net actuarial loss (primarily a combination of a change in actuarial assumptions (e.g. reduced discount rate) offset by asset underperformance during the year), and some year-on-year movement in the sterling exchange rate.

Following consolidation of the UK schemes and completion of the 2018 actuarial valuation the Trustee of the Coats UK Pension Scheme currently hedges over 80% of interest rate and inflation-linked liabilities.

Following the disposal of North America Crafts, Coats retains the previously incurred pensions obligations from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of $65 million at 31 December 2018 (recoverable surplus of $48 million recognised on the Balance Sheet under accounting standards).

FINANCIAL REVIEW
CONTINUED

Dividend
Coats has a track record of delivering good levels of free cash through profitable sales growth, delivering self-help initiatives and investing in organic growth opportunities. The Board aims to use this free cash flow to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. 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 2018, the Board is proposing a final dividend of 1.16c per share which, combined with the interim dividend of 0.50c per share, gives a total dividend for the year of 1.66c (2017 full year dividend: 1.44c 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 28 May 2019 to ordinary shareholders on the register at 3 May 2019, with an ex-dividend date of 2 May 2019.

Outlook
We enter 2019 in a strong position, with continued positive momentum in our core Apparel and Footwear and hi-tech Performance Materials businesses. The exit of our non-core North American Crafts business will ensure complete focus on growing our remaining businesses organically and identifying further value-add bolt-on acquisitions.

Whilst we are cautious around the current macroeconomic uncertainties, based on our current assessment of business trends we remain confident in delivering another year of improving performance through effective execution of our strategy.

Simon Boddie
Chief Financial Officer
7 March 2019

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
7 March 2019

CHAIRMAN'S INTRODUCTION

Highlights for 2018
- Oversight of acquisitions and divestments
- Review of principal and emerging risks which might impact the long term sustainability of the business
- Consideration of forthcoming Corporate Governance changes and their impact on Coats

Priorities for 2019
- Oversight of long term strategy and acquisitions
- Continued review of the impact of digital
- Visits to Coats sites to gain workforce and stakeholder insights

Section contents

As a listed company, Coats is required to report on how it has applied the principles of the 2016 Code and this report is set out in the following pages.

A full version of the 2016 Code can be found on the Financial Reporting Council's website: **www.frc.org.uk**

'THE CHALLENGES OF AN EVER CHANGING EXTERNAL GEOPOLITICAL ENVIRONMENT MEANS THAT ENSURING OUR CORPORATE GOVERNANCE STRUCTURES ARE ROBUST AND APPROPRIATE IS MORE IMPORTANT THAN EVER'

Dear Shareholder

I am pleased to present the Governance section of the 2018 Annual Report. This Report contains an overview of the roles and responsibilities of the Board and its Committees together with a summary of the activities undertaken during the course of the year ended 31 December 2018.

I am delighted to be able to confirm Coats' compliance with the relevant principles and provisions of the 2016 UK Corporate Governance Code (the '2016 Code') during the course of the year ended 31 December 2018. Other information relating to the corporate governance structures, including some insight into our intended approach to adopting the new requirements in relation to the 2018 UK Corporate Governance Code (the '2018 Code'), is set out over the following pages.

The Board strongly believes that effective corporate governance is essential for the long term success of our Company and accordingly the Board has spent a significant amount of time in 2018 considering our existing ways of working and identifying where changes should be implemented to maintain our rigorous standards. As a result, a new advisory body, the Digital Advisory Council ('DAC'), was formed during the course of 2018 to consider our Digital and Technology strategy and its execution to ensure the appropriate expertise and focus in this area. In March 2019, following the consolidation of our three pension schemes and the agreement of the UK pension scheme's 2018 acturial valuation, the Board agreed to disband the Pensions Committee. Further information about the role and composition of the DAC and the Pensions Committee is set out on page 45. Ensuring the right governance structures for the oversight of our ongoing business activities and areas of focus is an important function of the Board.

A continued focus on ensuring accountability, transparency and fairness in our dealings with all of our stakeholders, in particular our shareholders, customers, employees, suppliers and our environmental impact, balanced with the need to support the delivery of the Group's strategic objectives will ensure we are well positioned to continue to develop our business.

During the course of the year, Coats has seen the implementation of various initiatives under our Connecting for Growth global transformation programme. This, combined with the challenges of an ever changing external geopolitical environment, means that ensuring our corporate governance structures are robust and appropriate is more important than ever.

Board changes

As stated in our last Annual Report, Ruth Anderson stepped down from the Board at the AGM held in May 2018. Anne Fahy, as previously announced, joined the Board in March 2018 and succeeded Ruth as Chairman of the Audit and Risk Committee. An overview of Anne's induction can be found in the Nomination Committee Report. Looking forward, Mike Allen will step down at the AGM to be held in May 2019 following completion of his term on the Board. We have no immediate plans to bring any additional Directors on to the Board to replace Mike Allen.

Our people and our culture

Following Monica McKee joining Coats as Chief Human Resources Officer in early 2018, the Board has considered and approved a number of changes to the Group's people strategy. There continues to be a strong focus on all areas of diversity, not just gender, but including ethnic, geographic and diversity in experience at both the Board and Group Executive Team level and beyond. Further details on our approach to diversity are contained in the Nomination Committee Report set out on pages 50 to 51 of this Annual Report.

CHAIRMAN'S INTRODUCTION
CONTINUED

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

Ensuring the right culture and environment for our people to succeed is critical for business success. During the Board Strategy Day held in June 2018, the Board considered a review of the Coats' brand and how this is positioned amongst our stakeholders. This review also considered the Company's purpose and values to ensure a consistent understanding of these. Management will focus on embedding the understanding of the Coats brand, purpose and values in 2019 throughout the business and the Board will have oversight of this.

In line with the 2018 Code and our continued focus on stakeholder considerations, I am pleased to announce that Fran Philip, Non-Executive Director, has been appointed as our designated Non-Executive Director to engage with our workforce. Fran has already met with representatives from our US and UK workforce and has a detailed programme of events for 2019. The details, and outcome of these on Board discussions and decision making, will be shared in our next Annual Report.

Engagement with stakeholders

As the Board is responsible for the long term success of the Company, engagement with stakeholders to understand their views and also to ensure they understand the vision for the Company forms an important part of the Board's remit.

In addition to the Board's focus on the workforce, as I refer to above, the Board receives regular updates on the matters most important to our key external stakeholders and is kept abreast of relevant developments from the interactions between the business and these stakeholders through regular reporting. The Board receives an investor update at each Board meeting and receives regular reports, particularly in relation to assessing risk, on interactions with suppliers. During the course of our Board visit to the USA in October 2018 the Board met and toured the facilities of certain of our key customers and, at the Global Leadership Conference held in January 2019, representatives from one of our customers presented on their key priorities specifically in relation to sustainability in the supply chain.

Sustainability

I was delighted by Coats' entry into the FTSE4Good UK Index in July 2018. This recognition of our strong ESG and SRI credentials, as detailed in the Corporate Responsibility section on pages 20 to 22 of this Annual Report shows our demonstrable commitment to the environment and communities in which we operate.

This year, Coats has for the first time issued a separate Sustainability Report which sets out our activities and achievements in the year ended 31 December 2018 and our ambitious plans going forward. I am proud of Coats' leadership ambitions in this area and of all our programmes that support these initiatives.

Mike Clasper
Chairman
7 March 2019

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 2018 up to the date of this Report are detailed below and also in the Directors' Report on page 72:

- Anne Fahy,
  Non-Executive Director
  Appointed 1 March 2018
- Ruth Anderson,
  Non-Executive Director
  Resigned 16 May 2018

Mike Clasper CBE, Chairman N

- Key skills and experience: Mike leads the Board, drawing on his extensive executive and non-executive experience, including in general management and marketing for global companies. Mike is an ambassador for Coats and focuses on long term value, relationships and reputation in his dealings with all stakeholders, be they investors, customers, suppliers or employees.
- Other current appointments: He is currently Chairman of Bioss, an organisation and people development consultancy, a Trustee of Heart Cells Foundation, a Governor of the Royal Shakespeare Company (RSC) and an Advisory Board member for Arora International.
- Previous relevant experience: Mike was until recently the Senior Independent Director at Serco Group plc. He has previously served as Chairman of Which? Ltd, Chief Executive Officer of BAA plc, Chairman of HM Revenue & Customs, President of the Chartered Management Institute and Operational Managing Director at Terra Firma. He has also held a number of senior management positions at Procter & Gamble and was Senior Independent 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 was appointed as a Non-Executive Director of Senior plc with effect from January 2019.
- 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: Along with his significant global banking and financial services experience, Nicholas brings a wealth of international business experience and insights, especially in China, to the Board. Nicholas is also an advocate for ESG and SRI matters at the Board.
- 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, Camborne School of Mines Trust and The Creative Education Trust.
- 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

- 38% 0–3 years
- 38% 3–6 years
- 24% 6–9 years

Diversity

- 62% Male
- 38% 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 is not standing for re-election at this year's AGM. During his tenure as a Non-Executive Director, Mike has drawn upon and brought to bear his considerable experience of general management in the UK and New Zealand, and strong legacy knowledge of the Company and its business to the Board. Through his role as Chairman of the Pensions Committee, Mike has also been instrumental in the successful settlement of the UK Pension Regulator's pension investigation and the subsequent agreement of a single actuarial valuation of the UK pension scheme.
- Other current appointments: He is currently Chairman of Investore Property Limited and Director of Taumata Forests Limited, and an Independent Director of China Construction Bank (NZ) Limited and Tainui Group Holdings.
- Previous relevant experience: Mike was until recently a Director of Godfrey Hirst Australia and 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.

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 is an experienced audit committee chairman and brings her extensive financial and internal controls experience, combined with her considerable knowledge of global business and developing markets, to bear at the Board in her capacity as Chairman of the Audit and Risk Committee.
- Other current appointments: Anne is currently a Non-Executive Director and Chairman of the Audit Committee of Interserve, an international support services and construction company, and SThree, a global staffing organisation providing specialist recruitment services. She is also a Non-Executive Director of Nyrstar, a global multi-metals business and 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.

David Gosnell, Independent Non-Executive Director AR N R

- Key skills and experience: David leverages his strong and deep supply and procurement background, and his broader experience in global multi-national companies to provide the Board, and the Group Executive Team, with key insights into the end-to-end supply chain process and to add value in his role as Chairman of the Remuneration Committee and as a member of other Committees.
- 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).

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**

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

- Key skills and experience: Echo's significant and ongoing business experience gained in different sectors in Europe, Asia and the US provide the Board with pragmatic insights into major geographic markets and consumer trends around the world.
- Other current appointments: Echo is currently the Managing Director, International 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.

Fran Philip, Independent Non-Executive Director N R

- Key skills and experience: Fran brings extensive speciality retailing business experience, which she uses to provide the Board with an understanding of the end consumer's motivations and insight into the US fashion market and its evolving trends and dynamics. Fran's particular interest in workforce dynamics stand her in good stead for her new role as the Designated Non-Executive Director to engage with the workforce.
- 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 substantial experience of international business across a diverse range of sectors including textiles and Government. Alan provides the Board with start-up and technology insights derived from his experiences, especially in Asia, with a number of technology-focused enterprises. This experience makes him ideally placed for his role as Chairman of the Digital Advisory Council.
- 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, Insolight SA and Vyome Therapeutics Inc.
- Previous relevant experience: Alan co-founded Kiran Energy Solar Power in 2010. 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.

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 2018 up to the date of this report are shown below:

- Monica McKee's appointment as Chief Human Resources Officer was announced on 16 January 2018 and she joined on 20 March 2018.
- Massimo Petronio served as Chief Operating Officer, EMEA and LatAm until 31 July 2018.
- Shantanu Banerjee served as President, Performance Materials until 30 March 2018.
- Keith DuPont served as President, Performance Materials from 2 April 2018 to 31 January 2019.

OUR GROUP EXECUTIVE TEAM HAS CONTINUED TO EVOLVE AND REFLECT OUR SIMPLIFICATION PRIORITY UNDER THE CONNECTING FOR GROWTH STRATEGIC TRANSFORMATION PROGRAMME.

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

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

Ronan Cox, **President, Performance Materials** – Ronan has over 20 years of experience at Coats across sales, manufacturing and supply chain operations. Ronan is responsible for delivering the overall strategy for Performance Materials, including commercial activities and developing talent. He also leads the Connecting for Growth global strategic transformation programme, a series of projects which each address different aspects of reinventing Coats for the future and supports 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, **President, Business Operations** – Kevin has global accountability for business operations which include inclusive working environment and robust business controls across the geographic clusters at Coats. He has over 30 years of experience working at Coats and held a range of operational and management roles throughout the business. Most recently he was Chief Operating Officer, Asia with responsibility for operations across the region and previously Managing Director of China.

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.

Monica McKee, **Chief Human Resources Officer** (Monica joined on 20 March 2018) – Monica is responsible for delivering the 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.

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.

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.

CORPORATE GOVERNANCE REPORT

BOARD AND COMMITTEE ROLES AND RESPONSIBILITIES

Board duties
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 remit 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 one of the Committees of the Board (which are available for viewing at **www.coats.com/About/Corporate-Governance/Board-Committees**) or where the Board has delegated authority. There is detailed Delegated Authorities policy and schedule which is reviewed and approved by the Board on an annual basis. Matters delegated to the Group Chief Executive and executive management as set out in the Delegated Authorities policy 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.

The Chairman, in conjunction with the Chief Legal & Risk Officer and Group Company Secretary sets the agenda for Board meetings. 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.

Roles and responsibilities

Chairman and Chief Executive
There is a clear separation of the role of the Chairman of the Board and the Chief Executive. 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. Rajiv Sharma, the Chief Executive, 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 the GET comprised of senior managers (see details below and biographies on page 42).

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.

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.

CORPORATE GOVERNANCE REPORT
CONTINUED

Board Committees and Composition

Audit and Risk Committee

The Audit and Risk Committee is responsible on behalf of the Board for, amongst other things:

- 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;
- the Company's policy on the supply of non-audit services by the external auditor; and
- 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.

The Audit and Risk Committee's report on activities undertaken during the course of the year ended 31 December 2018 can be found on pages 52 to 56 of this Annual Report.

Nomination Committee

The Nomination Committee is responsible on behalf of the Board for, amongst other things:

- establishing and agreeing with the Board a broad policy for appointments to the Board of Directors of the Company;
- regularly reviewing the balance and effectiveness of the Board, including; its structure, size, diversity and composition to consider succession planning;
- identification and nomination of candidates to fill any Board or, if required GET, vacancies and liaising with other committees of the Board to ensure the leadership needs and skills required to carry this forward are met; and
- to keep under review the leadership needs of the Company and the Group, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace.

The Nomination Committee's Report on activities undertaken during the course of the year ended 31 December 2018 can be found on pages 50 to 51 of this Annual Report.

Remuneration Committee

The Remuneration Committee is responsible on behalf of the Board for, amongst other things:

- monitoring and evaluating the effectiveness of the Company's remuneration policy;
- ensuring the policy remains aligned with the interests of all the Company's stakeholders and provides an effective framework that enables the Company to attract, retain and incentivise executives that the Company needs to meet its objectives; and
- determining remuneration for the Company's Directors taking into account the need to recruit and retain Directors who have the suitable skills and experience to perform in the interests of the Company and its shareholders, while paying no more than is necessary.

The Remuneration Committee's Report on activities undertaken during the course of the year ended 31 December 2018 can be found on pages 57 to 71 of this Annual Report.

CORPORATE GOVERNANCE REPORT
CONTINUED

Other Committees

Group Executive Team (GET)

The GET is responsible for the operational delivery of the Group's strategy. This includes day-to-day management of operations and responsibility for monitoring detailed performance of all aspects of our business. Biographical details of the members of the GET are set out on page 42 of this Annual Report.

Disclosure Committee

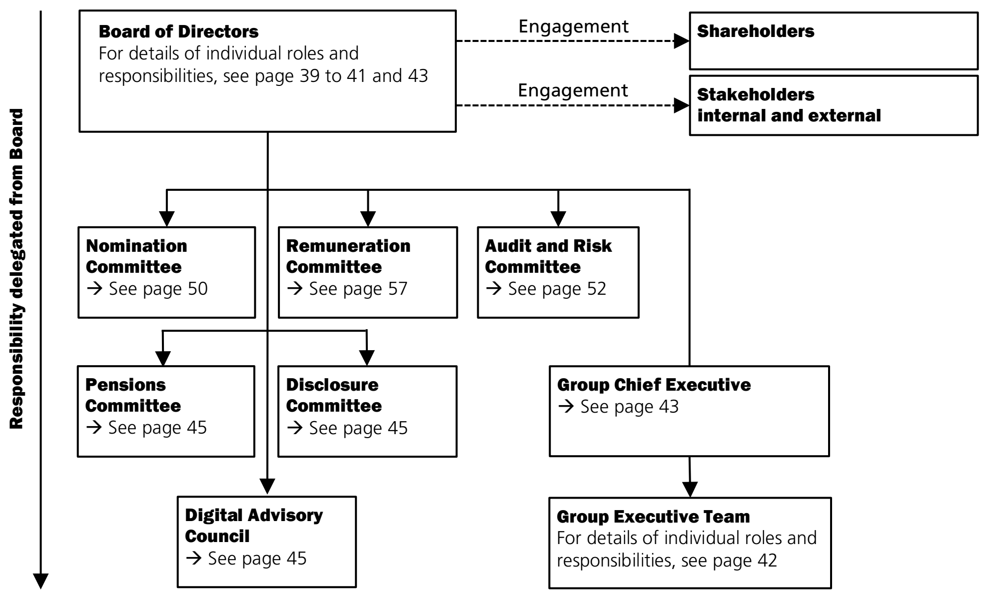
The Disclosure Committee's primary duty is to determine whether, what and when any Group information needs to be disclosed to the market and to verify such information ahead of its disclosure to the market via a Regulatory Information Service in accordance with the EU Market Abuse Regulation and the 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.

Pension Committee

This ad hoc Committee was 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 UK defined benefit pension scheme for such duration as determined by the Board. Following the cessation of the UK Pensions Regulator's investigations in 2017, consolidation of the three UK pension schemes into one single scheme in 2018; and agreement of the UK pension scheme's 2018 actuarial valuation in March 2019, the Board has concluded that this ad hoc Committee is no longer required. In 2018, the Pensions Committee was chaired by Mike Allen, and its other members were Simon Boddie, Nicholas Bull and David Gosnell.

Digital Advisory Council (DAC)

The DAC advises on how to enhance the Digital and Technology strategy and its execution and provides input and insights to the Board and GET on emerging technology, digital business and change management. It has no formal decision-making authority. The DAC meets four times a year (of which two are virtual meetings). The DAC is chaired by Alan Rosling (Non-Executive Director) and the other members are David Gosnell (Non-Executive Director), Hizmy Hassen (GET member) and there are two external members; one is the former CIO of an automotive OEM and the other a digital entrepreneur who has founded a leading company in data analytics. The DAC is advised by Gartner who are permanent invitees. An additional GET member, invited on a rotating basis, also attends meetings.



CORPORATE GOVERNANCE REPORT
CONTINUED

Board and Committee meeting attendance

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 periodically ensures 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 allows 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.

	Appointment date	Committee Appointments* Appointments*	Board	Audit Committee	Nomination Committee	Remuneration Committee
Total meetings held			**12**	**6**	**2**	**3**
Chairman						
Mike Clasper**	20/02/14	N	12		2	
Group Chief Executive						
Rajiv Sharma	02/03/15	N	12		2	
Chief Financial Officer						
Simon Boddie	04/07/16		12			
Senior Independent Director						
Nicholas Bull	10/04/15	A/N	12	6	2	
Non-Executive Directors						
Mike Allen**	22/09/10	N / R	11		2	3
Ruth Anderson***	16/04/14	A / N	4/4	3/3	N/A	
Anne Fahy****	01/03/18	A / N	10/10	4/4	2	
David Gosnell	02/03/15	A / N / R	12	6	2	3
Echo Lu *****	01/12/17	N / R	12		2	3
Fran Philip	01/10/16	N / R	11		2	3
Alan Rosling**	02/03/15	A / N / R	12	6	2	3

* Key to Committee Appointments: A: Audit and Risk / N: Nominations / R: Remuneration
** Date of appointment to Coats Group plc
*** Ruth Anderson attended the maximum possible number of meetings before stepping down from the Board.
**** Anne Fahy attended the maximum possible number of meetings since joining the Board.
***** Echo Lu attended all of the meetings of the Committees on which she serves. Please note that this is now recorded in the above table of meeting attendance contained in the PDF version of this Annual Report. However, her attendance at the meetings of the Nomination Committee was inadvertently omitted from the printed version of this document.

The Board met formally 12 times during the year and a number of Disclosure Committee meetings were also convened to deal with matters such as approval of the Trading Statement, 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.

CORPORATE GOVERNANCE REPORT
CONTINUED

Board activities
Set out below is a summary of some of the key areas that formed the Board's agenda for the financial year ended 31 December 2018. This list is not intended to be exhaustive but instead provides an overview of the breadth of the areas considered under the Board's remit.

Strategy	Governance and Risk	Stakeholders and Culture	Financial
• Appropriate review of the progress, outcomes and costs of the C4G global transformation programme • Regular review of M&A project updates • Deep dive reviews of the Services business and strategy • Topics covered at Board Strategy meeting: – Review of corporate brand including stakeholder positioning; – Use of Data and future opportunities; and – People strategy and plans	• Review of risk register to ensure appropriate update • Principal risk deep dives presented at each Board meeting including impact of certain critical site closures, innovation risks and environmental risk review • Review of Company approach to: corporate social responsibility; environmental, social and governance matters; and socially responsible investing • Review of the Company's modern slavery statement • Regular Corporate Governance regulatory updates and assessment on impact on Coats' ways of working	• Attendance by the Chairman and some Non-Executive Directors at the Group Leadership Conference • Employee engagement matters including agreeing the 2018 employee engagement plan, review of survey results including deep dive into relevant geographical areas where appropriate • Review of investor relations report at every Board meeting • Review and approval of 2019 people strategy for the Group	• Approval of 2019 budget and medium term plan • Review of preliminary results and half-year announcements including dividend approach • Review and approval of going concern and long term viability statements on the recommendation of the Audit and Risk Committee • Regular review of the progress of the amalgamation of the three UK defined benefit pension schemes into one scheme

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.

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 57 to 71.

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.

CORPORATE GOVERNANCE REPORT
CONTINUED

Board effectiveness

This year the Board (and its Committees) conducted internally facilitated effectiveness reviews. In respect of the Board effectiveness review, the questions were designed to ensure these captured the feedback from last year's review, and the areas where the Board has focused since then, as well as the latest corporate governance regulatory reforms and their anticipated impact on the Board's activities in order to allow appropriate benchmarking in future years. The questions required the Directors to input an absolute and relative rating for each item to allow consideration of how the Board was operating during the year, relative to Directors' experiences on the other boards on which they serve, as well as whether or not the Board had increased or decreased its effectiveness in each area in comparison to the previous year. The questions included assessment of the focus on key strategic matters vs tactical matters, long term strategic thinking vs current issues, opportunities and challenges and the length and volume of Board papers.

The responses to the survey were carefully analysed to identify particular strengths, progress, trends and areas for ongoing focus. The Directors considered this analysis in detail during two Board meeting discussions. Areas which received particularly positive feedback included the levels of engagement and trust within the Board room; the levels of focus on emerging risks, corporate culture, diversity and the interests of the Group's various internal and external stakeholders; and the effective functioning of the various Board Committees. The Directors devoted a large amount of the discussion to areas for further focus in 2019, notably how most effectively to challenge specific business performance issues, how best to continue to test and monitor the Group's medium/long term strategy and how best to maximise the effectiveness of Board discussions on key topics throughout the year.

In 2019, the Board will undertake an externally facilitated effectiveness review.

In addition, during the year Nicholas Bull led an assessment of the Chairman's performance in discussion with the other Non-Executive Directors. The results of this assessment were shared with the Chairman prior to the end of the financial year ended 31 December 2018.

A summary of the results of the effectiveness reviews of the Audit and Risk, Nomination and Remuneration Committees can be found in their respective reports contained within this Annual Report.

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. All of the Non-Executive Directors are deemed to be independent in accordance with the criteria set out in the 2016 Code.

CORPORATE GOVERNANCE REPORT
CONTINUED

RELATIONS WITH SHAREHOLDERS

IN 2018, WE HOSTED A CAPITAL MARKET'S DAY IN LONDON WHERE THE GET GAVE AN UPDATE ON OUR PERFORMANCE AND STRATEGY TO A LARGE GROUP OF INSTITUTIONAL INVESTORS AND ANALYSTS

The Chairman, SID and other Non-Executive Directors 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, 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 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, and have run multiple investor roadshows across the UK, Europe, US and Canada.

In addition, in 2018 we hosted a Capital Market's Day in London where our Group Executive Team gave an update on our performance and strategy to a large group of institutional investors and analysts. I, and a number of Board Directors, also attended this event and heard the views and feedback from our shareholder base. We also hosted a selection of brokers and analysts at our Bursa plant in Turkey in September.

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/shareholders**.

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 2018 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 23 May 2019.

Mike Clasper
Chairman
7 March 2019

NOMINATION COMMITTEE REPORT

EFFECTIVENESS

Highlights for 2018:
– Oversight of senior executive talent development and succession planning

Priorities for 2019
– Ongoing focus on ensuring appropriate mix of diversity among Board, GET and senior management more generally

THE NOMINATION COMMITTEE HAS CONTINUED TO MONITOR THE GET AND SENIOR MANAGEMENT TALENT POOL TO ENSURE THAT SUCCESSION PLANNING FOR BUSINESS CRITICAL ROLES IS PROACTIVELY REVIEWED

Dear Shareholder
The following Nomination Committee Report summarises our work over the past year and I'm pleased to update you on the matters that we have considered. During the course of 2018, the Nomination Committee has continued to monitor Board composition to ensure that there are the right balance of skills, experience, diversity and independence and that our succession planning correctly considers and addresses any gaps identified.

The Nomination Committee has continued to monitor the GET and senior management talent pool to ensure that succession planning for business critical roles is proactively reviewed. The Board considered the implications of the new requirements relating to the development of 'a diverse pipeline' for succession for the Board and the GET contained within the 2018 Code. The Nomination Committee has focused on these areas for a number of years and will continue to consider the various diversity factors set out in the 2018 Code and the Hampton-Alexander and Parker Reports appropriately. The Board will consider the adoption of a formal diversity policy in 2019 and details of this will be provided in next year's Annual Report.

As included in my last Nomination Committee Report to you, Anne Fahy joined the Board in March 2018 and succeeded Ruth Anderson as Chair of the Audit and Risk Committee upon her retirement at the 2018 AGM. Mike Allen will step down as a Non-Executive Director at this year's AGM. I would like to thank Mike for his wisdom, tenacity and support over the years.

Mike Clasper
Chairman, Nomination Committee
7 March 2019

Composition and meetings
The Chairman is 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 2018, one scheduled meeting and one ad hoc meeting, to discuss succession planning and development and to consider the current balance of skills, experience, diversity, independence and knowledge on the Board.

Diversity
The Board believes that having people with a diverse range of skills and qualifications, as well as a diverse mix of geographical experience, ethnicities, age 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. This is critical for the long term sustainable success of the Group. When reviewing the composition of the Board, the Committee takes these factors into account and includes these in its succession planning criteria to ensure there is a well developed brief available when required.

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 need for and benefits of diversity. Close regard is also given to these factors when considering senior executive appointments. As set out in the Chairman's introduction, it is intended that the Company will adopt a formal diversity policy in 2019. This will codify the existing ways of working and long-established practices but will not significantly change the approach in this area.

NOMINATION COMMITTEE REPORT
CONTINUED

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 President, Business Operations and the succession for the role of President, Performance Materials. Both roles were filled using the existing internal talent pipeline. The Nomination Committee continues to focus on appropriate Chairman and Chief Executive succession planning.

We remain satisfied that the succession planning structure in place is appropriate for a FTSE250 company of the size and nature of the Group. The Nomination Committee considers succession plans covering multiple years and identifies any skills, experience or knowledge gaps to be addressed in future recruitment. Our succession planning arrangements will continue to be kept under regular review going forward.

Appointment induction and training

The Nomination Committee is responsible for leading the process of appointing new Directors. This includes developing the search criteria, including a list of necessary and desirable skills, knowledge and experience, identified through the ongoing monitoring of the Board's composition. Where appropriate, an executive search agency would be appointed and a rigorous shortlisting process would be applied to any candidates identified. No such process was undertaken during the course of the year ended 31 December 2018.

There is a formal induction programme for new Directors, which was followed during the year for Anne Fahy. This included meetings with GET members, and other senior executives individually, and also meeting with stakeholders including 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 US operations of the business during the course of 2018. The Board received briefings from internal and external advisors including the implications of the new requirements contained in the 2018 Code. Directors also independently completed a series of screen based training modules covering various ethics topics including anti-bribery and corruption and competition law.

Committee performance and effectiveness

The Nomination Committee performance was evaluated by way of a self assessment effectiveness survey that was completed by all Nomination Committee members and routine meeting attendees. The results of the effectiveness survey showed that the Nomination Committee was considered to be effective. Following discussion of the feedback received through that survey, and having considered the evolving corporate governance requirements in this area, the Board is in the process of refining the role and remit of the Nomination Committee.

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 course of the year, Rajiv Sharma was appointed as a non-executive director of Senior plc and the Board approved this appointment in advance of it being made.

The Board believe that having experience of acting on another company board provides valuable insights to executive management. The Board considered the requirements of the role and was satisfied that it would not adversely impact Rajiv's ability to perform his role within the Company.

The Nomination Committee Report was approved by a Committee of the Board of Directors on 7 March 2019 and signed on its behalf by:

Mike Clasper
Chairman, Nomination Committee
7 March 2019

AUDIT AND RISK COMMITTEE REPORT

ACCOUNTABILITY

Highlights for 2018

- In depth review of Lower Passaic River and other tax and legal provisions
- Deep dives into the internal controls for: the Connecting for Growth global transformation programme; procurement; and SAP IT
- Consideration of impacts of IFRS 16 Leases and related disclosure
- Determination, presentation and disclosure of Exceptional items
- Regular review of whistleblowing allegations and deep dive into whistleblowing process and controls

Priorities for 2019

- Review of first and second lines of defence in new Cluster structure
- Deep dive into Treasury controls and policy
- Review of segmental reporting

DURING THE YEAR I WAS DELIGHTED TO BECOME CHAIRMAN OF THE AUDIT AND RISK COMMITTEE, SUCCEEDING RUTH ANDERSON AFTER HER PLANNED RETIREMENT FROM THE BOARD

Dear Shareholder

On behalf of the Audit and Risk Committee, I am pleased to present its Report for the year ended 31 December 2018.

I was delighted to become Chairman of the Audit and Risk Committee on 16 May 2018, succeeding Ruth Anderson after her planned retirement from the Board. I would like to thank Ruth for her valuable contribution to the work of the Committee during her tenure as Chair and I would also like to thank both Ruth and the other members of the Committee for their support during the transition period which has resulted in a smooth hand over.

I hope that you find this Report a helpful explanation of the work undertaken by the Committee this year. I am confident that the Committee, supported by members of management and the external auditors, has carried out its duties effectively during the year under review.

In the following pages you will find a description of how the Committee has carried out its responsibilities during the year. During the course of 2018, the remit of the Committee did not significantly change from previous years and its role was to monitor and review the integrity of the financial statements; internal controls and risk management systems; whistleblowing; and the role and effectiveness of the external auditor.

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 the Group's processes and controls for the Connecting for Growth global transformation programme and procurement including status of the implementation of the Company's Supplier Code.

The Group's 2017 Annual Report and Financial Statements was included as part of a sample within the FRC's thematic review of small listed and aim quoted companies, with a focus on Alternative Performance Measure and pension disclosures. No significant changes to disclosures in the 2018 Annual Report and Financial Statements have been required following the review.

Anne Fahy
Chairman, Audit and Risk Committee
7 March 2019

Membership and meetings

The Committee is comprised solely of independent Non-Executive Directors and the composition of the Committee and its members' biographies, including detailed information on their experience, skills and qualifications can be found on pages 39 to 41. Their attendance can be found on page 46. The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and depth of financial and commercial, including sectoral, expertise. For the financial year ended 31 December 2018, Ruth Anderson, Nicholas Bull and Anne Fahy were the members of the Committee determined by the Board as having recent and relevant financial experience.

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

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Committee responsibilities
In respect of the year ended 31 December 2018, the Committee reviewed its terms of reference to ensure they reflect current standards of governance including consideration of the relevant sections of the 2018 UK Code. The matters that the Committee is responsible for monitoring include:

- 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 therein;
- the effectiveness of the system of internal control and risk management of the Company; and
- 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 and the Company's policy on the supply of non-audit services by the external auditor.

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 reviewed the appropriateness of the going concern basis of accounting in preparing the half-year and annual financial statements and confirmed its satisfaction with the methodology applied. 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.

Fair, balanced and understandable
The Committee considered whether the Annual Report is 'fair, balanced and understandable', in line with the requirements of the 2016 Code, using the same methodology that was applied in previous years to make its assessment. On the basis of this work together with the views expressed by the external auditor, the Committee recommended to and, in turn the Board confirmed, that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

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

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 2018, the Group's IAS19 Pension deficit was $168m. 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.

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Significant issues relating to the financial statements	How the Committee addressed the issue during the year
US environment provision	The Group has recognised a provision, net of insurance reimbursements, of $17.6m 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 remediation provisioning previously established. The Committee is satisfied that there is no requirement to re-measure the remediation provision at 31 December 2018 and that the disclosures provided in note 28 to the financial statements are appropriate. However, in light of the litigation filed by OCC, the Committee reviewed the adequacy of the legal/professional cost provision and agreed with management that an increase was appropriate so that the Company could continue to defend its position
Exceptional items	In 2018, exceptional costs of $47.8m in respect of continuing operation have been recorded; the disclosures in note 4 provide further details. The most significant items relate to reorganisation costs in respect of the Connecting for Growth program, additional provisioning in respect of the Lower Passaic River and past service cost for the equalisation of Guaranteed Minimum Pensions. The Committee assessed management judgements, took into account the views of the external auditors and concluded that the accounting treatment was appropriate given the one-off nature of the events.
Sale of North America Crafts	The sale of the North America Crafts business was announced on 22 January 2019. The Committee reviewed management's judgements on the accounting and reporting implications on the 2018 results, including: the held for sale classification at 31 December 2018, the write down of the carrying value to fair value less costs to sell and treatment of results as discontinued operations. The Committee concluded that it was satisfied with the accounting treatment and disclosures made in the Annual Report.
Taxation	The Group operates in numerous jurisdictions around the world, with different regulations applying in different territories. This complexity together with intra-group cross-border transactions give rise to inherent risks. In addition to reviewing the Group's underlying effective tax rate, which has reduced from 32% to 31%, the Committee also considered the Group's uncertain tax provisions which amount in total to $16 million. The Committee is satisfied with the approach and disclosures adopted by management as reflected in the financial statements in note 9 to the financial statements.

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

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 25 to 27 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-

AUDIT AND RISK COMMITTEE REPORT CONTINUED

The Committee considered the results of an internally facilitated effectiveness review of the Internal Audit function as well as considering its overall performance in relation to the year ended 31 December 2018. The review was conducted with input from management worldwide and the Committee concluded that it 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.

assessments every six months. During the year, the Committee specifically looked at the processes and controls underpinning the whistleblowing programme, as well as in relationship to the SAP IT environment. 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.

Internal audit

The Head of Group Internal Audit agrees the Internal Audit department's programme of work annually in advance with the Committee. At each Committee meeting, the Committee reviews key findings from internal audit reports, receives detailed reports from management where appropriate, and monitors the rate at which actions agreed with management are implemented. Key themes seen in the internal audit reports throughout the year included the impact of changes to management oversight of certain operations following the move to a cluster structure, as a result of the Connecting for Growth global transformation programme and an increase in whistleblowing reporting (see below). In 2018, the Committee has also focused on re-enforcing control systems for regulatory compliance, notably in India and Central America.

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

Whistleblowing procedure

A whistleblowing, ethics and fraud report is a standing item on the agenda at each Committee meeting. Coats has a well-publicised whistleblowing procedure designed to empower all employees, contractors and anyone else who is aware of, suspects, or is concerned about potential misconduct, illegal activities, fraud, abuse of assets or other violations of Company policy/ Code of ethics to report these confidentially. Once a concern is received via the whistleblowing procedure, it is investigated by a team independent of the relevant operational business or function, and findings are presented to an appropriate member of the Group Executive Team in order to determine appropriate remedial actions. During the course of the year ended 31 December 2018, there were 99 whistleblowing concerns raised (2017: 50). This significant increase appears to be at least partially attributable to the embedding of the 'Doing the right thing' programme, which was established in 2017 and encourages employees to reflect regularly on the importance of ethical behaviour in their working lives – supported by ongoing training, communications and discussion of the importance of a strong ethical and compliance-focussed culture – and to remain alert to potential concerns and to raise these appropriately. Importantly, in 2018, the uphold rate of those concerns which were found to be substantiated after proper investigation decreased by nearly a third from 2017. In the case of every such substantiated concern, disciplinary action was taken whenever there was any evidence of misdemeanour and training and enhanced controls were implemented wherever appropriate.

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 this was reviewed by the Committee during the year ended 31 December 2018. The Committee also regularly reviews the level of audit and non-audit fees paid to Deloitte. The key principles of the policy on non-audit services are:

- The Committee has approved a list of all permitted non-audit services which are allowed under UK statutory legislation and complies with the European Union Directive on audit and non-audit services. Permitted services include audit-related services such as reviews

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

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 approved a list of prohibited services which include services remunerated on a success fee or participation in activities normally undertaken by management.
- Any service that is not on the list of permitted services, if in excess of US$25,000, requires the approval of the Committee.

During 2018, the external auditor provided services in relation to the Group’s interim results and tax advisory services outside the European Union. The external auditor has confirmed to the Committee that they did not provide any prohibited services and that they have not undertaken any work that could lead to their objectivity and independence being compromised.

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

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. Given the significant Connecting for Growth global transformation programme that is being implemented 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. Ed Hanson was appointed as the lead audit engagement partner in 2018 succeeding Tim Biggs in December 2018. He will rotate off the audit team after the 2022 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.

Assessment of audit process

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

In respect of the financial year ended 31 December 2018, the Committee assesses the performance and effectiveness of the external auditor, as well as their independence and objectivity, on the basis of meetings and a questionnaire-based internal review which was completed by the Committee members, regular attendees to the Committee and those Coats colleagues globally who interact most frequently with the external auditor. The summary of the results of the questionnaire has been reviewed by the Committee and appropriate feedback has been shared with the external auditor. The Committee is satisfied that it can recommend to the Board that the Board should propose to shareholders the reappointment of Deloitte LLP as auditor for the year ending 31 December 2019.

Assessment of the effectiveness of the Committee

The Committee has undertaken a questionnaire-based self-assessment to evaluate its effectiveness in respect of the year ended 31 December 2018. The key issues that were identified in the previous year’s assessment were discussed by the Committee to ensure these were adequately addressed and the Chairman provided an update where appropriate. The Committee is considered to function well, with structured meetings and good challenge and engagement being provided across its remit by all Committee members. The Audit and Risk Committee Report was approved by a Committee of the Board of Directors on 7 March 2019 and signed on its behalf by:

Anne Fahy
Chairman, Audit and Risk Committee
7 March 2019

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

REMUNERATION

Highlights for 2018:
- Delivery of Connecting for Growth initiatives in Industrial business
- Challenging performance for Crafts North America reflected in annual bonus outcomes
- Impressive three year share price performance reflected in Long Term Incentive vesting

Priorities for 2019:
- Adoption of revised levels of annual incentive pay approved (following restraint in use of policy)
- Increased mandatory deferral in shares of annual bonus
- Post termination shareholding requirement
- Review of Remuneration Policy prior to AGM vote in 2020
- Aligning reward to growth and culture (innovation and teamwork)

'The Committee is committed to the maintenance of a robust approach to establish stretching performance targets for all incentive awards.'

DURING THE THREE YEAR PERFORMANCE PERIOD TO 31 DECEMBER 2018 THE COMPANY WAS RANKED AT 98 PERCENTILE OF ITS TOTAL SHAREHOLDER RETURN COMPARATOR GROUP AND ACHIEVED SHARE PRICE GROWTH OF 184.6%

Dear Shareholder
I am pleased to introduce the fourth annual report on remuneration since my appointment as Remuneration Committee Chairman. The Group has experienced a significant degree of change and successful growth over the last 4 years and the Committee's primary objective remains to ensure the company has the right remuneration structure that enables it to attract, reward and retain the individuals it needs to meet its objectives.

Overview of 2018
The LTIP award for the 2016 to 2018 performance period will vest at 84.2%. This reflects the strong performance delivered by the executive team over the last 3 years. The Company has continued to achieve significant growth in Earnings Per Share and Free Cash Flow generation. During the three year performance period to 31 December 2018 the company was ranked at 98th Percentile of its Total Shareholder Return comparator group and achieved share price growth of 184.6%.

The annual bonus award for 2018 has achieved 64.5% of the maximum financial metrics for profit and cash generation. Performance for the year was negatively impacted by a challenging year for the North America Crafts business but despite this the annual bonus outcome reflects the strong performance of the underlying industrial business and the success of the Connecting For Growth programme announced last year (and referred to elsewhere in this Annual Report).

Long Term Incentive award grants in 2018 were established with a higher level of challenge with an increase in the threshold EPS CAGR target from 5% to 7% and a tougher vesting scale to the maximum of 15% CAGR to reflect the revised expectations of the Connecting for Growth Programme. This was planned as a one-off amendment and the LTIP award for 2019 will return to 5% CAGR at threshold and straightline vesting to the maximum target which is maintained at 15%.

This Directors Remuneration Report details the outcomes for both annual bonus and long term incentive plans and we have listened to feedback we received from shareholders following last years report and we have included more detailed information regarding the personal performance objectives that were linked to bonus payments for each Executive Director.

During the year the Committee considered the impact of the sale of the North America Crafts business that was announced in January 2019. Although the business is regarded as discontinued for the purposes of the 2018 Annual Report and Accounts the Committee determined that for the outcome of 2018 annual bonus and Long Term Incentive awards the underlying performance of the discontinued business should be included, even though this has a negative impact on the incentive outcomes, as it was under the control and management of the Group up to 31 December 2018.

In 2017 the Committee increased the Minimum Shareholding Requirement (MSR) target for Executive Directors to 200% of salary and I am pleased to note that Rajiv Sharma has now reached and exceeded his target and Simon Boddie is on track to achieve his target. Both Executive Directors will have achieved their targets ahead of the five year time schedule. Members of the Group Executive Team have a target of 75% of salary and progress towards this target is monitored by the Committee and they are all on track to achieve the target.

Outlook for 2019
The Committee is committed to the maintenance of a robust approach to establish stretching performance targets for all incentive awards and in particular consider how any acquisitions or disposals have or will impact targets in the future. The Committee will also carefully consider the views of shareholders on how the Remuneration Policy should be implemented or

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

amended prior to the next Remuneration Policy approval resolution which is scheduled for the AGM in 2020. This will include a review of the pensions benefit policy for Executive Directors and consideration of the alignment of this policy with the policy applied to rest of the workforce.

The current remuneration policy was approved by 99% of shareholders at the 2017 AGM and the Committee decided not to implement the maximum permitted bonus opportunity of 150% in 2017 and 2018. However, the Committee is now aware that the level of annual bonus that was applied up to 2018 is materially below other comparable companies. Consequently, the Committee have decided to increase the levels of annual bonus opportunity for 2019 while maintaining a robust approach to setting challenging targets. For 2019 the bonus opportunity will be increased for the CEO to 125% and for the CFO to 115% (from 100% that applied in 2018). The increase is still below the maximum level of 150% authorised by the policy and the compulsory deferral into shares will be increased from 33% to 40% of the 2019 bonus outcome. In addition, the MSR policy will be extended to provide a requirement to maintain a certain level of shareholding for a period of up to 2 years post any termination of employment based on the lower of 100% of the MSR or the level of shareholding at termination of employment.

Corporate Governance

The Committee monitors the developments in best practice guidelines provided by various organisations and proactively seeks to engage shareholders in the course of developing and implementing remuneration policy. The next Remuneration Policy will be submitted for shareholder approval in 2020 and the Committee will undertake a consultation exercise to seek the views of shareholders in advance of any proposed changes. The revised statutory disclosures regarding CEO pay ratios do not apply to Coats because there are less than 250 UK based employees; however, it is our intention to follow the statutory disclosure requirement that would have applied from the 2019 report onwards even if our UK based employees are below the minimum number.

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

David Gosnell
Chairman, Remuneration Committee
7 March 2019

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 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

Fixed total + Variable total = Total remuneration

Fixed components

		Policy
Annual base salary		Executive Directors' salaries are reviewed annually with effect from 1 July. Reference is made to market competitive levels of pay at relevant comparator companies, average salary increases applied elsewhere across the Group, individual performance and experience as well as any changes to the size and scope of the role.
Rajiv Sharma (CEO)	£594,000	
Simon Boddie (CFO)	£423,500	
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

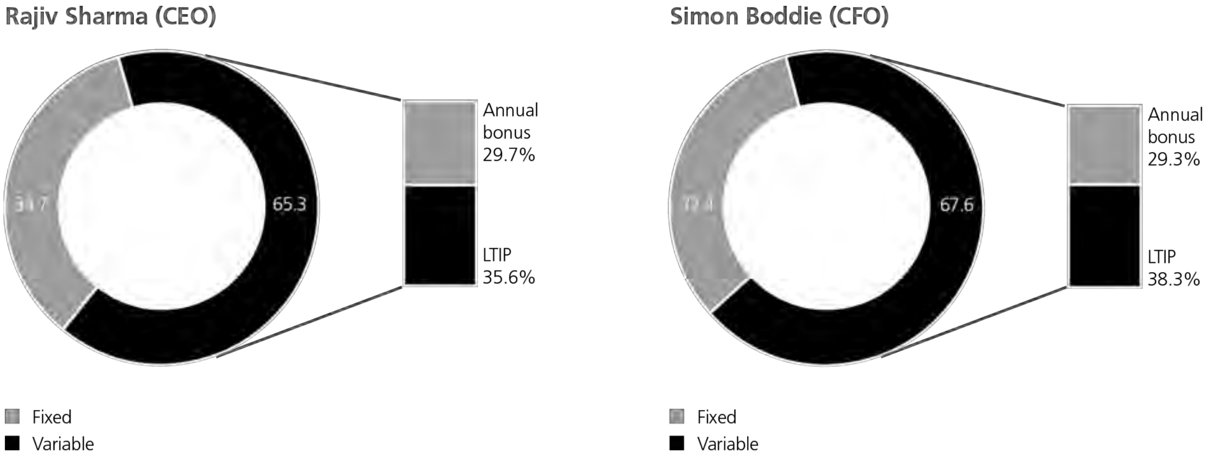
Annual bonus		Policy
Maximum opportunity for 2019		*Maximum award opportunity: 150% of base salary* Any bonus awarded for 2019 is subject to mandatory deferral of 40% (2018: deferral of 33%). Deferred bonuses are transferred into share awards and are released after a three year retention period. The performance measures, weightings and targets for the annual bonus are set by the Committee on an annual basis. Any bonuses paid are subject to malus and clawback.
Rajiv Sharma (CEO)	125% of salary	
Simon Boddie (CFO)	115% of salary	
Performance measures weighting		
Attributable Profit	25%	
EBIT	25%	
Free Cash Flow	30%	
Individual objectives	20%	

Long Term Incentive Plan (LTIP)

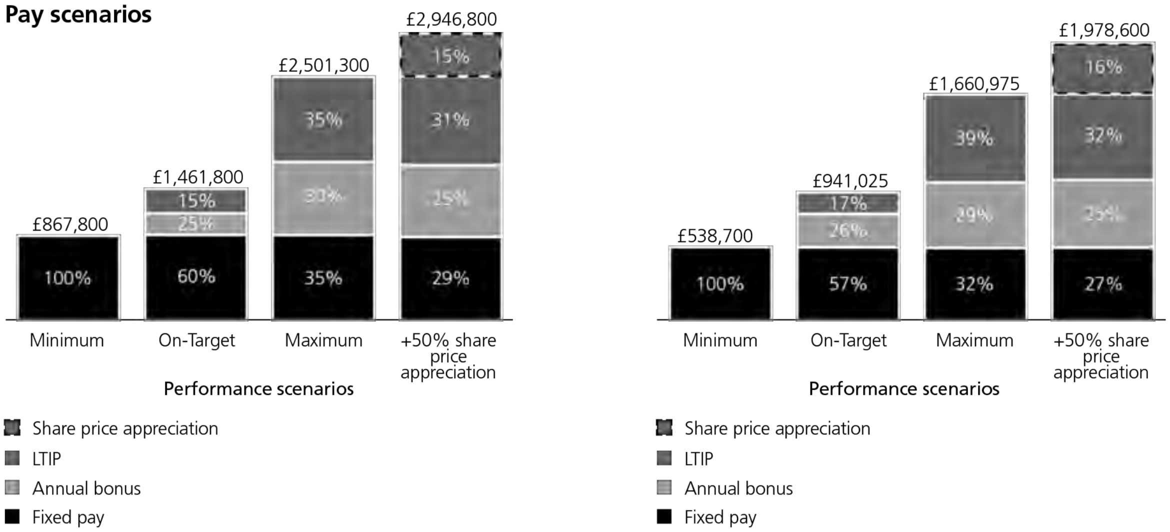
Annual bonus		Policy
Maximum opportunity for 2019		*Maximum LTIP award opportunity: 150% of base salary (200% in exceptional circumstances)* Awards may be made annually; with vesting conditional on three-year performance conditions. Any shares vesting after three years are also subject to an additional two-year holding period. Performance measures and targets are determined by the Committee, taking into account the balance of strategic priorities for Coats for the upcoming three-year performance period. Any LTIP shares awarded are subject to malus and clawback.
Rajiv Sharma (CEO)	150% of salary	
Simon Boddie (CFO)	150% of salary	
Performance measures 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 2018
CONTINUED

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



Pay scenarios



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 2018 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 23 May 2019. The current Remuneration Policy applicable to the year ended 31 December 2018 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 2018. Rajiv Sharma, was originally appointed to the Board on 2 March 2015 and was appointed as Chief Executive with effect from 1 January 2017. Rajiv Sharma was based in Dubai during his previous tenure as Managing Director, Industrial Division and remained on secondment in Dubai until 31 May 2017. Details of the remuneration arrangements and relocation assistance offered to Rajiv on his appointment to the role of Chief Executive Officer are detailed in this report and were originally previously disclosed to shareholders in the 2016 Annual Report on Remuneration. The relocation support is time limited and will cease in May 2019.

Single total figure for Executive Directors' remuneration for 2018 (audited information)

	Base salary £000		Benefits £000 £000		Annual bonus (cash & shares) £000 £000		LTIP £000 £000		Pension £000 £000		Total £000 £000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Simon Boddie	**417.8**	406.0	**30.5**	29.3	**279.3**	324.7	**1,208.7**	–	**83.6**	81.2	**2,019.9**	841.2
Rajiv Sharma	**586.0**	569.5	**155.0**	141.5	**396.2**	459.5	**2,038.7**	1,282.5	**117.2**	113.9	**3,293.1**	2,566.9
Total	**1,003.8**	975.5	**185.5**	170.8	**675.5**	784.2	**3,247.4**	1,282.5	**200.8**	195.1	**5,313.0**	3,408.1

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

- The figures for Rajiv Sharma in 2017 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. This decreased to £5,000 per month from 1 June 2018 and will cease completely on 1 June 2019.
- Benefits: this is the value of all taxable benefits including a car allowance, private medical insurance and life insurance. A car allowance of £20,000 per annum is paid to Rajiv Sharma and an allowance of £15,000 is paid to Simon Boddie. In the case of Rajiv Sharma this also reflects the additional benefits provided in connection with his secondment to Dubai (which impacts 2017 figures only) and relocation to the UK as described above. All relocation support is due to cease in May 2019.
- Annual bonus (cash and shares): is the total value of the annual bonus that is attributable to 2018. 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.
- Long Term Incentive Plan (LTIP): the value of any vested awards that were granted during a period as an Executive Director or which contained a performance period that ended during the year. The LTIP award value shown for 2018 reflects the vesting of the LTIP award that was granted to Rajiv Sharma and Simon Boddie in respect of the performance period 1 January 2016 to 31 December 2018. The value shown represent the number of shares that vest multiplied by the mid-market share price on 31 December 2018 which was £0.812. The LTI value for 2017 has been re-stated to reflect the share price following the vesting date of 7 April 2018. The 2018 LTI values will be re-stated in next year's report to reflect the value on the vesting date of the awards. The value shown also reflects the cash value of notional dividend equivalents payable on vested shares.
- 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 £68,133 during the year to 31 December 2018. 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 2018 CONTINUED

Annual bonus outcome 2018 (audited information)

The annual bonus for 2018 was determined in accordance with the details provided in the 2017 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 2018	Weighting	Bonus opportunity			Performance achieved in 2018	
Performance measure		Threshold	Target	Maximum	Simon Boddie	Rajiv Sharma
Attributable Profit (AP)	25.0%	1.43%	12.5%	25.0%	13.4%	13.4%
Earnings Before Interest and Taxation (EBIT)	25.0%	0%	12.5%	25.0%	17.1%	17.1%
Free Cash Flow (adjusted) (FCF)	30.0%	0%	15.0%	30.0%	21.2%	21.2%
Individual objectives	20.0%	0%	10.0%	20.0%	14.25%	15.0%
Total	100.0%	1.43%	50.0%	100.0%	65.95%	66.7%

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

Annual bonus 2018	Weighting	Bonus targets			Performance achieved in 2018
Performance targets		Threshold	Target	Maximum	
AP ($m)	25.0%	89.7	105.0	120.8	106.1
EBIT ($m)	25.0%	178.2	198.0	217.8	205.2
FCF (adjusted)	30.0%	91.4	101.4	111.4	105.5
Individual objectives	20.0%	Strategic objective			See table above

The targets above were established on a basis which excludes the impact of certain exceptional items and the impact of any exchange rate fluctuations during the year. Targets are set in relation to Budget for the upcoming financial year and the figures in the table above reflect the 2018 Plan exchange rates. For the 2018 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 2018 are reflected in the table on the next page.

Bonus Outcome

Reconciliation of bonus outcome to reported 2018 figures. As noted above the bonus plan targets are subject to certain adjustments. In order to assist shareholders the reconciliation of the actual performance reported in 2018 to the numbers used for bonus purposes is shown in the table below.

		Attributable Profit	EBIT	Free Cash Flow
Adjusted 2018 figures as per this report		100.4	194.9	96.2
Adjustment for; Discontinued operations (as per discontinued note 32)			2.7	7.5
FX rate movement (i.e. Plan vs Actuals)		5.5	7.6	0.5
Adjustments	Costs relating to disposals	0	0	1.3
	IAS19 interest variation vs Plan	0.2	0	0
Actuals for bonus purposes ($m)		106.1	205.2	105.5

Other adjustments may include movement in central costs that are not directly related to underlying trading. The Committee considers the applicability of these adjustments, with appropriate consideration and consultation with the Audit and Risk Committee before determing the bonus outcome.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

Personal objectives linked to bonus
Rajiv Sharma

No	Objective	Achievement in 2018	Max %	Actual %
1	Deliver and communicate Connecting for Growth operational and financial goals	• Net benefits from C4G programme - $15 million • Quality execution of new operating model across markets • Global functionalisation of HR, legal, marketing, procurement and technology	6.6%	6.6%
2	Accelerate Group Innovation Forum delivery to launch new products in 2019	• Sales growth of 6% in premium brands • New competencies in lightweight carbon and innovative competencies • Innovation hub – Americas – opened in Sevier, USA. Approval plans for two more in 2019	6.6%	6.6%
3	Deliver double digit organic sales growth in Performance Materials & Services	• Performance Materials: double digit organic sales growth in hi-tech end uses; more than 20% of revenue from new products; 7% organic revenue growth	6.6%	1.8%
Total			**20%**	**15%**

Simon Boddie

No	Objective	Achievement in 2018	Max %	Actual %
1	Deliver Connecting for Growth operational and financial targets	• Net benefits from C4G programme – $15 million • Finance support aligned to new operating model	5.0%	5.0%
2	Lead governance, reporting and communication for Connecting for Growth costs and benefits	• Adapted processes and procedures for reporting and monitoring C4G programme	5.0%	2.5%
3	Manage the operational efficiency of the Group's overall effective tax rate	• Reduction of 100 bps in underlying tax rate • Advanced Pricing Agreements in several markets	5.0%	3.75%
4	Implement the plan to develop a global Finance function and assist in the delivery of Connecting for Growth benefits	• Global functionalisation of Finance • Implemented reporting capabilities for new operating model	5.0%	3.0%
Total			**20%**	**14.25%**

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

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

Long Term Incentive award vesting
On 26 February 2016 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 2016 to 31 December 2018 (referred to as LTIP 2016). On 29 July 2016 Simon Boddie was granted an award following his appointment on 4 July 2016 on similar terms and with the same performance criteria.

The performance measures were based upon the Total Shareholder Return Performance (TSR), compound annual growth (CAGR) in Earnings Per Share and cumulative Free Cash Flow relating to Coats Group plc.

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

LTIP 2016: Performance period 1 January 2016 to 31 December 2018

Measure	Weighting	Threshold	Mid	Maximum	Actual
Compound Annual Growth in Attributable Profit	40.0%	5.0%	12.5%	20.0%	12.1%
Vesting % of total award		10.0%	25.0%	40.0%	24.2%
Cumulative Free Cash Flow over 3 years	40.0%	$220m	$240m	$260m	270.3m
Vesting % of total award		10.0%	25.0%	40.0%	40.0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5 Percentile	Upper Quartile	98 Percentile
Vesting % of total award		5.0%	12.5%	20.0%	20.0%
Total	**100.0%**	**25.0%**	**62.5%**	**100.0%**	**84.2%**

Share awards granted in 2018
The following share awards were granted to Executive Directors during the financial year ended 31 December 2018.

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	28-Feb-18	744,578	£618,000	150%	£0.83	25%	1 Jan 2018 to 31 Dec 2020	28-Feb-21
Rajiv Sharma	28-Feb-18	1,044,578	£867,000	150%	£0.83	25%	1 Jan 2018 to 31 Dec 2020	28-Feb-21

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	28-Feb-18	130,384	£108,218	26.3%	£0.83	None	28-Feb-21
Rajiv Sharma	28-Feb-18	184,542	£153,170	26.5%	£0.83	None	28-Feb-21

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 £0.83 for 28 February 2018.

Coats Group plc Long Term Incentive Plan
Awards were granted on 28 February 2018 as nil cost options under the terms of the Coats Group plc Long Term Incentive Plan that was approved by shareholders on 22 May 2014. The LTIP awards will vest, subject to the achievement of performance measures, on the third anniversary of the date of grant. For Executive Directors an additional two year holding period applies. The notional value of any dividends paid on any vested share during the period from grant to the end of the holding period is awarded as additional shares.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

Coats Group plc Deferred Annual Bonus Plan
For all Executive Directors one third of the bonus outcome relating to the financial year 2017 was awarded in the form of nil cost options during the year. The awards were granted on 28 February 2018 under the terms of the Deferred Annual Bonus Plan that was approved by shareholders on 22 May 2014. Awards are not subject to additional performance measures but are subject to clawback in certain circumstances such as gross misconduct or a material misstatement of results.

Long Term Incentive awards performance measures
The performance measures applicable to awards granted in respect of the three year performance period that commenced on 1 January 2018 (LTIP 2018) 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 2018 (LTIP 2016).

LTIP 2018 Measures	Weighting	Threshold	Mid	Maximum
Compound Annual Growth (CAGR) in Earnings Per Share	40.0%	7.0%	10.0%	15.0%
Vesting % of total award		10.0%	19.0%	40.0%
Cumulative Free Cash Flow over 3 years	40.0%	$305m	$335m	$365m
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%**	**56.5%**	**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.

As disclosed in the last years Report the Committee decided to increase the challenge of the EPS CAGR targets by raising the threshold from 5% to 7% CAGR and reducing the mid-point vesting scale that applied to LTIP18 awards in order to reflect the stretch plans of the Connecting For Growth programme. The Committee retains the discretion to consider whatever adjustments it considers are fair and reasonable when considering performance against the targets shown. The Committee may adjust the level of vesting if it considers that the performance measures do not reflect the overall performance of the Company during the performance period or if there has been a material event such as an acquisition or disposal during the course of the performance period.

Non-Executive Directors
In July 2018 the fee levels for the Chairman were reviewed by the Remuneration Committee and for the Non-Executive Directors by a sub-committee consisting of the Chairman and the Executive Directors. The Chairman's fee was not increased because the fee had been adjusted in 2017 to a level that was appropriate considering the company's scale and profile in comparison with other FTSE 250 companies. For other Non-Executive Directors no changes were proposed during 2018 and the base fees have remained at the same level since 1 October 2013. However, in view of the increasing amount of time commitment involved to fulfill the duties of a Sub-Committee Chair the fees for the Chairs of the Remuneration and Audit and Risk Committee were increased from £10,000 to £12,500 per annum with effect from 1 July 2018.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018
CONTINUED

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. Additional fees may be paid for additional duties and time commitments that are undertaken outside the terms of appointment.

Single total figure for Non-Executive Directors' remuneration for 2018 (audited information)

£000	Base fee		Supplementary fee		Benefits[1]		Other fee[2]		Total		Comments
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	
Mike Clasper	**250.0**	237.5	**–**	–	**0.9**	2.4	**–**	–	**250.9**	239.9	
Mike Allen	**60.0**	60.0	**20.0**	20.0	**–**	1.3	**7.5**	7.5	**87.5**	88.8	
Ruth Anderson	**25.0**	60.0	**4.2**	10.0	**–**	1.3	**–**	3.0	**29.2**	74.3	Resigned 16-May-18
Nicholas Bull	**60.0**	60.0	**10.0**	10.0	**1.1**	1.1	**1.5**	3.0	**72.6**	74.1	
Anne Fahy	**50.0**	–	**7.1**	–	**–**	–	**1.5**	–	**58.6**	–	Appointed 1-Mar-18
David Gosnell	**60.0**	60.0	**11.3**	10.0	**1.1**	2.5	**1.5**	3.0	**73.9**	75.5	
Echo Lu	**60.0**	5.0	**–**	–	**–**	–	**1.5**	–	**61.5**	–	Appointed 1-Dec-17
Fran Philip	**60.0**	60.0	**–**	–	**–**	1.1	**7.5**	7.5	**67.5**	68.6	
Alan Rosling	**60.0**	60.0	**2.5**	–	**–**	1.3	**7.5**	7.5	**70.0**	68.8	
Total	**685.0**	602.5	**55.1**	50.0	**3.1**	11.0	**28.5**	31.5	**770.7**	695.0	

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 2017.
2 Fees under Other Fee represent the £1,500 per trip travel fee payable for Directors (excluding the Chairman) who travel long-haul to attend meetings. The travel fee is capped at a maximum of £7,500 per annum.

The base fee paid by Coats Group plc is £60,000 per annum for Non-Executive Directors and £250,000 for the Chairman. A supplementary fee is paid to the Senior Independent Director (£10,000 per annum) and Chairs of the Audit Committee and Remuneration Committee (£12,500 per annum). Mike Allen receives a supplementary fee of £20,000 per annum as Chair of the Pensions Committee. Alan Rosling receives an additional fee of £5,000 per annum fulfilling a role as Chair of the Company's Digital Advisory Committee.

Payments to past Directors

The following former Directors exercised options that were originally granted under the rules of the Guinness Peat Group plc Executive Share Option Scheme (GPG ESOS), Coats Limited Interim Long Term Incentive Plan (ILTIP), Coats Group Long Term Incentive Plan (LTIP) and Coats Group PLC Deferred Annual Bonus Plan (DABP). The value shown under gain represents the difference between the price paid for any option and the market value on exercise. Where applicable, appropriate values were disclosed in the Single Figure disclosure for each relevant former Director.

Name	Plan	Granted	Max no. of options	Exercise Price per share	Date of exercise	No. of options	MV per share on exercise	Gain (£000)
Blake Nixon	Guinness Peat Group ESOS	10-Apr-08	1,310,104	£0.499961	22-Jan-18	1,310,104	£0.806000	£400.9
Sir Ron Brierley	Guinness Peat Group ESOS	10-Apr-08	196,515	£0.499961	16-Mar-18	196,515	£0.806400	£60.2
Gary Weiss	Guinness Peat Group ESOS	10-Apr-08	1,310,104	£0.499961	27-Mar-18	1,310,104	£0.784639	£373.0
Paul Forman	Coats Group plc LTIP	7-Apr-15	1,053,465	£0.000000	9-Apr-18	1,053,465	£0.792112	£834.5
Paul Forman	Coats Group plc DABP	7-Apr-15	438,241	£0.000000	9-Apr-18	438,241	£0.792112	£347.1
Richard Howes	Coats Group plc DABP	7-Apr-15	279,651	£0.000000	26-Sep-18	279,651	£0.826997	£231.3

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. Ruth Anderson resigned from the Board on 16 May 2018 and Anne Fahy was appointed on 1 March 2018.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 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 2018, are set out below.

	Shareholding requirement in 2018			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-18[1]	31-Dec-18[2]	01-Jan-18[1]	31-Dec-18[2]	01-Jan-18[1]	31-Dec-18[2]	01-Jan-18[1]	31-Dec-18[2]
Executive Director											
Simon Boddie	1,050,000	200%	No	200,000	300,000	71,506	201,890	2,820,027	3,564,605	–	–
Rajiv Sharma	1,450,000	200%	Yes	400,000	400,000	1,143,525	845,142	7,132,323	5,489,635	749,781	2,845,065
Chairman and Non-Executive Directors											
Mike Clasper				1,490,000	1,490,000	–	–	–	–	–	–
Mike Allen				200,000	200,000	–	–	–	–	–	–
Nicholas Bull				400,000	400,000	–	–	–	–	–	–
Anne Fahy				–	–	–	–	–	–	–	–
David Gosnell				786,475	786,475	–	–	–	–	–	–
Echo Lu				–	15,000	–	–	–	–	–	–
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 2018 which was 79.8p.

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. There is no requirement for Non-Executive Directors. For the purposes of achieving this target the total number of shares beneficially owned by the Executive Director or a closely associated person is considered as well as the estimated post-tax number of vested but unexercised share options or deferred bonuses that are not subject to a performance condition. All Long Term Incentive awards granted to Executive Directors from 29 July 2016 onwards include a requirement to retain any vested shares (save for any shares that may be sold to satisfy income tax liabilities) until a minimum of the fifth anniversary of the date of grant.

Details of Scheme Interests as at 31 December 2018

Rajiv Sharma

Award	Vesting Date	Retention Period	Expiry Date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP16	26-Feb-19	N/A	26-Feb-26	449,386	Unvested	No
DABP17	27-Feb-20	N/A	27-Feb-27	211,214	Unvested	No
DABP18	28-Feb-21	N/A	28-Feb-28	184,542	Unvested	No
Sub-total				845,142		
LTIP share options (subject to performance conditions)						
LTIP16	2-Mar-19	N/A	26-Feb-26	2,908,071	Unvested	Yes
LTIP17	27-Feb-20	27-Feb-22	27-Feb-27	1,536,986	Unvested	Yes
LTIP18	28-Feb-21	28-Feb-23	28-Feb-28	1,044,578	Unvested	Yes
Sub-total				5,489,635		
Share options (no performance conditions)						
LTIP14	24-Feb-17	N/A	24-Feb-25	749,781	Vested	No
LTIP15	7-Apr-18	N/A	7-Apr-25	1,612,359	Vested	No
DABP15	7-Apr-18	N/A	7-Apr-25	482,925	Vested	No
Sub-total				2,845,065		

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

Simon Boddie

Award	Vesting Date	Retention Period	Expiry Date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP17	27-Feb-20	N/A	27-Feb-27	71,506	Unvested	No
DABP18	28-Feb-21	N/A	28-Feb-28	130,384	Unvested	No
Sub-total				201,890		
LTIP share options (subject to performance conditions)						
LTIP16	29-Jul-19	29-Jul-21	26-Jul-26	1,724,137	Unvested	Yes
LTIP17	27-Feb-20	27-Feb-22	27-Feb-27	1,095,890	Unvested	Yes
LTIP18	28-Feb-21	28-Feb-23	28-Mar-28	744,578	Unvested	Yes
Sub-total				3,564,605		

On 4 March 2019, Executive Directors were awarded the following nil cost options as part of their deferred bonus for 2018; Simon Boddie 114,231 shares, Rajiv Sharma 162,044 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 779,447 shares, Rajiv Sharma 1,093,251 shares. No options have been exercised by any Director during the year or between the year end and the signing of this report.

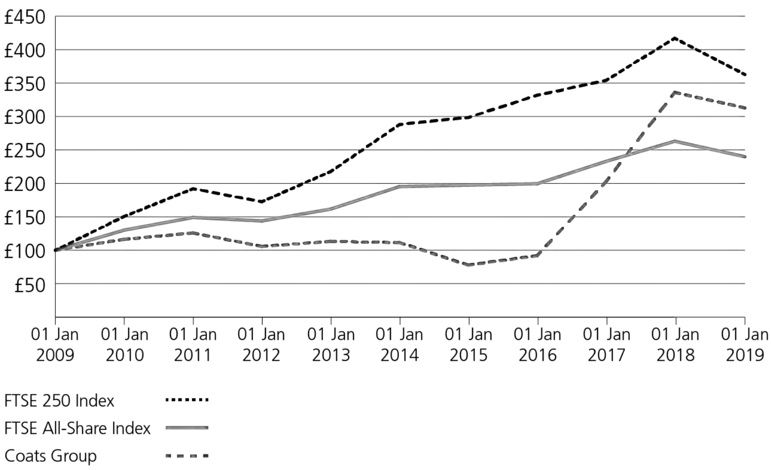
No other Directors have entered into any transactions since the year end.

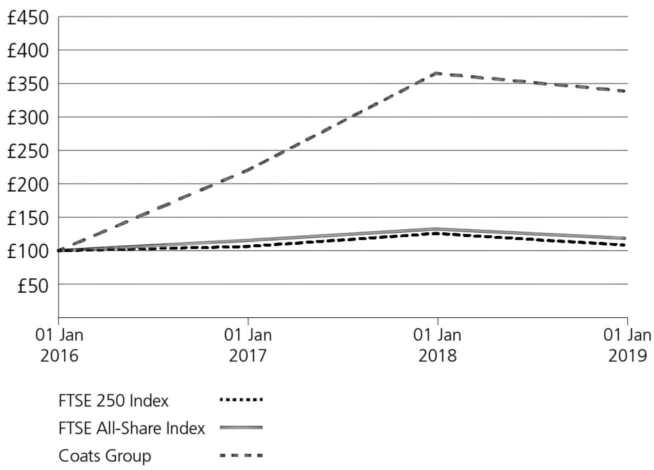
The middle market price of Coats Group plc shares at 31 December 2018 was 81.2 pence and the range during the year was 69.0 pence to 90.0 pence.

Review of performance

The graph (below left) shows the difference between investing £100 in the Company and the constituents of the FTSE All Share Index and FTSE 250 from 1 January 2009 to 31 December 2018. It is assumed dividends are reinvested over that period. The Board feels the FTSE All Share Index and the FTSE 250 each provide an appropriate comparator given the Company's market capitalisation and its presence on the London Stock Exchange.

To enable comparison with the LTIP performance period an additional graph (below right) is shown on the same basis that reflects the three year performance period ending 31 December 2018.





DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

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

Executive Director	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
CEO single figure of remuneration (£k)	–	–	–	–	–	–	1,017.0	1,760.3	2,566.9	**3,293.1**
Annual Bonus as a % of maximum opportunity	–	–	–	–	–	–	87.1%	77.0%	79.5%	**66.7%**
LTIP award as a % of maximum opportunity	–	–	–	–	–	–	–	43.6%	60.0%	**84.2%**

Chief Executive remuneration – percentage change from 2017 to 2018

Executive Director	Salary	Benefits	Bonus
CEO Remuneration (Single Figure data)	2.9%	9.5%	-13.8%
Average of all employees[2]	3.4%	0%	-12.9%

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 and 2018 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.

Amendments to UK regulations have established a requirement for UK companies with more than 250 UK employees to publish a CEO pay ratio figure. For companies with our year end this will require the first disclosure in 2019. The requirement does not apply to Coats because the number of UK based employees is relatively small and below the threshold level. However, it is the company's intention to voluntarily follow the statutory definition and disclose the figure with effect from next years' report. In advance of the statutory definition Coats disclosed in last years remuneration report that the CEO pay ratio was 16 times the average and 25 times versus the median of the UK workforce. These ratios are likely to change next year when the company will follow the statutory definition. Although as noted in the table above the relative remuneration for the CEO has not changed materially in 2018 versus 2017.

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 2018	Year to 31 December 2017	% change
Employee costs ($m)	**305.9**	327.0	(6)%
Distributions to shareholders[1] ($m)	**21.1**	17.8	19%
Average number of employees	**17,881**	18,356	(3%)
Revenues from continuing operations ($m) – CER basis	**1,414.7**	1,328.9	6%
Operating profit pre-exceptional ($m) – CER basis	**194.9**	157.2	24%

1 By way of dividends.

Additional information on number of employees, total revenues and profit has been provided for context. The figures for employee costs, average number of employees, revenues and operating profit in 2018 and 2017 have been stated on the basis of continuing operations only. Information for 2018 includes acquisitions made during the year. The figures for revenues and operating profit are on a constant exchange rate (CER) basis with amounts for 2017 restated at 2018 exchange rates.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

Statement of implementation of Remuneration Policy for 2019

Base salaries for Executive Directors and fees for the Chairman and Non-Executive Directors will be reviewed on 1 July 2019.

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. He will receive a base salary of £594,000 per annum, a pension allowance of 20%, a car allowance of £20,000 per annum, medical insurance, life insurance and income replacement insurance. As disclosed in the 2016 and 2017 Directors' Remuneration Reports to support his relocation to the UK he will be paid a net allowance of £5,000 per month until May 2019. The Company are also responsible for additional relocation expenses which may include airfares and shipping costs, tax compliance assistance, limited tax equalisation to an effective Singaporean tax rate until May 2019.

Simon Boddie will receive a base salary of £423,500 per annum, a pension allowance of 20%, a car allowance of £15,000 per annum, medical insurance, life insurance and income replacement insurance.

The 2019 annual bonus opportunities and Long Term Incentive award grants will be implemented in accordance with the limits of the current Remuneration Policy. The LTIP opportunity for the CEO and CFO will be 150% and the annual bonus opportunity for the CEO will be increased from 100% to 125%. The CFO bonus opportunity will be increased from 100% to 115%. The compulsory three-year deferral into shares of the 2019 bonus outcome will be increased from 33.3% to 40% of the annual bonus outcome. In addition the company intends to introduce a post termination minimum shareholding requirement to apply for two years following termination of employment based on 100% of the MSR or shareholding at termination. Although the bonus opportunity is being increased in 2019 this is still within the limits approved by the Remuneration policy approved by shareholders at the AGM in 2017.

Annual bonus

Measure	Weighting
Attributable Profit	25%
Earnings Before Interest and Taxation	25%
Free Cash Flow	30%
Individual objectives	20%

Long Term Incentive

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

Annual bonus targets are based on attributable profit, adjusted operating profit and adjusted free cash flow excluding the impact of any exchange rate fluctuations.

The Long Term Incentive awards granted in 2019 are subject to the following targets:

Measure	Threshold	Mid	Maximum
EPS CAGR over three years	5%	10%	15%
Vesting % for EPS measure	25%	62.5%	100%
Cumulative Free Cash Flow ($m) over three years	$287.1m	$317.1m	$347.1m
Vesting % for FCF measure	25%	62.5%	100%
Total Shareholder Return vs FTSE250 excluding investment trusts	Median	62.5 Percentile	Upper Quartile
Vesting % of each measure for TSR measure	25%	62.5%	100%

Straight line vesting occurs between Threshold, Mid and Maximum.

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

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018 CONTINUED

Consideration by the Directors of matters relating to Directors' remuneration
The members of the Committee were: David Gosnell (Chairman), Mike Allen, Echo Lu, 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), Monica McKee (Group HR Director) from March 2018 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 regulatory developments in remuneration governance and practice. Kepler were paid fees of £77,220 for time spent and materials used in providing advice to the Company during the period to 31 December 2018. 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 16 May 2018 the results of the vote regarding Resolution 2 (to approve the Annual Report on Remuneration) were:

Votes for Number	Votes for %	Votes against Number	Votes against %	Votes Total	Votes Withheld
1,083,012,988	99.3	7,462,036	0.7	1,090,475,024	69,324,286

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

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

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**

Assessment of the effectiveness of the Committee
The Committee has undertaken a questionnaire-based self-assessment to evaluate it's effectiveness for the year ended 31 December 2018. Committee members and regular attendees were invited to complete the survey. The results were discussed and the Committee is considered to function well, with structured meetings and good engagement being provided across it's remit by all Committee members.

The Remuneration Report was approved by a Committee of the Board of Directors on 7 March 2019 and signed on its behalf by:

David Gosnell
Chairman, Remuneration Committee
7 March 2019

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018.

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

Annual General Meeting

The Annual General Meeting ('AGM') of the Company will be held on Thursday, 23 May 2019 at 2.30pm at FTI Consulting, 200 Aldersgate, London EC1A 4HD.

Corporate Governance statement

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

Directors

The names and biographical details of the current Directors are shown on pages 39 to 41 of this Annual Report. Particulars of their emoluments and beneficial and non-beneficial interests in shares are given in the Directors' Remuneration Report.

The appointment and removal of Directors is governed by the Company's Articles of Association, the 2016 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 2016 Code, all Directors will retire and submit themselves for re-election or election at the forthcoming AGM, apart from Mike Allen who will retire from the Board.

Changes to the composition of the Board since 1 January 2018 up to the date of this Report are shown in the table below:

Member	Action	Date
Ruth Anderson	Resigned as a director of the Company	16 May 2018
Anne Fahy	Appointed as a director of the Company	1 March 2018

Directors Powers

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

Further discussion of the Board's activities, powers and responsibilities appears within the Corporate Governance Report on pages 43 to 49 of this Annual Report. Information on compensation for loss of office is contained in the Directors' Remuneration report on pages 57 to 71 of this Annual Report.

Directors' conflicts of interests

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

Directors' indemnities

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

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

DIRECTORS' REPORT
CONTINUED

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 with a nominal value of 5 pence each ('Ordinary Shares'), which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions or agreements known to the Company that may result in restrictions on share transfers or voting rights in the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation. Shareholder authority for the Company to purchase up to 142,403,000 (representing approximately 10% of the Company's issued shares as at the latest practicable date before the publication of the notice of the annual general meeting held in May 2018) of its own Ordinary Shares was granted at the 2018 AGM. No shares were purchased pursuant to this authority during the year.

Shareholder authority for the Company to allot Ordinary Shares up to an aggregate nominal amount of £23,710,000 was granted at the 2018 AGM. No shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2018 was approximately £71,374,600 divided into 1,427,492,032 Ordinary Shares.

Since 31 December 2018, 235,119 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 1 March 2019 is 1,427,727,151 Ordinary Shares. 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 2018 the Company had been notified in the last three years, 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).

Company	Date of notification	Number of shares	%*
Invesco Limited	19 December 2016	138,493,196	9.83
AXA Investment Managers	29 August 2018	75,691,650	5.31
Liontrust Investment Partners LLP	20 December 2018	73,438,626	5.15
Kempen Capital Management N.V.	10 January 2017	71,172,011	5.06
Threadneedle Asset Management Ltd.	10 November 2017	71,337,869	5.05
Prudential plc group of companies (M&G)	3 August 2018	71,068,036	4.98
J O Hambro Capital Management	30 June 2017	70,333,801	4.98
Odey Asset Management LLP	19 April 2016	69,490,000	4.94
Soros Fund Management	30 June 2017	61,185,245	4.33
MSD Capital	1 August 2016	56,006,443	3.98
Schroders plc	25 April 2016	51,864,254	3.69

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

As required by Chapter 5 of the Disclosure Guidance 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. The Group, so far as is known by the Company, is not directly or indirectly owned or controlled by another corporation or by any government.

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

Political donations
No contributions were made to political parties during the year (2017: £Nil).

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.

DIRECTORS' REPORT
CONTINUED

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

Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; committed deficit repair contributions to the Coats UK Pension 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.

Results and dividends

The results of the Group are shown on page 87 and movements in reserves are set out in note 27 to the financial statements.

On 29 May 2018 a final dividend in respect of 2017 of 1.00 US cent per Ordinary Share was paid. In addition the Company paid an ordinary interim dividend per share of 0.50 US cents on 16 November 2018 to shareholders recorded on the register on 26 October 2018.

The Company recommends to shareholders payment of a final dividend of 1.16 US cents per share in respect of the year ended 31 December 2018 on 28 May 2019 to shareholders recorded on the register on 3 May 2019 (2017: 1.00 US cents per share). The Ordinary Shares will become ex-dividend on 2 May 2019.

Environmental matters

The involvement of the Group in relation to the Lower Passaic River matter is reported in the Principal Risks section of this Annual Report and can be found on page 27. Further details are contained in note 28 to the financial statements.

Greenhouse gas emissions

For the year ended 31 December 2018, Coats reported the following emissions:

Global tonnes of CO2e[1,2]	2018	2017	2016
Direct (Gas, coal, oil)	**68.3**	71.8	70.9
Indirect (Electricity)	**234**	238.8	247.6

1 Based on IEA CO_2 Emissions from Fuel Combustion, 2018 & 2017, OECD/IEA, Paris, 2016, and the 2018 & 2017 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, including continuing and discontinued operations, accordingly the North America Crafts business (sale completed on 20 February 2019) is included.

This represents a decrease of 2.7% versus 2017 total emissions.

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)

2018[1,3]	2017	2016	2015	2014	2013[2]	2012	2011
4.2	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)

2018[1,3]	2017	2016	2015	2014	2013[2]	2012	2011
196	206	219	208	201	212	226	249

1 2014 – 2018 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.
3 All 2018 numbers, including sales, used for these series include continuing and discontinued operations, accordingly the North America Crafts business (sale completed on 20 February 2019) is included. This means that the 2018 figures are comparable with prior years.

Further details can be found in the Corporate Responsibility section on pages 20 to 22 and in the separate Sustainability Report.

Employees

A description of the Company's employee policies applied during the year and details of our Employee Engagement Survey can be found on page 19 of this Annual Report. As part of the changes resulting from the Connecting for Growth global transformation programme, employees were regularly consulted to gather their views on decisions that would impact them. Consultation was conducted by way of 'pulse surveys', conferences and roadshows to ensure the correct level of engagement worldwide. The views gathered were considered by management and by the Board throughout the course of the year ended 31 December 2018.

DIRECTORS' REPORT
CONTINUED

Employees with disabilities
Applications for employment by people with disabilities are always fully and fairly 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, including the provision of any new training required where necessary, 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.

Auditor
A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2019 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.

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

Branches and financial risk management objectives and policies	The Company operates in over 50 countries through branches and offices. 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. Further information on risk management more generally can be found on page 23.
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.
Financial instruments	Disclosure of the use of financial instruments by the Group can be found in note 34 to the financial statements.
Amount of interest capitalised	N/A
Publication of unaudited financial information	N/A
Details of Long Term Incentive schemes	See page 64
Allotment of equity securities	See page 73
Significant contracts	See page 73

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
7 March 2019

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
7 March 2019

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Coats Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows;
- the 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 7.

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

Basis for opinion

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

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Lower Passaic River Study Area litigation provision • Material assumptions underlying retirement benefit obligations • Taxation provisions – transfer pricing on incremental management recharges The key audit matters are the same as the prior year, except that the impairment risk relating to the tangible assets in Brazil referred to in the previous audit opinion is no longer considered a key audit matter following the confirmation of the underlying value of the land by an independent valuation expert. We refined the key audit matter relating to tax to focus on the incremental management recharges that were considered to represent the area of greatest judgement. Within this report, any new or refined key audit matters are identified with ↑ and any key audit matters which are the same as the prior year identified with ~
Materiality	The materiality that we used for the group financial statements was $8.5 million which was determined on the basis of 5% of adjusted 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 net assets, 75% of the group's revenue and 78% 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 5% of adjusted profit before tax. In the prior year 7% of profit before tax has been used. For further details refer to the discussion of 'our application of materiality' below.

Conclusions relating to going concern, principal risks and viability statement

Going concern

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

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

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

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

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

Principal risks and viability statement

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

- the disclosures on pages 23 to 27 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 28 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 on page 28 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.

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 in respect of remediation and legal costs which amounts to $17.6 million, net of insurance proceeds, at 31 December 2018. 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 52.
How the scope of our audit responded to the key audit matter	We challenged management's 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 the valuation thereof. We verified the material cash outflows relating to the utilisation of the legal provision and made enquiries of management to confirm whether any further correspondence had been received in connection with this matter. We challenged whether the increase in the provision for legal costs was appropriate. We evaluated the competence of management's external legal advisers. We considered the legal advice management had obtained in relation to litigation and directly challenged management's judgements through discussion with key external legal advisers and our internal environmental specialist.
Key observations	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.

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

Material assumptions underlying retirement benefit obligations ~

Key audit matter description	The retirement benefit obligations recognised in the statement of financial position in respect of defined employee benefits are the present values of the defined benefit obligations at the year-end less the fair value of any associated assets. The gross actuarial value of scheme liabilities of Coats Group plc at 31 December 2018 was $3,002 million. The assumptions used in the valuation are relatively sensitive to small changes and can result in a material difference in the net deficit recognised of $168 million. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, mortality and inflation rates. The carrying values of the Group's pension obligations as well as a sensitivity analysis relating to the Group's major defined benefit pension arrangements are included in note 10. 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 52. Management refer to the potential impact of Brexit on the pension liabilities on page 26.
How the scope of our audit responded to the key audit matter	We worked with our own pension specialists to challenge the assumptions underlying management's calculation of the group defined benefit schemes and their consideration of the potential impact of Brexit. 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 audit specialists.

Taxation provisions: transfer pricing on incremental management recharges ~

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. The area of most significant judgement, and the focus of our key audit matter, is incremental group recharges that have not yet been subject to any local tax authority enquiries. The Group's effective tax rate reconciliation is provided in note 9 and the matter is discussed as a significant financial and reporting issue in the Audit and Risk Committee report on page 52.
How the scope of our audit responded to the key audit matter	We worked with our tax specialists, including transfer pricing tax specialists, in key jurisdictions to evaluate and challenge the appropriateness of judgements and assumptions made by management with respect to their assessment and valuation of transfer pricing tax risks specifically related to those arising from incremental management recharges. This included 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 potential transfer pricing taxation exposures for risks associated with incremental management recharges are appropriate.

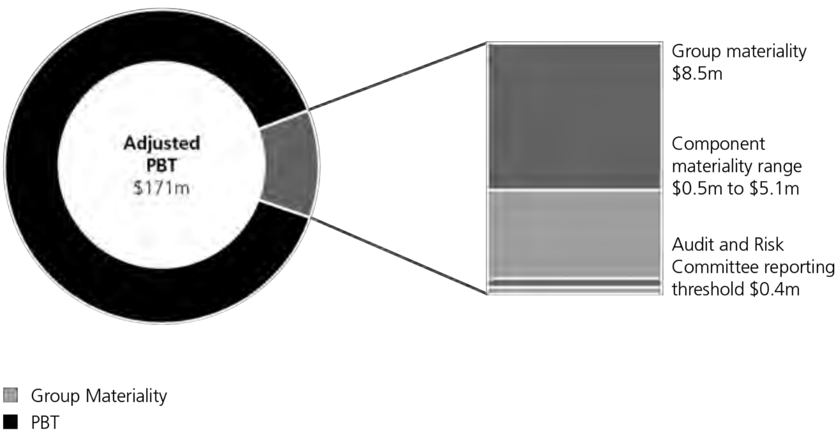
INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF COATS GROUP PLC
CONTINUED

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent company financial statements**
Materiality	$8.5 million (2017: $10 million)	$7.2 million (2017: $8.5 million)
Basis for determining materiality	5% of adjusted profit before tax. We have determined adjusted profit before tax on the basis of continuing profit before tax before exceptional and acquisition related items as highlighted in the Consolidated Income Statement on page 87. In the prior year 7% of profit before tax had been used. In 2018, given the significant impact of exceptional and acquisition related items, adjusted profit before tax was used as this better reflects the scale of the underlying business under audit.	Parent company materiality of $7.2 million represents 0.6% 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 has been adjusted in determining materiality to exclude items which, due to their variable financial impact and/or expected infrequency of the underlying events, are not considered indicative of continuing operations of the Group. These items do not form part of the Group's internally or externally monitored primary key performance indicators, and which if included, would distort materiality year-on-year. Adjusted profit before tax is a key measure used by Coats Group plc in reporting their results and is determined to be the most appropriate basis for determining materiality.	The parent company is primarily an investment holding company and net assets is considered the most appropriate basis.



We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of $0.4 million (2017: $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.

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

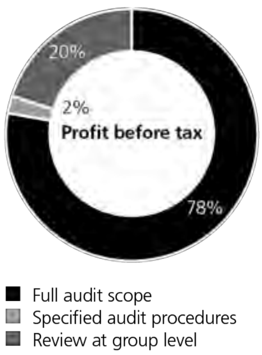
An overview of the scope of our audit
Coats Group plc was subject to a full statutory audit by the group auditor. Due to the geographically widespread nature of the group, the audit is subject to scoping decisions on overseas components. We focused our group audit scope on 11 (2017: 11) overseas components spread across four continents which were subject to full audit scope. Our involvement in their audits is as follows:

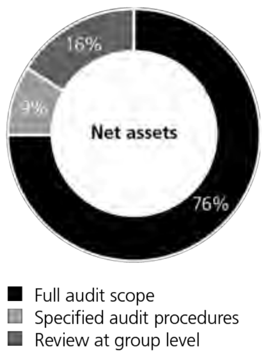
- For all components the group auditor held planning calls, maintained regular contact throughout the audit process and reviewed the work of overseas component auditors.
- The Group audit team continued to follow a programme of regular on-site meetings with components that has been designed so that the Senior Statutory Auditor or another senior member of the Group audit team periodically meets with local management and the component audit team on a rotational basis. During 2018, the Senior Statutory Auditor visited Coats operations in USA, Turkey, and Mexico, and met with the respective component audit teams. Senior members of the engagement team also visited Indonesia and Colombia.

Our audit work at these components was executed at levels of materiality which were lower than the group materiality and range from $0.5 million to $5.1 million (2017: $0.2 million to $7.3 million).

The 11 overseas components and UK components subject to full audit account for 76% of the Group's net assets (2017: 75%), 75% of the Group's revenue (2017: 76%) and 78% of the Group's profit before tax within the group's profit making components (2017: 81%). Additionally, 2 components were subject to specified audit procedures. These components were selected in order to provide an appropriate basis for undertaking the audit work to address the risks of material misstatement identified above.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.





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

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.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the audit and risk committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
- identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team, including significant component audit teams, and involving relevant internal specialists, including tax, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following area: Cut-off risk over revenue recognition at year on sales where control had not yet passed to the buyer in areas with a wide distribution network; and
- obtaining an understanding of the legal and regulatory frameworks that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, environmental and tax legislation.

Audit response to risks identified
As a result of performing the above, we identified Lower Passaic River Study litigation provision as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit and risk committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- performed substantive procedures on cut off for all full scope audits, in addition we have reviewed revenue at year end for any unusual trends;

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

Audit response to risks identified (continued)

- reading minutes of meetings of those charged with governance and reviewing internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, significant component audit teams and internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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 16 years, covering the years ending 31 December 2003 to 31 December 2018.

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).

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.

Edward Hanson (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

7 March 2019

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2018 Before exceptional and acquisition related items US$m	2018 Exceptional and acquisition related items (see note 4) US$m	2018 Total US$m	2017* Before exceptional and acquisition related items US$m	2017* Exceptional and acquisition related items (see note 4) US$m	2017* Total US$m
Continuing operations:							
Revenue	2,3	**1,414.7**	**–**	**1,414.7**	1,356.1	–	1,356.1
Cost of sales		**(901.9)**	**(4.4)**	**(906.3)**	(849.7)	–	(849.7)
Gross profit		**512.8**	**(4.4)**	**508.4**	506.4	–	506.4
Distribution costs		**(142.7)**	**(4.5)**	**(147.2)**	(150.4)	–	(150.4)
Administrative expenses		**(176.0)**	**(38.9)**	**(214.9)**	(195.5)	(6.5)	(202.0)
Other operating income		**0.8**	**–**	**0.8**	0.1	–	0.1
Operating profit	2,4,5	**194.9**	**(47.8)**	**147.1**	160.6	(6.5)	154.1
Share of profits/(losses) of joint ventures	15	**0.1**	**–**	**0.1**	1.3	(2.6)	(1.3)
Investment income	6	**1.7**	**–**	**1.7**	2.1	–	2.1
Finance costs	7	**(26.1)**	**–**	**(26.1)**	(25.4)	–	(25.4)
Profit before taxation	5	**170.6**	**(47.8)**	**122.8**	138.6	(9.1)	129.5
Taxation	9	**(53.8)**	**4.8**	**(49.0)**	(44.6)	0.7	(43.9)
Profit from continuing operations		**116.8**	**(43.0)**	**73.8**	94.0	(8.4)	85.6
Profit/(loss) from discontinued operations	32	**2.8**	**(18.4)**	**(15.6)**	9.5	–	9.5
Profit for the year		**119.6**	**(61.4)**	**58.2**	103.5	(8.4)	95.1
Attributable to:							
Equity shareholders of the company		**100.4**	**(61.2)**	**39.2**	89.2	(8.4)	80.8
Non-controlling interests		**19.2**	**(0.2)**	**19.0**	14.3	–	14.3
		119.6	**(61.4)**	**58.2**	103.5	(8.4)	95.1
Earnings per share (cents):	11						
Continuing operations:							
Basic				**3.85**			5.10
Diluted				**3.78**			5.00
Continuing and discontinued operations:							
Basic				**2.76**			5.78
Diluted				**2.70**			5.67
Adjusted earnings per share	37(d)	**6.87**			5.70		

* Restated to reflect the results of the North America Crafts business as a discontinued operation and to reflect the impact of the adoption of IFRS 15 'Revenue from contracts with customers' (see note 1).

Notes on pages 93 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2018 US$m	2017 US$m
Profit for the year	**58.2**	95.1
Items that will not be reclassified subsequently to profit or loss:		
Actuarial (losses)/gains on retirement benefit schemes	**(21.8)**	145.2
Tax on items that will not be reclassified	**1.2**	1.0
	(20.6)	146.2
Items that may be reclassified subsequently to profit or loss:		
Losses on cash flow hedges arising during the year	**(1.0)**	(1.1)
Transferred to profit or loss on cash flow hedges	**(0.6)**	0.2
Exchange differences on translation of foreign operations	**(20.5)**	(6.1)
	(22.1)	(7.0)
Other comprehensive income and expense for the year	**(42.7)**	139.2
Net comprehensive income and expense for the year	**15.5**	234.3
Attributable to:		
Equity shareholders of the company	**(2.7)**	219.9
Non-controlling interests	**18.2**	14.4
	15.5	234.3

Notes on pages 93 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Notes	**2018 US$m**	2017* US$m
Non-current assets:			
Intangible assets	13	**284.2**	292.9
Property, plant and equipment	14	**282.2**	297.3
Investments in joint ventures	15	**10.6**	12.0
Other equity investments	15	**6.1**	1.2
Deferred tax assets	16	**19.2**	24.6
Pension surpluses	10	**42.6**	57.9
Trade and other receivables	18	**21.4**	21.5
		666.3	707.4
Current assets:			
Inventories	17	**185.4**	232.2
Trade and other receivables	18	**253.8**	268.9
Other equity investments	15	**0.6**	0.2
Pension surpluses	10	**6.1**	6.9
Cash and cash equivalents	30(f)	**135.7**	118.4
Assets of disposal group and non-current assets classified as held for sale	32(b)	**51.4**	0.2
		633.0	626.8
Total assets		**1,299.3**	1,334.2
Current liabilities:			
Trade and other payables	20	**(302.7)**	(330.4)
Current income tax liabilities		**(15.5)**	(8.7)
Bank overdrafts and other borrowings	22	**(20.3)**	(1.7)
Retirement benefit obligations:			
– Funded	10	**(16.0)**	(16.9)
– Unfunded	10	**(6.0)**	(7.4)
Provisions	24	**(16.3)**	(18.3)
Liabilities of disposal group classified as held for sale	32(b)	**(17.9)**	–
		(394.7)	(383.4)
Net current assets		**238.3**	243.4
Non-current liabilities:			
Trade and other payables	20	**(23.1)**	(27.2)
Deferred tax liabilities	23	**(10.5)**	(17.9)
Borrowings	22	**(338.1)**	(358.2)
Retirement benefit obligations:			
– Funded schemes	10	**(99.5)**	(101.1)
– Unfunded schemes	10	**(95.5)**	(102.6)
Provisions	24	**(39.0)**	(33.5)
		(605.7)	(640.5)
Total liabilities		**(1,000.4)**	(1,023.9)
Net assets		**298.9**	310.3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
CONTINUED

31 December	Notes	2018 US$m	2017* US$m
Equity:			
Share capital	26	**88.5**	87.5
Share premium account	27	**10.4**	7.7
Own shares	26, 27	**(6.8)**	(7.7)
Translation reserve	27	**(68.5)**	(48.8)
Capital reduction reserve	27	**59.8**	59.8
Other reserves	27	**244.2**	245.8
Retained loss	27	**(56.7)**	(58.6)
Equity shareholders' funds		**270.9**	285.7
Non-controlling interests	27	**28.0**	24.6
Total equity		**298.9**	310.3

* Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 31).

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 7 March 2019

Company Registration No.103548

Notes on pages 93 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2017	127.0	11.6	(10.5)	(121.1)	85.2	250.9	(274.6)	68.5	22.5	91.0
Change in functional currency*	(39.9)	(10.8)	1.8	78.5	(25.4)	(4.2)	–	–	–	-
Profit for the year	–	–	–	–	–	–	80.8	80.8	14.3	95.1
Other comprehensive income and expense for the year	–	–	–	(6.2)	–	(0.9)	146.2	139.1	0.1	139.2
Dividends	–	–	–	–	–	–	(17.8)	(17.8)	(12.3)	(30.1)
Issue of ordinary shares	0.4	2.6	–	–	–	–	–	3.0	–	3.0
Movement in own shares	–	4.3	1.0	–	–	–	(5.2)	0.1	–	0.1
Share based payments	–	–	–	–	–	–	6.4	6.4	–	6.4
Deferred tax on share schemes	–	–	–	–	–	–	5.6	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	310.3
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**39.2**	**39.2**	**19.0**	**58.2**
Other comprehensive income and expense for the year	**–**	**–**	**–**	**(19.7)**	**–**	**(1.6)**	**(20.6)**	**(41.9)**	**(0.8)**	**(42.7)**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(21.1)**	**(21.1)**	**(14.8)**	**(35.9)**
Issue of ordinary shares	**1.0**	**2.7**	**–**	**–**	**–**	**–**	**(0.7)**	**3.0**	**–**	**3.0**
Movement in own shares	**–**	**–**	**0.9**	**–**	**–**	**–**	**–**	**0.9**	**–**	**0.9**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**7.4**	**7.4**	**–**	**7.4**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**–**	**(2.3)**	**(2.3)**	**–**	**(2.3)**
Balance as at 31 December 2018	**88.5**	**10.4**	**(6.8)**	**(68.5)**	**59.8**	**244.2**	**(56.7)**	**270.9**	**28.0**	**298.9**

* 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 93 to 155 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2018 US$m	2017 US$m
Cash inflow/(outflow) from operating activities:			
Net cash inflow/(outflow) from operations	30(a)	**171.1**	(157.4)
Interest paid		**(19.1)**	(13.7)
Taxation paid	30(b)	**(50.1)**	(60.5)
Net cash generated by/(absorbed in) operating activities		**101.9**	(231.6)
Cash outflow from investing activities:			
Investment income	30(c)	**1.6**	1.3
Net capital expenditure and financial investment	30(d)	**(45.6)**	(49.7)
Acquisitions and disposals	30(e)	**(0.1)**	(23.1)
Net cash absorbed in investing activities		**(44.1)**	(71.5)
Cash outflow from financing activities:			
Receipts from exercise of share options		**3.0**	3.0
Dividends paid to equity shareholders		**(21.1)**	(17.6)
Dividends paid to non-controlling interests		**(14.8)**	(12.3)
Net decrease in debt and lease financing		**(20.4)**	(41.1)
Net cash absorbed in financing activities		**(53.3)**	(68.0)
Net increase/(decrease) in cash and cash equivalents		**4.5**	(371.1)
Net cash and cash equivalents at beginning of the year		**116.8**	470.3
Foreign exchange (losses)/gains on cash and cash equivalents		**(5.6)**	17.6
Net cash and cash equivalents at end of the year	30(f)	**115.7**	116.8
Reconciliation of net cash flows to movements in net debt			
Net increase/(decrease) in cash and cash equivalents		**4.5**	(371.1)
Net decrease in debt and lease financing		**20.4**	41.1
Change in net debt resulting from cash flows (free cash flow)		**24.9**	(330.0)
Other non-cash movements		**(0.7)**	(5.0)
Foreign exchange (losses)/gains		**(5.4)**	15.3
Decrease/(increase) in net debt		**18.8**	(319.7)
Total net (debt)/cash at the start of the year		**(241.5)**	78.2
Total net debt at the end of the year	30(f)	**(222.7)**	(241.5)

Notes on pages 93 to 155 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, the below critical judgements have had a significant effect on the amounts recognised in the financial statements.

Exceptional items

As set out in the Group's accounting policy below, judgement is used to determine those items which should be separately disclosed to allow a better understanding of the underlying trading performance of the Group. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities. Please see note 4 for further details.

Held for sale classification

At 31 December 2018 the North America Crafts business has been classified as held for sale, see note 32 for further information. The key accounting judgement in classifying the assets and liabilities as held for sale was that the appropriate level of management was committed to the sale and that as at 31 December 2018 the sale of the North America Crafts business was considered highly probable. The carrying value of the assets and liabilities were written down to fair value less cost to sell, as the transaction completed on 20 February 2019 there is no judgement in fair value of the assets and liabilities. Furthermore, in management's judgement North America Crafts represents a major line of business and therefore its results for 2018 have been presented as discontinued operations, with restatement of the 2017 comparative amounts.

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 $17.6 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.

a) Accounting convention and format

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

The financial statements are prepared under the historical cost convention except for derivatives which are stated at fair value, disposal groups which are held at fair value less costs to sell and retirement benefit obligations which are valued in accordance with IAS 19 Employee Benefits.

Except for the changes arising from the adoption of new accounting standards (as detailed in note 1), and the changes to operating segments (as detailed in note 2) the same accounting policies, presentation and methods of computation have been followed in these consolidated financial statements as applied in the Group's annual financial statements for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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.

Joint ventures

Joint ventures are entities in which the Group has joint control, shared with a party outside the Group. The Group reports its interests in joint ventures using the equity method.

Discontinued operations and disposal group held for sale

In January 2019 the Group announced the agreement to sell the North America Crafts business to Spinrite Acquisition Corp. The North America Crafts business has been classified as held for sale at 31 December 2018 and its results presented as a discontinued operation. Prior years amounts in the consolidated income statement have also been restated to reclassify the results of North America Crafts from continuing operations to discontinued operations. The sale was completed on 20 February 2019, the date which control passed to the acquirer. Note 32 provides further details on the results of North America Crafts.

Going concern

Giving due consideration to the nature of the Group's business and taking account of the following matters: the financing facilities available to the Group; the Group's foreign currency exposures; and also taking into consideration the cash flow forecasts prepared by the Group and the sensitivity analysis associated therewith, the directors consider that the Company and the Group are going concerns and these financial statements are prepared on that basis. Further detail is contained in the corporate governance section on page 53.

c) Functional currency

The functional currency of Coats Group plc continued to be United States dollars ('USD') during the year ended 31 December 2018. In the prior year following the UK pensions settlement, the functional currency of Coats Group plc was changed from Great Britain pounds sterling to USD, effective 1 March 2017.

Prior to the UK pensions settlement in February 2017, Coats Group plc and the parent group were considered to operate autonomously from the Coats operating business. Cash within the parent group was primarily denominated in Great Britain Pounds, held separately from the Coats operating business and represented a significant proportion of the Group's value at that time. Following the UK pensions settlement and payment of upfront pension contributions the parent group became largely dormant with minimal cash maintained. In addition dividend payments recommenced to external shareholders having been suspended during the period of the investigation by the UK Pension Regulator. Following the settlement payments made into the UK pension schemes the functional currency of Coats Group plc was reassessed and changed from Great Britain pounds sterling to 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.

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Group companies

Assets and liabilities of subsidiaries whose presentation currency is not 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:

		2018	2017
Average	Sterling	**0.75**	0.78
	Euro	**0.85**	0.89
	Brazilian Real	**3.65**	3.19
	Indian Rupee	**68.41**	65.09
Period end	Sterling	**0.78**	0.74
	Euro	**0.87**	0.83
	Brazilian Real	**3.87**	3.31
	Indian Rupee	**69.77**	63.87

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.

The amortisation charge for both acquired and other intangibles assets is included within the distribution costs and administrative expense lines in the consolidated income statement.

Impairment of 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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Research and development
All research costs are expensed as incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be separately identified;
- it is probable that the asset created will generate future economic benefits; and
- the development costs can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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) Investments in equity securities

Investments in equity securities are recognised and derecognised on a trade date basis and are initially measured at fair value, plus directly attributable transaction costs and are remeasured at subsequent reporting dates at fair value, with movements recorded in other comprehensive income. Listed investments are stated at market value. Unlisted investments are stated at fair value based on directors' valuation, which is supported by external experts' advice or other external evidence.

(ii) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iii) Trade and other receivables

Trade receivables are recognised at fair value (which ordinarily reflects the invoice amount) and carried at amortised cost, less an allowance for expected lifetime losses as permitted under the simplified approach in IFRS 9. Fully provided balances are not written off from the balance sheet until the Group has decided to cease enforcement activity.

Financial liabilities
(i) Trade payables

Trade payables are not interest-bearing and are recognised at fair value, and measured subsequently at amortised cost.

(ii) Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of direct issue costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised over the period of the relevant liabilities.

(iii) Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument, and this amount is recorded as a liability at amortised cost. The equity component is the fair value of the compound instrument as a whole less the amount of the liability component, and is recognised in equity, net of income tax effect, without subsequent remeasurement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value being recognised in the income statement.

(iv) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is regulated by the Board or that of the relevant operating subsidiary in accordance with their respective risk management strategies. Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the income statement.

Derivative financial instruments are initially measured at fair value at contract date and are remeasured at each reporting date.

The Group designates hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of interest rate risk are accounted for as cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

At the inception of each hedge transaction the issuing entity documents the relationship between the hedging instrument and the hedged item and the anticipated effectiveness of the hedge transaction, and monitors the ongoing effectiveness over the period of the hedge. Hedge accounting is discontinued when the issuing entity revokes the hedging relationship, the hedge instrument expires, is sold, exercised or otherwise terminated, and the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

(v) Fair value hedges
Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised immediately through the income statement, together with any changes in the fair value of the related hedged items due to changes in the hedged risks. On discontinuation of the hedge the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the consolidated income statement from that date.

(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 at a single point in time when control of the goods has been transferred to the buyer. The point in time at which control is deemed to have transferred varies depending on the commercial terms agreed with the buyer.

(ii) Sales of services
Sales of services are recognised in the period in which the services are rendered, as follows:

- Software implementation and licensing income – performance obligations are satisfied over a period of time and therefore revenue is recognised by reference to the stage of completion at the period end. The Group uses labour hours expended to assess the stage of completion as it is deemed to be the most appropriate basis to measure progress.
- Maintenance income – performance obligations are satisfied evenly over a fixed period of time and therefore revenue is recognised on a straight line basis over the maintenance period.

Advances received from customers are included within contract liabilities.

(iii) Income from sales of property
Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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.

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:

- 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.

The adoption of these standards has not had a material impact on the financial statements of the Group. Additional details on the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' are given below.

IFRS 9 'Financial Instruments'
IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and concerns the classification, measurement and derecognition of financial assets and financial liabilities. The new standard introduces the expected credit loss model for the assessment of impairment of financial assets, introduces new classification and measurement rules for financial assets affecting the Group's other investments previously classified as available for sale and changes the hedge accounting requirements.

An accounting policy choice is available with regards to applying the new hedge accounting requirements or retaining the requirements of IAS 39. The Group has elected to retain the requirements of IAS 39.

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IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit & loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivable and available for sale. As such the Group's other investments previously classified as available-for-sale under IAS 39 and held at fair value ($1.4 million as at 1 January 2018) have been designated on transition as FVOCI, after which the Group will record their fair value movements in other comprehensive income.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities and therefore there has been no impact on the Group's accounting policies relating to financial liabilities.

The Group has adopted the simplified approach to provide for losses on receivables within the scope of IFRS 9. Due to the quality and short-term nature of the Group's trade receivables losses experienced are not significant. Therefore, no material impact to the primary financial statements has arisen on the adoption of IFRS 9 and the Group has not restated prior periods on adoption of IFRS 9.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 replaces IAS 18 Revenue and related interpretations, introducing a single, principles-based approach to the recognition and measurement of revenue from all contracts with customers. The new approach requires identification of performance obligations in a contract and revenue to be recognised when or as those performance obligations are satisfied, as well as additional disclosures.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

The Group completed a review of the requirements of IFRS 15 against existing policy and practice for both timing and amount of revenue recognised, in particular considering the accounting policies adopted for the Global services business, where contracts include several performance obligations, and variable consideration.

The review concluded that timing of revenue recognition was materially consistent with the requirements of IFRS 15. For the majority of the Group's contracts, the performance obligation is the delivery of goods, which under IFRS 15 would be recognised at a single point of time, consistent with the current accounting treatment under IAS 18. The Group's accounting policies for services revenue already allocated revenue to performance obligations on a basis consistent with IFRS 15 and no change in policy was required.

As part of the review, the Group identified rebates and discounts under certain arrangements which were recorded as operating costs under IAS 18 which under IFRS 15 are treated as a reduction of revenue.

The Group previously expected that it would adopt IFRS 15 using the modified retrospective approach. After careful consideration the Group has adopted IFRS 15 using the full retrospective approach and comparative amounts for the year ended 31 December 2017 have been restated.

The rebates and discounts outlined above that are treated as reductions of revenue from continuing operations for the year ended 31 December 2018, rather than reported as operating costs, amounted to $11.7 million (2017: $11.9 million). Amounts for the year ended 31 December 2017 have been restated as set out below:

IFRS 15 restatement impact on continuing operations for the year ended 31 December 2017	**As reported US$m**	**Adjustment US$m**	**As restated US$m**
Revenue	**1,368.0**	**(11.9)**	**1,356.1**
Gross profit	**518.3**	**(11.9)**	**506.4**
Distribution costs	**(162.3)**	**11.9**	**(150.4)**

There have been no changes in Group operating profit, total equity or cash flows as a result of the adoption of IFRS 15.

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 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');

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- Annual Improvements to IFRS's 2015 – 2017 cycle; and
- IFRIC 23 Uncertainty over Income Tax Treatments.

From the year beginning 1 January 2021:

- IFRS 17 Insurance Contracts.

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 16 'Leases'

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019. This standard provides a single model for lessees which recognises a right of use asset and lease liability for all leases, exemptions can be applied to low value and short-term leases. The distinction between finance and operating leases for lessees is removed.

As at 31 December 2018, 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 (see note 5). The most significant impact on the Group arises from leases relating to land and buildings.

Full retrospective application in the comparative year ending 31 December 2018 is optional. However, the Group will apply the modified retrospective approach from the transitional date, adjusting opening retained earnings at 1 January 2019 and not restating 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. IFRS 16 also has a number of practical expedients for first time adoption. The Group will utilise the following practical expedients at the transition date:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of the right-of-use asset on transition;
- Use hindsight to determining the term;
- Use onerous contract assessment under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before transition instead of performing an impairment review under IAS 36 Impairment;
- For leases with a remaining term of less than 12 months at 1 January 2019, the short-term lease exemption in IFRS 16 will be taken.
- Leases comprising of both an asset and a non-lease service component will not be separated and both asset and service cost will be included in the calculation of the initial asset and liability.

Since 2017, the Group has invested in additional resource, training and systems in order to prepare for the implementation of IFRS 16. A cross function project team was established to lead the implementation and work with management teams in markets globally to understand all lease contracts, gather and review data before entering it into a new lease accounting system. In addition, the project team has developed new processes, introduced new controls and made changes to existing systems. Expert advice has been sought on technical areas, such as the calculation of the incremental rate of borrowing.

The Group has also considered the implications of IFRS 16 on other, more judgmental, contractual arrangements such as solar panels, biomass generators and other manufacturing contracts. Of the contractual arrangements reviewed those relating to biomass generators and solar panels were determined to be leases. However, the lease payments for the solar panels vary with output of the underlying asset and are therefore expensed under IFRS 16.

Following completion of the IFRS 16 implementation project management has estimated that the right-of-use asset and lease liabilities recognised at 1 January 2019 to be $53-58 million. The impact on the 2019 results is estimated to be a $1-3 million increase in operating profit and a $1-2 million decrease in profit before tax. The expected impact excludes the North America Crafts business, which is held for sale at 31 December 2018 and was disposed of on 20 February 2019.

The impact on the 2019 results could vary due to: the Group entering into new lease contracts during 2019, changes to the lease term of existing leases (including consideration of options to extend) and exchange rates on translation of financial statements of non-US Dollar operations.

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2 Segmental analysis

Operating segments are components of the Group's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Coats Group plc Board). Reportable segments for the year ended 31 December 2018 comprised the continuing industrial thread business and the discontinued North America Crafts business which was sold in February 2019. Previously the Group had two reportable segments being Industrial and Crafts. The smaller Latin America Crafts business has been reported within Industrial continuing operations following its integration with the wider Latin America business. The results of the operating segments are set out below. The change has been applied retrospectively with comparative information restated on a consistent basis. Following the sale of the North America Crafts business, future segmental reporting is under review and is anticipated to be reflected in the H1 2019 financial results.

a) Segment revenue and results

Year ended 31 December 2018	**Industrial Continuing Operations US$m**	**North America Crafts Discontinued Operations US$m**	**Total US$m**
Revenue	**1,414.7**	**121.8**	**1,536.5**
Segment profit	**201.9**	**2.7**	**204.6**
UK pension scheme administrative expenses	**(7.0)**		
Operating profit before exceptional and acquisition related items	**194.9**		
Exceptional and acquisition related items (note 4)	**(47.8)**		
Operating profit	**147.1**		
Share of profits of joint ventures	**0.1**		
Investment income	**1.7**		
Finance costs	**(26.1)**		
Profit before taxation from continuing operations	**122.8**		

Year ended 31 December 2017 (Restated)	Industrial Continuing Operations US$m	North America Crafts Discontinued Operations US$m	Total US$m
Revenue	1,356.1	142.3	1,498.4
Segment profit	166.9	13.1	180.0
UK pension scheme administrative expenses	(6.3)		
Operating profit before exceptional and acquisition related items	160.6		
Exceptional and acquisition related items (note 4)	(6.5)		
Operating profit	154.1		
Share of losses of joint ventures	(1.3)		
Investment income	2.1		
Finance costs	(25.4)		
Profit before taxation	129.5		

The elimination of intersegment revenue from Industrial Continuing Operations to North America Crafts Discontinued Operations of $5.7 million for the year ended 31 December 2018 (2017: $6.8 million) is presented within the North America Crafts Discontinued Operations segment. Excluding these amounts revenue for the North America Crafts Discontinued Operations segment for the year ended 31 December 2018 was $127.5 million (2017: $149.1 million).

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.

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b) Assets and liabilities

	Industrial Continuing Operations US$m	North America Crafts Discontinued Operations US$m	Adjustments, eliminations and unallocated assets and liabilities US$m	Total US$m
Assets				
31 December 2018	**444.0**	**50.6**	**6.9**	**501.5**
31 December 2017 (as restated)	448.8	58.1	5.3	512.2
Liabilities				
31 December 2018	**(286.7)**	**(17.4)**	**(16.8)**	**(320.9)**
31 December 2017 (as restated)	(288.9)	(18.9)	(22.5)	(330.3)

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 $18.1 million (2017: $24.2 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

	Additions to non-current assets		Depreciation and amortisation	
Year ended 31 December	**2018 US$m**	Restated 2017 US$m	**2018 US$m**	Restated 2017 US$m
Industrial	**44.8**	46.6	**30.0**	31.4
North America Crafts Discontinued Operations	**1.0**	1.6	**1.7**	4.3
Unallocated	**2.4**	2.4	**6.4**	6.3
	48.2	50.6	**38.1**	42.0

Depreciation and amortisation excludes amortisation of acquired intangible assets set out in note 4 of $2.3 million (2017: $2.1million).

d) Geographic information

	Revenue by origin		Revenue by destination		Non-current assets	
Year ended 31 December	**2018 US$m**	Restated[1] 2017 US$m	**2018 US$m**	Restated[1] 2017 US$m	**2018 US$m**	Restated[2] 2017 US$m
Europe, Middle East & Africa (EMEA)						
UK	**11.3**	10.8	**14.0**	12.0	**261.7**	266.6
Rest of EMEA	**263.9**	263.1	**249.5**	246.2	**74.1**	72.5
Americas						
USA	**145.5**	104.9	**145.2**	106.1	**50.5**	63.1
Rest of Americas	**203.1**	218.4	**206.6**	229.4	**43.0**	44.9
Asia & Rest of World						
India	**171.1**	174.2	**166.7**	171.9	**42.2**	44.3
China and Hong Kong	**182.3**	181.7	**155.8**	161.4	**37.4**	40.8
Vietnam	**184.0**	163.4	**166.8**	153.8	**32.8**	30.6
Other	**253.5**	239.6	**310.1**	275.3	**62.5**	61.5
	1,414.7	1,356.1	**1,414.7**	1,356.1	**604.2**	624.3

1 Restated to reflect the results of the North America Crafts business as a discontinued operation and to reflect the impact of the adoption of IFRS 15 'Revenue from contracts with customers' (see note 1).
2 Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 31).

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

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e) Information about products and customers
The Group's revenue by product type from continuing operations is as follows:

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Industrial – Apparel and Footwear	**1,083.0**	1,080.7
Industrial – Performance Materials	**331.7**	275.4
	1,414.7	1,356.1

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

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

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Continuing operations:		
Sales of goods	**1,403.4**	1,345.5
Sales of software solutions	**11.3**	10.6
	1,414.7	1,356.1
Other operating income	**0.8**	0.1
Investment income	**1.7**	2.1
	1,417.2	1,358.3
Discontinued operations:		
Sales of goods	**121.8**	142.3
Other operating income	**3.6**	–
	125.4	142.3
	1,542.6	1,500.6

The following table shows revenue disaggregated by primary geographic markets which reconciles with the Group's reportable segments:

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Continuing operations:		
Asia	**790.9**	758.9
Americas	**348.6**	323.3
EMEA	**275.2**	273.9
	1,414.7	1,356.1
Discontinued operations:		
North America	**121.8**	142.3
	1,536.5	1,498.4

1 Restated to reflect the results of the North America Crafts business as a discontinued operation and to reflect the impact of the adoption of IFRS 15 'Revenue from contracts with customers' (see note 1).

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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 to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 37.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, 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.

Exceptional items

Exceptional items charged/(credited) to operating profit during the year ended 31 December 2018 are set out below:

Year ended 31 December	2018 US$m	2017 US$m
Exceptional items:		
Connecting for Growth programme reorganisation costs:		
– Cost of sales	4.4	–
– Distributions costs	4.5	–
– Administrative costs	13.9	–
	22.8	
Administrative expenses:		
US environmental costs	8.0	–
UK pension scheme consolidation	(0.5)	–
UK Guaranteed Minimum Pension Equalisation	10.2	–
Exceptional items charged to operating profit from continuing operations	40.5	–

Connecting for Growth programme reorganisation costs – Connecting for Growth is a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation, whilst enabling the next phase of growth at Coats and accelerating our transition from the industrial age to the digital age. The programme is focussing on simplification across many aspects of the organisation and includes transitioning from market-focussed support functions to realigned globally integrated support functions, redesigning the way the Group services a number of its peripheral markets and moving from a business operated by individual local management teams to scalable clusters. Exceptional reorganisation costs of $22.8 million have been incurred in the year ended 31 December 2018 comprising severance costs of $20.5 million, fixed asset disposals and write offs of $0.6 million and closure and other one-off costs of $1.7 million.

US environmental costs – In 2010, the US Environmental Protection Agency ('EPA') notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. An additional provision of $8.0 million has been made during the year ended 31 December 2018 to cover legal and professional fees in respect of this matter (see note 28).

UK pension scheme consolidation – Following agreement with the UK Pension Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the Coats UK, Brunel and Staveley schemes (the Previous Schemes) have been transferred to a single new scheme (named the Coats UK Pension Scheme). The Previous Schemes were wound-up and as part of this process a number of the Previous Schemes' members with small pension entitlements were given the option to exchange their pension entitlement for a cash lump sum. This process resulted in an exceptional credit of $1.8 million during the year ended 31 December 2018. Costs incurred in connection with the UK pension scheme consolidation were $1.3 million and as a result the net credit for the year was $0.5 million.

UK Guaranteed Minimum Pension Equalisation – During the year ended 31 December 2018 an estimated past service charge of $10.2 million has been recognised following the Lloyds Banking Group judgement in October 2018 and the requirement for all UK pension schemes to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions. This represents an increase of approximately 0.35% of pension scheme liabilities.

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Exceptional items: Joint venture – Share of profit/(losses) of joint ventures for the year ended 31 December 2018 is after exceptional costs of $nil (2017: $2.6 million) relating to the sale and closure of the business of Australia Country Spinners, a joint venture in Australia.

Exceptional items: Discontinued operations – During the year ended 31 December 2018 exceptional charges in relation to discontinued operations were $18.4 million (2017: $nil). See note 32 for further details.

Acquisition related items
Acquisition related items are set out below:

Year ended 31 December	2018 US$m	2017 US$m
Acquisition related items:		
Administrative expenses:		
Contingent consideration	**4.3**	4.0
Acquisition transaction costs	**0.7**	0.4
Amortisation of acquired intangibles	**2.3**	2.1
Total acquisition related items before taxation	**7.3**	6.5

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.

Excluding amortisation of intangible assets acquired through business combinations and recognised in accordance with IFRS 3 'Business Combinations' from adjusted results also ensures that the performance of the Group's acquired businesses is presented consistently with its organically grown businesses. It should be noted that the use of acquired intangible assets contributed to the Group's results for the years presented and will contribute to the Group's results in future periods as well. Amortisation of acquired intangible assets will recur in future periods. Amortisation of software is included within adjusted results as management consider these costs to be part of the underlying trading performance of the business.

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5 Profit for the year (including discontinued operations)

Year ended 31 December	2018 US$m	2017 US$m
Profit for the year is stated after charging/(crediting):		
Amortisation of intangible assets	**9.2**	13.2
Depreciation of property, plant and equipment	**31.2**	30.9
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	**0.6**	0.5
– Fees payable for the audit of the Company's subsidiaries	**1.6**	1.6
Other Deloitte services:		
– Taxation services	**0.3**	0.3
– Other services	**0.1**	0.1
Total fees charged by Deloitte LLP	**2.6**	2.5
Operating lease rentals:		
– Plant and equipment	**10.4**	6.4
– Other	**13.7**	12.7
Research and development expenditure	**3.0**	2.1
Bad and doubtful debts	**1.2**	0.4
Net foreign exchange losses/(gains)	**2.5**	(2.2)
Rental income from land and buildings	**(0.4)**	(0.4)
Inventory as a material component of cost of sales	**599.5**	534.6
Inventory write-downs to net realisable value	**4.6**	0.6

6 Investment income

Year ended 31 December	2018 US$m	2017 US$m
Income from other investments	**0.1**	0.3
Other interest receivable and similar income	**1.6**	1.8
	1.7	2.1

7 Finance costs

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Interest on bank and other borrowings	**15.9**	14.8
Net interest on pension scheme assets and liabilities	**3.8**	9.4
Other finance costs including unrealised gains and losses on foreign exchange contracts	**6.4**	1.2
	26.1	25.4

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.

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8 Staff costs
The average monthly number of employees was:

Year ended 31 December	2018	Restated[1] 2017
Continuing operations:		
Direct	**11,830**	11,709
Indirect	**2,341**	2,439
Other staff	**3,710**	4,208
	17,881	18,356
Discontinued operations	**563**	729
Total number of employees	**18,444**	19,085
Comprising:		
UK	**192**	175
Overseas	**18,252**	18,910
	18,444	19,085
The total numbers employed at the end of the year were:		
Continuing operations:		
UK	**185**	160
Overseas	**17,453**	18,394
	17,638	18,554
Discontinued operations	**550**	716
Total number of employees	**18,188**	19,270

The number of UK employees in 2018 include those people undertaking administrative activities in connection with the combined Coats UK Pension Scheme.

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Their aggregate remuneration comprised (including directors)[2]:		
Continuing operations:		
Wages and salaries	**269.7**	286.8
Social security costs	**27.8**	30.6
Other pension costs (note 10)	**8.4**	9.6
	305.9	327.0
Discontinued operations	**37.7**	45.3
	343.6	372.3

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.
2 This does not include any contingent consideration on acquisitions that is treated as an expense, due to it being linked to continued employment (see note 4).

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9 Tax on profit from continuing operations

Year ended 31 December	2018 US$m	Restated[2] 2017 US$m
UK Corporation tax at 19.00% (2017: 19.25%)	**–**	–
Overseas tax charge	**(53.0)**	(56.1)
Deferred tax credit	**4.0**	12.2
Total tax charge	**(49.0)**	(43.9)

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

	2018				Restated[2] 2017			
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	**174.4**	**(47.8)**	**(3.8)**	**122.8**	148.0	(9.1)	(9.4)	129.5
Expected tax charge/(credit) at the UK statutory rate of 19.00% (2017: 19.25%)	**33.1**	**(9.1)**	**(0.7)**	**23.3**	28.4	(1.7)	(1.8)	24.9
Differences between overseas and UK taxation rate	**7.0**	**(1.7)**	**(0.1)**	**5.2**	5.1	(0.1)	–	5.0
Non-deductible expenses	**6.3**	**0.5**	**–**	**6.8**	7.2	1.1	–	8.3
Non-taxable income	**(0.4)**	**–**	**–**	**(0.4)**	(0.7)	–	–	(0.7)
Local tax incentives	**(0.9)**	**–**	**–**	**(0.9)**	(1.4)	–	–	(1.4)
Utilisation of unrecognised deferred tax assets	**(7.1)**	**–**	**–**	**(7.1)**	(2.5)	–	–	(2.5)
Recognition of previously unrecognised deferred tax assets	**(2.8)**	**–**	**–**	**(2.8)**	(4.7)	–	–	(4.7)
Potential deferred tax assets not recognised	**1.8**	**5.5**	**0.7**	**8.0**	5.3	–	1.7	7.0
Impact of changes in tax rates	**(1.5)**	**–**	**–**	**(1.5)**	0.4	–	–	0.4
Impact of US Tax reform	**–**	**–**	**–**	**–**	–	–	(2.1)	(2.1)
Prior year adjustments	**(0.3)**	**–**	**–**	**(0.3)**	3.6	–	–	3.6
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	**18.7**	**–**	**–**	**18.7**	6.1	–	–	6.1
Income tax expense/(credit)	**53.9**	**(4.8)**	**(0.1)**	**49.0**	46.8	(0.7)	(2.2)	43.9
Effective tax rate	**31%**	**10%**	**3%**	**40%**	32%	8%	23%	34%

1 Other adjustments consist of net interest on pension scheme assets and liabilities of $3.8 million (2017: $9.4 million) and the one off non-cash impact of US Tax Reform (2017 only).
2 Restated to reflect the results of the North America Crafts business as a discontinued operation.

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 IAS19 finance charges and the impact of US Tax reform (in 2017), the underlying effective rate on pre-tax profits reduced by 100bps to 31% (2017: 32%). The lower tax rate was driven by changes in intra group pricing of intangibles under Advanced Pricing Agreement ('APA') negotiations with India and Indonesia and a reduction in the total unrelieved losses in the year compared to the prior year, partially offset by an unfavourable movement in profit mix.

In December 2017 the US Government introduced tax reform measures in the Tax Cuts & Jobs Act. As a result of the provisions of this Act, the Group recognised a one-off non-cash tax credit of $3.0 million in the consolidated income statement for the year ended 31 December 2017 as a result of the revaluation of the net US deferred tax liabilities using the new headline Corporate Income Tax rate of 21% effective from 1 January 2018. Of this $3.0 million credit, $2.1 million relates to continuing operations and $0.9 million relates to discontinued operations. A further tax credit of $2.9 million for the year ended 31 December 2017 was taken directly to the consolidated

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statement of comprehensive income in relation to the revaluation of deferred tax liabilities in respect of US defined benefit pension arrangements.

Uncertain tax positions

The Group's current tax liability includes a number of tax provisions, which although individually are relatively small, together they total $15.7 million (2017: $13.3 million). These provisions relate to management's estimate of the amount of tax payable on open tax returns yet to be agreed with the local tax authorities. The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local Tax Authorities and consequently agreement may not be reached for a number of years. Primarily the tax items for which a provision has been made relate to the interpretation of transfer pricing legislation and practices across the jurisdictions in which the Group operates.

The final outcome on resolution of open issues with the relevant local Tax Authorities may vary significantly due to the uncertainty associated with such tax items and the continual evolution and development of local Tax Authorities. There is a wide range of possible outcomes and any variances in the final outcome to the provided amount will affect the tax financial results in the year of agreement. However, it is not expected that a material adjustment would be required to these provisions within the next year.

The amount provided for uncertain tax positions has been made using the best estimate of the tax expected to be ultimately paid, taking into account any progress on the discussions with local Tax Authorities, together with expert in-house and third-party advice on the potential outcome and recent developments in case law, Tax Authority practices and previous experience.

Taxation paid

During the year the Group made Corporate Income Tax payments in respect of continuing operations (including withholding and dividend distribution taxes) of $51.4 million (2017: $55.9 million). The amount of tax paid in each jurisdiction is as follows:

Year ended 31 December	**2018 US$m**	Restated[1] 2017 US$m
UK	**11.5**	7.1
Vietnam	**11.0**	9.7
India	**7.0**	10.9
Indonesia	**5.7**	7.1
Turkey	**3.0**	1.7
Pakistan	**1.9**	0.3
Bangladesh	**1.6**	1.6
China	**1.4**	1.1
Singapore	**1.3**	3.8
Mexico	**1.1**	1.7
Colombia	**1.1**	1.8
Hong Kong	**0.7**	0.3
Egypt	**0.6**	–
Thailand	**0.5**	0.4
Romania	**0.4**	0.5
Spain	**0.3**	0.8
Argentina	**0.3**	1.4
Germany	**0.3**	1.3
USA	**(0.2)**	2.3
Others (18 countries each less than $0.5 million)	**1.9**	2.1
Total Corporate Income Tax paid	**51.4**	55.9

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.

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

	2018 US$m	2017 US$m
India	**1.8**	2.1
Bangladesh	**1.8**	0.9
Indonesia	**1.8**	3.3
Vietnam	**1.3**	0.4
China	**1.1**	0.8
Thailand	**0.6**	0.1
Pakistan	**0.6**	0.3
Colombia	**0.6**	0.4
Turkey	**0.4**	0.8
Sri Lanka	**0.2**	0.5
Others (each less than $0.5 million)	**2.6**	2.6
Total withholding taxes paid	**12.8**	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 and discontinued operations):

		US$m	**Year ended 31 December 2018 US$m**	US$m	Year ended 31 December 2017 US$m
Defined contribution schemes			**3.6**		4.0
Defined benefit schemes –					
	Coats US funded	**3.5**		3.5	
	Other funded and unfunded	**3.9**		4.4	
			7.4		7.9
Past service cost			**10.6**		–
Settlements			**(1.9)**		–
Administrative expenses for defined benefit schemes			**7.9**		7.5
			27.6		19.4

Included in the table above are $10.2 million of past service costs and $1.8 million of settlement gains that have been presented as exceptional items in the Consolidated Income Statement (see note 4).

b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits. The total cost relating to discontinued operations is $0.7 million (2017: $0.3 million).

c) Defined benefit schemes

During the year the Group had 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 (the Previous Schemes) were all closed to new members and future benefit accrual in previous years.

Following agreement with the Previous Schemes' Trustees and with effect from the 1 July 2018 the assets and liabilities of the previous schemes were transferred to a single new scheme ('Coats UK Pension Scheme'). The Previous Schemes have been wound-up and as part of this process a number of the Previous Schemes' members with small pension entitlements were given the option to exchange their pension entitlement for a cash lump sum. This process has resulted in almost 1700 members taking this option. The Group reflected this as an exceptional gain of £1.4 million ($1.8 million) in the IAS19 pension liabilities reported.

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The Coats UK Pension Scheme is administered by a trustee and holds assets held in funds that are legally separated from the Group and are subject to UK legislation with oversight from the Pensions Regulator. The trustee board is composed of representatives of both the Group and scheme members together with two independent trustees. The trustee board is required by law and the scheme's rules to act in the interest of the scheme's members and other stakeholders in the scheme (for example the Group). The trustee board is responsible for setting the scheme's investment policy following consultation with the Group.

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

The Coats UK Pension Scheme operates an investment policy whereby a portion of the fund is invested in assets (Bonds and derivatives) that broadly match movements in the value of the scheme's liabilities and a portion in assets that are anticipated to deliver a return in excess of the change in value of the liabilities.

The following disclosures do not include information in respect of schemes operated by joint ventures.

i) Principal risks
The Group is exposed to actuarial and investment risks, the principal risks are:

Risk	Description	Commentary
Interest rate risk	The present value of the defined benefit plan liabilities is calculated using a discount rate determined by reference to bond yields. A decrease in bond yield rates will increase defined benefit obligations.	The impact of the movement in discount rates are shown on page 120. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. Following consolidation of the UK schemes and completion of the 2018 actuarial valuation the Coats UK Pension Scheme is currently over 80% (2017: 70%) hedged against interest rate movements by reference to the Technical Provisions liability.
Inflation	The present value of the defined benefit liabilities are calculated by reference to assumed future inflation rates. An increase in inflation rates will increase defined benefit obligations.	The impact of the movement in inflation rates are shown on page 120.The Trustees of the UK and US schemes hedge these sensitivities through physical bonds, derivatives and real assets. Following consolidation of the UK schemes and completion of the 2018 actuarial valuation the Coats UK Pension Scheme is currently over 80% (2017: 70%) hedged against inflation rate movements by reference to the Technical Provisions liability.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of member life expectancies. An increase in life expectancy will increase liabilities.	The impact of an increase in life expectancy is shown on page 120. Currently this is not a risk that is hedged by the Group's pension schemes.
Investment risk	The scheme assets are shown on a mark-to-market basis. A decrease in asset values at a relevant measurement date, to the extent assets do not hedge liabilities, would lead to an increased disclosed deficit or reduced surplus.	The UK funded scheme is diversified by asset class, at individual securities level; geography; and by investment managers. To the extent that any assets are not Sterling denominated the scheme hedges the majority of this currency exposure back to Sterling. The US scheme is fully funded and has a significant proportion of fixed income. The fixed income is invested directly to protect the funded status of the scheme. Trustees work with fixed income managers to consider the liabilities (including key period durations, credit spread duration and convexity) and have created a custom fix income benchmark to match the liabilities and protect the funded status. In addition the schemes' investment policies recognise the need to generate cash flows to meet members' benefits as they fall due.

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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.

A term of the settlements was access to sponsor support from Coats Limited for future funding needs together with a Company guarantee. Following the consolidation of the three schemes described above the sponsor of the Coats UK Pension Scheme is Coats Limited and the Company provides a guarantee to the Coats UK Pension Scheme. The Guarantee from the Company to the Previous Schemes has been released.

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 2018. For the date of the most recent actuarial valuations at the year end for the Coats US scheme is 1 January 2018.

On 6 March 2019 Coats Limited and the Trustee of the Coats UK Pension Scheme agreed the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date. This agreement resulted in ongoing annual deficit recovery payments of £20 million ($26 million) per annum increasing annually by the increase in the Retail Prices Index (first increase in January 2020) based on a Technical Provisions deficit of £252 million ($322 million). As before the Group will also meet Scheme administrative expenses and levies estimated in future at £4m ($5 million) per annum (i.e. total ongoing payments of $31 million per annum). The new deficit recovery payments will be effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the Previous UK schemes.

The actuarial valuation deficit above is used to determine the level of deficit repair contributions that the Group is required to pay into the Coats UK Pension Scheme. The actuarial valuation is different to the IAS 19 accounting valuation (set out below), which is based on accounting rules concerning employee benefits and shown on the consolidated statement of financial position. The actuarial valuations are generally based on the more prudent 'Technical Provisions' basis than that used for accounting purposes and as a result the actuarial deficits are generally higher than the accounting deficits. It should also be noted that the accounting deficit figures are calculated as at the balance sheet date of 31 December 2018. The actuarial valuation was performed on the date set out above.

iv) Principal assumptions

The principal assumptions for the UK and US schemes are as follows:

Principal assumptions at 31 December 2018	**Coats UK Pension Scheme %**	**Coats US %**	**Other %**
Rate of increase in salaries	**–**	**3.0**	**5.2**
Rate of increase for pensions in payment	**Various**	**–**	**3.7**
Discount rate	**2.8**	**4.2**	**4.5**
Inflation assumption	**3.3**	**2.5**	**3.9**

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

The rate of increase for pensions in payment for members of the combined Coats UK Pension Scheme vary in accordance with each member's former scheme category and period of membership. For former Coats UK plan members the increases for pensions in payment are assumed to be at a rate of 3.1% (2017: 3.1%). For former Staveley scheme members, the majority of the increases for pensions in payment fall within the range 2.4% – 3.1% (2017: 2.4% – 3.1%). For former Brunel scheme members, the majority of the increases for pensions in payment fall within the range 3.1% – 4.0% (2017: 3.1% – 4.0%).

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The assumed life expectancy on retirement is:

	Year ended 31 December 2018		Year ended 31 December 2017			
	Coats UK Pension Scheme Years	**Coats US Years**	Coats UK Years	Coats US Years	Staveley Years	Brunel Years
Retiring today at age 60:						
Males	**26.1**	**24.9**	25.7	25.0	25.4	26.0
Females	**28.2**	**27.1**	27.5	27.2	28.2	28.5
Retiring in 20 years at age 60:						
Males	**27.6**	**26.7**	27.3	26.7	27.0	27.6
Females	**29.8**	**28.8**	29.1	28.9	29.9	30.1

v) Amounts recognised in the consolidated income statement

Amounts recognised in income in respect of these defined benefit schemes are as follows (both continuing and discontinued operations):

Year ended 31 December 2018	**Coats UK Pension Scheme US$m**	**Coats US US$m**	**Coats UK US$m**	**Staveley US$m**	**Brunel US$m**	**Other US$m**	**Group US$m**
Current service cost	**–**	**(3.5)**	**–**	**–**	**–**	**(3.9)**	**(7.4)**
Past service cost	**(10.2)**	**–**	**–**	**–**	**–**	**(0.4)**	**(10.6)**
Settlements	**–**	**–**	**1.6**	**0.1**	**0.1**	**0.1**	**1.9**
Administrative expenses	**(3.7)**	**(0.8)**	**(2.2)**	**(0.7)**	**(0.4)**	**(0.1)**	**(7.9)**
	(13.9)	**(4.3)**	**(0.6)**	**(0.6)**	**(0.3)**	**(4.3)**	**(24.0)**
Interest on defined benefit obligations – unwinding of discount	**(34.6)**	**(5.2)**	**(28.4)**	**(4.0)**	**(2.8)**	**(5.0)**	**(80.0)**
Interest income on pension scheme assets	**33.6**	**8.1**	**27.5**	**4.1**	**2.5**	**1.5**	**77.3**
Effect of asset cap	**–**	**(0.8)**	**–**	**–**	**–**	**(0.3)**	**(1.1)**
	(1.0)	**2.1**	**(0.9)**	**0.1**	**(0.3)**	**(3.8)**	**(3.8)**

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)

Included in the table above are amounts that have been reclassified to discontinued operations following the disposal of the North America Crafts business. Total amounts reclassified included service cost of $1.9 million (2017: $2.0 million).

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

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Effect of changes in demographic assumptions	**(37.4)**	10.2
Effect of changes in financial assumptions	**172.0**	(40.7)
Effect of experience adjustments	**(36.5)**	(15.1)
Remeasurement on assets (excluding interest income)	**(125.5)**	199.9
Adjustment due to surplus cap	**5.6**	(9.1)
Included in the statement of comprehensive income	**(21.8)**	145.2

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:

Year ended 31 December 2018	**Coats UK Pension Scheme US$m**	**Coats US US$m**	**Other US$m**	**Total US$m**
Cash and cash equivalents	**34.2**	**2.3**	**3.9**	**40.4**
Equity instruments:				
US	**249.4**	**25.4**	**1.0**	**275.8**
UK	**26.3**	**2.4**	**–**	**28.7**
Eurozone	**43.8**	**4.0**	**–**	**47.8**
Other regions	**118.2**	**15.8**	**5.0**	**139.0**
Debt instruments:				
Corporate bonds (Investment grade)	**792.7**	**111.3**	**5.4**	**909.4**
Corporate bonds (Non-investment grade)	**130.6**	**1.4**	**–**	**132.0**
Government/sovereign instruments	**651.6**	**39.0**	**–**	**690.6**
Global real estate	**236.3**	**–**	**0.2**	**236.5**
Derivatives:				
Total return, interest and inflation swaps	**(20.3)**	**–**	**–**	**(20.3)**
Assets held by insurance company:				
Insurance contracts	**2.4**	**0.5**	**1.2**	**4.1**
Diversified investment fund	**290.5**	**–**	**6.1**	**296.6**
Other	**84.3**	**(9.7)**	**0.3**	**74.9**
Total market value of assets	**2,640.0**	**192.4**	**23.1**	**2,855.5**
Actuarial value of scheme liabilities	**(2,748.6)**	**(127.7)**	**(126.1)**	**(3,002.4)**
Gross net (liability)/asset in the scheme	**(108.6)**	**64.7**	**(103.0)**	**(146.9)**
Adjustment due to surplus cap	**–**	**(16.6)**	**(4.8)**	**(21.4)**
Recoverable net (liability)/asset in the scheme	**(108.6)**	**48.1**	**(107.8)**	**(168.3)**

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Year ended 31 December 2017	Coats UK US$m	Staveley US$m	Brunel US$m	Combined UK* US$m	Coats US US$m	Other US$m	Total US$m
Cash and cash equivalents	61.1	17.0	8.8	86.9	2.1	4.9	93.9
Equity instruments:							
US	307.7	24.7	31.0	363.4	30.9	2.2	396.5
UK	74.2	9.5	5.2	88.9	2.9	–	91.8
Eurozone	98.1	7.1	10.3	115.5	8.1	–	123.6
Other regions	128.1	7.1	5.2	140.4	21.1	7.3	168.8
Debt instruments:							
Corporate bonds (Investment grade)	809.3	29.9	26.7	865.9	120.4	5.8	992.1
Corporate bonds (Non-investment grade)	72.4	72.4	19.2	164.0	1.3	–	165.3
Government/sovereign instruments	474.9	78.2	39.1	592.2	32.1	–	624.3
Global real estate	317.0	–	–	317.0	–	0.2	317.2
Derivatives:							
Total return, interest and Inflation swaps	(25.9)	–	(2.3)	(28.2)	–	–	(28.2)
Assets held by insurance company:							
Insurance contracts	2.9	0.5	0.6	4.0	0.5	1.3	5.8
Diversified investment fund	97.1	112.8	77.2	287.1	–	7.3	294.4
Other	–	–	–	–	6.8	0.4	7.2
Total market value of assets	2,416.9	359.2	221.0	2,997.1	226.2	29.4	3,252.7
Actuarial value of scheme liabilities	(2,495.2)	(357.3)	(251.2)	(3,103.7)	(145.4)	(140.2)	(3,389.3)
Gross net (liability)/asset in the scheme	(78.3)	1.9	(30.2)	(106.6)	80.8	(110.8)	(136.6)
Adjustment due to surplus cap	–	–	–	–	(22.8)	(3.8)	(26.6)
Recoverable net (liability)/asset in the scheme	(78.3)	1.9	(30.2)	(106.6)	58.0	(114.6)	(163.2)

*As the three UK schemes have been combined in 2018, an additional combined UK column has been added to the above comparatives to ensure comparability.

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

Year ended 31 December	**2018 US$m**	2017 US$m
Non-current assets:		
Funded	**42.6**	57.9
Current assets:		
Funded	**6.1**	6.9
Current liabilities:		
Funded	**(16.0)**	(16.9)
Unfunded	**(6.0)**	(7.4)
Non-current liabilities:		
Funded	**(99.5)**	(101.1)
Unfunded	**(95.5)**	(102.6)
	(168.3)	(163.2)

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The schemes disclosed as part of the 'other' column in the tables above include surplus positions of $0.4 million (2017: $2.0 million).

	Year ended 31 December 2018 US$m	Year ended 31 December 2017 US$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(3,389.3)**	(3,169.0)
Current service cost	**(7.4)**	(7.9)
Liabilities extinguished on settlements	**28.7**	–
Past service cost	**(10.6)**	–
Interest on defined benefit obligations – unwinding of discount	**(80.0)**	(84.4)
Actuarial gains/(losses) on obligations	**98.1**	(45.6)
Contributions from members	**(0.2)**	(0.2)
Benefits paid	**187.4**	198.1
Other adjustments to defined benefit obligation	**(0.5)**	–
Exchange difference	**171.4**	(280.3)
At 31 December	**(3,002.4)**	(3,389.3)

Movements in the fair value of scheme assets were as follows:		
At 1 January	**3,252.7**	2,558.6
Interest income on scheme assets	**77.3**	75.8
Remeasurement on assets (excluding interest income)	**(125.5)**	199.9
Assets distributed on settlements	**(26.8)**	–
Contributions from members	**0.2**	0.2
Contribution from sponsoring companies	**26.7**	374.5
Benefits paid	**(187.4)**	(198.1)
Administrative expenses paid from plan assets	**(0.9)**	(1.9)
Exchange difference	**(160.8)**	243.7
At 31 December	**2,855.5**	3,252.7

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

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

Unrecognised surplus at 1 January	**26.6**	16.3
Interest cost on unrecognised surplus	**1.1**	0.8
Changes in the effect of limiting a net defined benefit asset to the asset ceiling (excluding interest)	**(5.6)**	9.1
Exchange difference	**(0.7)**	0.4
Unrecognised surplus at 31 December	**21.4**	26.6

viii) Assets without a quoted price in an active market

For the new combined Coats UK Pension Scheme, included in the tables above are $249.4 million (2017: $ Nil) of US equity instruments, $26.3 million (2017: $ Nil) of UK equity instruments, $43.8 million (2017: $ Nil) of Eurozone equity instruments, $118.2 million (2017: $ Nil) of other region equity instruments, $792.7 million (2017: $ Nil) of corporate bonds (Investment grade), $130.6 million (2017: $ Nil) of corporate bonds (Non-investment grade), $651.6 million (2017: $ Nil) of government/sovereign instruments, Global real estate of $236.3 million (2017: $ Nil), derivative liabilities of $20.3 million (2017: $ Nil), diversified investment funds of $290.5 million (2017: $ Nil), $2.4 million (2017: $ Nil) of insurance contracts and $84.3 million (2017: $ Nil) 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 Coats US scheme, included in the tables above are $111.3 million (2017: $120.4 million) of corporate bonds (Investment grade), $1.4 million (2017: $1.3 million) of corporate bonds (Non-investment grade), government/sovereign instruments of $12.9 million (2017: $12.0 million), $0.5 million (2017: $0.5 million) of insurance contracts and $12.2 million (2017: $6.2 million of assets) of other liabilities without a quoted price in an active market. All other assets have a quoted price in an active market.

For the previous Coats UK scheme, included in the tables above are $ Nil (2017: $ Nil) of UK equity instruments, $ Nil (2017: $50.8 million) of corporate bonds (Non-investment grade), $ Nil (2017: $ Nil) of government/sovereign instruments, Global real estate of $ Nil (2017: $80.3 million), derivative liabilities of $ Nil (2017: $25.9 million), diversified investment funds of $ Nil (2017: $97.1 million) and $ Nil (2017: $2.9 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 previous Staveley scheme, included in the tables above are $ Nil (2017: $24.7 million) of US equity instruments, $ Nil (2017: $9.5 million) of UK equity instruments, $ Nil (2017: $7.1 million) of Eurozone equity instruments, $ Nil (2017: $7.1 million) of other region equity instruments, $ Nil (2017: $29.9 million) of corporate bonds (Investment grade), $ Nil (2017: $72.4 million) of corporate bonds (Non-investment grade), $ Nil (2017: $78.2 million) of government/sovereign instruments, $ Nil of diversified investment funds (2017: $112.8 million) and $ Nil (2017: $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 previous Brunel scheme, included in the tables above are $ Nil (2017: $31.0 million) of US equity instruments, $ Nil (2017: $5.2 million) of UK equity instruments, $ Nil (2017: $10.3 million) of Eurozone equity instruments, $ Nil (2017: $5.2 million) of other region equity instruments, $ Nil (2017: $26.7 million) of corporate bonds (Investment grade), $ Nil (2017: $19.2 million) of corporate bonds (Non-investment grade), derivative liabilities of $ Nil (2017: $2.3 million), $ Nil of diversified investment funds (2017: $77.2 million) and $ Nil (2017: $0.6 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. Valuations are prepared in accordance with the current RICS Valuation – Global Standards (1 July 2017) and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015);
- Certain unlisted investments, for example derivatives and insurance contracts, are valued using a model based valuation such as a discounted cash flow; and
- Diversified investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.

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. Following the sale of the North America Crafts business, it is anticipated that during the year ended 31 December 2019 the recoverable surplus recognised on the balance sheet will reduce by approximately $11 million (see note 32).

For the Coats UK Pension Scheme, which is in IAS 19 deficit, committed contributions to the plan at the balance sheet date are expected to put the scheme into an IAS 19 surplus position. The Group notes that in the event that a surplus emerges in the Coats UK Pension Scheme, it would have an unconditional right to a refund of the surplus assuming the gradual settlement of the liabilities over time and therefore no additional minimum funding requirement has been recognised.

xi) Duration of plan liabilities
The weighted average duration of benefit obligations is 15 years for the new combined Coats UK scheme (2017: Coats UK – 15 years, Staveley – 14 years and Brunel – 13 years) and 8 years (2017: 8 years) for the Coats US 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 2018 +0.25% US$m	**Year ended 31 December 2018 -0.25% US$m**	Year ended 31 December 2017 +0.25% US$m	Year ended 31 December 2017 -0.25% US$m
Coats UK Pension Scheme discount rate	**(97.2)**	**102.8**	–	–
Coats US discount rate	**(2.6)**	**2.7**	(3.2)	3.4
Coats UK discount rate	**–**	**–**	(89.9)	95.1
Staveley discount rate	**–**	**–**	(11.8)	12.4
Brunel discount rate	**–**	**–**	(8.1)	8.5
Coats UK Pension Scheme inflation rate	**65.9**	**(65.9)**	–	–
Coats US inflation rate	**0.1**	**(0.1)**	0.1	(0.1)
Coats UK inflation rate	**–**	**–**	78.6	(76.3)
Staveley inflation rate	**–**	**–**	7.7	(7.5)
Brunel inflation rate	**–**	**–**	5.3	(4.0)

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by $128.1 million (2017: $147.0 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by $3.2 million (2017: $4.0 million), however, there would be no overall impact on the recoverable surplus.

In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position. There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

	Year ended 31 December 2018 +1% US$m	**Year ended 31 December 2018 -1% US$m**	Year ended 31 December 2017 +1% US$m	Year ended 31 December 2017 -1% US$m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	**0.1**	**(0.1)**	0.1	(0.1)
Effect on defined benefit obligation of other schemes	**2.0**	**(1.8)**	2.2	(1.9)

xiii) Expected contributions for 2019
The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2019 financial year (excluding administrative expenses paid by the Company) is $30.0 million.

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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.

	2018 US$m	Restated[1] 2017 US$m
Profit from continuing operations attributable to equity shareholders	**54.8**	71.3
Profit from continuing and discontinued operations attributable to equity shareholders	**39.2**	80.8

	2018 Number of shares m	2017 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,420.1**	1,399.2
Adjustment for share options and LTIP awards	**27.3**	27.4
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,447.4**	1,426.6

Year ended 31 December	**2018 cents**	Restated[1] 2017 cents
Continuing operations:		
Basic earnings per ordinary share	**3.85**	5.10
Diluted earnings per ordinary share	**3.78**	5.00
Continuing and discontinued operations:		
Basic earnings per ordinary share	**2.76**	5.78
Diluted earnings per ordinary share	**2.70**	5.67

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.

12 Dividends

Year ended 31 December	**2018 US$m**	2017 US$m
2018 interim dividend paid – 0.50 cents per share	**7.0**	–
2017 final dividend paid – 1.00 cents per share	**14.1**	–
2017 interim dividend paid – 0.44 cents per share	**–**	6.1
2016 final dividend paid – 0.84 cents per share	**–**	11.7
	21.1	17.8

The proposed final dividend of 1.16 cents per ordinary share for the year ended 31 December 2018 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 28 May 2019 to shareholders on the register at the close of business on 3 May 2019.

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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 2017	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 (as restated)[1]	2.3	0.7	0.6	–	1.3	0.1	3.7
Additions	–	–	–	–	–	5.6	5.6
Disposals	–	–	–	–	–	(0.8)	(0.8)
At 31 December 2017 (as restated)[1]	**26.0**	**244.8**	**13.9**	**7.0**	**265.7**	**87.9**	**379.6**
Currency translation differences	**(1.1)**	**(0.1)**	**(0.6)**	**(0.3)**	**(1.0)**	**(2.0)**	**(4.1)**
Additions	**–**	**–**	**–**	**–**	**–**	**3.2**	**3.2**
Disposals	**–**	**(0.8)**	**–**	**–**	**(0.8)**	**(1.7)**	**(2.5)**
At 31 December 2018	**24.9**	**243.9**	**13.3**	**6.7**	**263.9**	**87.4**	**376.2**
Cumulative amounts charged							
At 1 January 2017	–	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**
Currency translation differences	**–**	**–**	**(0.1)**	**(0.1)**	**(0.2)**	**(1.9)**	**(2.1)**
Amortisation charge for the year	**–**	**0.3**	**1.4**	**0.6**	**2.3**	**6.9**	**9.2**
Disposals	**–**	**(0.8)**	**–**	**–**	**(0.8)**	**(1.0)**	**(1.8)**
At 31 December 2018	**–**	**1.9**	**3.7**	**1.4**	**7.0**	**85.0**	**92.0**
Net book value at 31 December 2018	**24.9**	**242.0**	**9.6**	**5.3**	**256.9**	**2.4**	**284.2**
Net book value at 31 December 2017 (as restated)[1]	26.0	242.4	11.5	6.1	260.0	6.9	292.9

The carrying value of Coats brands at 31 December 2018 and 31 December 2017 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 2021, applying a pre-tax discount rate of 9.8% and long-term growth of 2.9%. Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

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:

Year ended 31 December	**2018 US$m**	Restated[1] 2017 US$m
Gotex	**13.1**	13.7
Patrick Yarn	**2.3**	2.3
Fast React Systems	**4.2**	4.4
GSD	**3.2**	3.5
Other	**2.1**	2.1
	24.9	26.0

1 Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 31).

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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 2021;
- 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 2019 to 2021 and relate to revenue forecasts, expected project outcomes and forecast operating margins. A short-term growth rate is applied to the December 2021 plan to derive the cash flows arising in 2022–2023 and a long-term rate is applied to 2023 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 15.4% to 16.4% pre-tax discount rates.

Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value of any of the above CGUs to materially exceed their recoverable amount.

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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 2017	157.3	574.1	98.3	829.7
Currency translation differences	5.4	16.3	1.8	23.5
Subsidiaries bought externally (as restated)[1]	8.1	3.5	0.3	11.9
Additions	3.7	36.0	5.3	45.0
Disposals	(0.1)	(13.9)	(1.8)	(15.8)
At 31 December 2017 (as restated)[1]	**174.4**	**616.0**	**103.9**	**894.3**
Currency translation differences	**(7.1)**	**(29.9)**	**(3.3)**	**(40.3)**
Additions	**13.9**	**29.4**	**1.7**	**45.0**
Transfer to non-current assets held for sale	**(15.1)**	**(47.2)**	**(6.0)**	**(68.3)**
Disposals	**(8.8)**	**(11.0)**	**(2.6)**	**(22.4)**
At 31 December 2018	**157.3**	**557.3**	**93.7**	**808.3**
Cumulative amounts charged				
At 1 January 2017	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**
Currency translation differences	**(3.3)**	**(21.6)**	**(2.5)**	**(27.4)**
Depreciation charge for the year	**4.5**	**23.0**	**3.7**	**31.2**
Transfer to non-current assets held for sale	**(10.2)**	**(41.3)**	**(5.4)**	**(56.9)**
Disposals	**(4.0)**	**(11.2)**	**(2.6)**	**(17.8)**
At 31 December 2018	**71.0**	**381.9**	**73.2**	**526.1**
Net book value at 31 December 2018	**86.3**	**175.4**	**20.5**	**282.2**
Net book value at 31 December 2017 (as restated)[1]	90.4	183.0	23.9	297.3
Assets charged as security for borrowings:				
31 December 2018	**–**	**0.1**	**–**	**0.1**
31 December 2017	–	0.4	–	0.4

Analysis of net book value of land and buildings 31 December	2018 US$m	Restated[1] 2017 US$m
Freehold	**71.2**	75.3
Leasehold:		
Over 50 years unexpired	**1.1**	1.4
Under 50 years unexpired	**14.0**	13.7
	86.3	90.4

1 Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 31).

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15 Non-current investments

Year ended 31 December	2018 US$m	2017 US$m
Interests in joint ventures (see below)	**10.6**	12.0
Investments in equity securities:		
Unlisted investments	**6.1**	1.2
	16.7	13.2

During December 2018, the Group acquired 9.5% of the voting equity in Twine Solutions Limited, an Israeli based technology start-up which has developed a revolutionary digital thread dyeing system. The Group invested in Twine as the technology has the potential to revolutionise the thread industry and Coats will work closely with Twine to commercialise this opportunity. The consideration paid was $5 million, and given the close proximity of the transaction to the year end, it is also deemed to be the fair value as at 31 December 2018.

Other investments included within current assets were $0.6 million at 31 December 2018 (2017: $0.2 million).

Interests in joint ventures	US$m
At 1 January 2018	12.0
Dividends receivable	(1.5)
Share of profit after tax	0.1
At 31 December 2018	**10.6**

Year ended 31 December	2018 US$m	2017 US$m
Share of net assets on acquisition	**10.6**	10.6
Share of post-acquisition retained profits	**–**	1.4
Share of net assets	**10.6**	12.0

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	2018 US$m	2017 US$m
Summarised income statement information:		
Revenue	**22.9**	30.8
Profit/(loss) before tax	**–**	(0.6)
Taxation	**(0.1)**	(0.5)
Loss after tax	**(0.1)**	(1.1)

Year ended 31 December	2018 US$m	2017 US$m
Summarised balance sheet information:		
Non-current assets	**6.4**	8.3
Current assets	**11.2**	12.4
	17.6	20.7
Liabilities due within one year	**(7.0)**	(7.8)
Net assets	**10.6**	12.9

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16 Deferred tax assets

Year ended 31 December	2018 US$m	2017 US$m
Deferred tax assets	**19.2**	24.6

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:

	2018 US$m	2017 US$m
At 1 January	**24.6**	18.1
Currency translation differences	**(0.9)**	0.4
Reclassified from deferred tax liability	**–**	(9.2)
(Charged)/credited to the income statement	**(2.2)**	9.2
Credited to other comprehensive income and expense	**–**	0.5
(Charged)/credited to equity	**(2.3)**	5.6
At 31 December	**19.2**	24.6

17 Inventories

Year ended 31 December	2018 US$m	2017 US$m
Raw materials and consumables	**84.5**	91.7
Work in progress	**29.2**	39.5
Finished goods and goods for resale	**71.7**	101.0
	185.4	232.2

18 Trade and other receivables

Year ended 31 December	2018 US$m	2017 US$m
Non-current assets:		
Income tax assets	**3.7**	2.8
Other receivables	**17.4**	18.1
Derivative financial instruments	**0.3**	0.6
	21.4	21.5
Current assets:		
Trade receivables	**203.5**	216.1
Current income tax assets	**3.1**	4.6
Prepayments and accrued income	**10.9**	8.6
Derivative financial instruments	**2.6**	2.4
Other receivables	**33.7**	37.2
	253.8	268.9

The fair value of trade and other receivables is not materially different to the carrying value.

The average credit period taken on sale of goods (including discontinued operations) is 53 days (2017: 55 days). Interest charged in respect of overdue trade receivables is immaterial.

Included within trade receivables is $6.9 million (2017: $5.0 million) relating to software solutions revenue contracts, for which performance obligations are fulfilled over a period of time (see note 20).

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The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. Credit risk is minimised due to the quality and short-term nature of the Group's trade receivables as well as the fact that the exposure is spread over a large number of customers. An allowance has been made for expected losses on trade receivables of $9.6 million (2017: $10.4 million).

The Group monitors receivables for any significant increases in credit risk, and fully provides for trade receivables which are more than 6 months overdue, unless there are specific circumstances which would indicate otherwise. For all other trade receivables, when determining expected losses, the Group takes into account the historical default experience and the financial position of the counterparties, as well as the future prospects considering various sources of information. The loss allowance has been determined as follows:

	Current	**1-3 months past due**	**3-6 months past due**	**6 + months past due**	**Total 2018**
Expected loss rate	**Nil**	**1%**	**15%**	**93%**	
Gross carrying amount (US$m)	**183.4**	**29.9**	**2.6**	**9.7**	**225.6**
Loss allowance provision (US$m)	**–**	**0.2**	**0.4**	**9.0**	**9.6**

	Current	1-3 months past due	3-6 months past due	6 + months past due	**Total 2017**
Expected loss rate	Nil	3%	32%	98%	
Gross carrying amount (US$m)	189.8	25.6	1.9	9.2	226.5
Loss allowance provision (US$m)	–	0.8	0.6	9.0	10.4

Included within the 2018 analysis is gross receivables of $12.7 million and a loss allowance of $0.2 million relating to the NA Crafts disposal group that has been presented as held for sale as at 31 December 2018 (see note 32).

As detailed in note 1, no material impact to the primary financial statements has arisen on the adoption of IFRS 9 and the Group has not restated prior periods on adoption of IFRS 9. The movements in the expected loss allowance are analysed as follows:

	2018 US$m	2017 US$m
At 1 January	**10.4**	11.8
Currency translation differences	**(1.0)**	0.4
Charged to the income statement	**1.2**	0.4
Amounts written off during the year	**(1.0)**	(2.2)
At 31 December	**9.6**	10.4

19 Derivative financial instruments – assets

Derivative financial instruments within non-current and current assets comprise:

Year ended 31 December	**2018 US$m**	2017 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**1.6**	1.9
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**1.3**	1.1
	2.9	3.0
Amounts shown within non-current assets	**0.3**	0.6
Amounts shown within current assets	**2.6**	2.4

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.

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20 Trade and other payables

Year ended 31 December	2018 US$m	2017 US$m
Amounts falling due within one year:		
Trade payables	**192.0**	195.1
Amounts owed to joint ventures	**11.6**	13.0
Other tax and social security payable	**6.0**	6.9
Other payables	**32.9**	43.2
Accruals	**40.4**	47.0
Contract liabilities	**6.6**	5.7
Derivative financial instruments	**1.3**	1.8
Employee entitlements (excluding pensions)	**11.9**	17.7
	302.7	330.4
Amounts falling due after more than one year:		
Other payables	**18.2**	23.7
Contract liabilities	**0.8**	0.9
Employee entitlements (excluding pensions)	**1.2**	1.3
Derivative financial instruments	**2.9**	1.3
	23.1	27.2

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.

Following the Group's adoption of IFRS 15, contract liabilities which were previously presented within accruals and other payables have been reported separately. Contract liabilities amounting to $5.7 million which were outstanding at 31 December 2017 were released to revenue during the year ended 31 December 2018, with the remainder expected to be released in 2019.

21 Derivative financial instruments – liabilities

Derivative financial instruments within non-current and current liabilities comprise:

Year ended 31 December	2018 US$m	2017 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**0.7**	1.5
Fair value hedges through the statement of comprehensive income:		
Other derivative financial instruments	**3.5**	1.6
	4.2	3.1
Amounts shown within non-current liabilities	**2.9**	1.3
Amounts shown within current liabilities	**1.3**	1.8

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.

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22 Borrowings

Year ended 31 December	**2018 US$m**	2017 US$m
Bank overdrafts	**20.0**	1.6
Borrowings repayable within one year	**0.3**	0.1
Due within one year	**20.3**	1.7
Borrowings repayable between one and two years	**0.2**	0.3
Borrowings repayable between two and five years	**112.9**	132.9
Due after more than five years	**225.0**	225.0
Due after more than one year	**338.1**	358.2
Bank overdrafts	**20.0**	1.6
Series A and Series B Senior Notes	**225.0**	225.0
Bank and other borrowings including finance lease obligations	**113.4**	133.3
	358.4	359.9

On 6 December 2017 the Group issued $125.0 million of 3.88% Series A Senior Notes due 6 December 2024 and $100.0 million of 4.07% Series B Senior Notes due 6 December 2027 in a US private placement. Interest is payable semi-annually in arrears on 6 June and 6 December of each year beginning on 6 June 2018. The Senior Notes are unsecured and rank equally with all the Group's other unsecured and unsubordinated indebtedness.

On 6 December 2017 the Group also entered into a $350.0 million five year bank facility.

The currency and interest rate profile of the Group's borrowings is included in note 34 on page 146.

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23 Deferred tax liabilities

	2018 US$m	Restated* 2017 US$m
At 1 January	**17.9**	31.7
Currency translation differences	**(0.6)**	0.8
Acquisition of subsidiaries	**–**	3.6
Transferred to held for sale	**(0.5)**	–
Reclassified from deferred tax assets	**–**	(9.2)
Transfer to current tax	**1.1**	(4.5)
Credited to the income statement	**(6.2)**	(4.0)
Credited to other comprehensive income and expense	**(1.2)**	(0.5)
At 31 December	**10.5**	17.9

	2018		Restated* 2017	
	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	**16.1**	**(9.9)**	12.1	(7.3)
Other temporary differences	**(15.1)**	**(11.4)**	(11.3)	(25.3)
Revenue losses carried forward	**(18.5)**	**(294.1)**	(16.4)	(313.8)
Capital losses carried forward	**–**	**(248.8)**	–	(265.2)
Investment in subsidiaries	**8.3**	**4.3**	7.1	3.9
Brands	**40.7**	**–**	40.7	–
Retirement benefit obligations offset against brands	**(40.7)**	**–**	(40.7)	–
Retirement benefit obligations	**0.5**	**(4.5)**	1.8	(5.3)
	(8.7)	**(564.4)**	(6.7)	(613.0)

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:

	2018	2017
Deferred tax assets (note 16)	**(19.2)**	(24.6)
Deferred tax liabilities	**10.5**	17.9
	(8.7)	(6.7)

* Restated to reflect adjustments to provisional fair value amounts relating to the acquisition of Patrick Yarn Mill Inc. (see note 31).

At the year end, the Group had approximately $1.5 billion (2017: $1.5 billion) of unused gross income tax losses and approximately $1.4 billion (2017: $1.5 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of $18.5 million (2017: $16.4 million) has been recognised in respect of $68 million (2017: $66 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:

	2018 US$m	2017 US$m
Expiring within 5 years	**38.1**	30.0
Expiring in more than 5 years	**16.6**	11.0
Available indefinitely	**1,427.0**	1,486.3
	1,481.7	1,527.3

At 31 December 2018, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is $4.3 million (2017: $3.9 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

Year ended 31 December	2018 US$m	2017 US$m
Provisions are included as follows:		
Current liabilities	**16.3**	18.3
Non-current liabilities	**39.0**	33.5
	55.3	51.8

Provisions are analysed as follows:

Year ended 31 December	2018 US$m	2017 US$m
Onerous leases	**4.0**	4.0
Other provisions	**51.3**	47.8
	55.3	51.8

	Onerous leases US$m	Other provisions US$m	Total US$m
At 1 January 2018	**4.0**	**47.8**	**51.8**
Currency translation differences	**(0.2)**	**(1.1)**	**(1.3)**
Utilised in year	**–**	**(31.9)**	**(31.9)**
Charged to the income statement	**0.2**	**36.5**	**36.7**
At 31 December 2018	**4.0**	**51.3**	**55.3**

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 146 and the maturity of onerous leases is included in note 34 on page 148.

Other provisions include the amounts set aside to cover certain legal and other regulatory claims, including in respect of the Lower Passaic River (see note 28 for further details), which are expected to be substantially utilised within the next ten years.

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25 Operating lease commitments

Year ended 31 December	2018 US$m	2017 US$m
Outstanding commitments under non-cancellable operating leases:		
Payable within one year	**19.2**	17.1
Payable between one and five years	**43.2**	31.5
Payable after more than five years	**18.0**	13.8
	80.4	62.4

At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

Year ended 31 December	2018 US$m	2017 US$m
Receivable within one year	**0.2**	0.2
Receivable between one and five years	**0.4**	0.5
	0.6	0.7

Operating leases relate principally to land and buildings and vehicles.

26 Share capital

	2018		2017	
Year ended 31 December	**Number**	**US$m**	Number	US$m
Ordinary Shares of 5p each	**1,427,492,032**	**88.5**	1,413,300,648	87.5

During the year ended 31 December 2018 the Company issued 14,191,384 Ordinary shares of 5p each (2017: 5,688,366) following the exercise of share options as set out below:

	Number of shares	US$m
At 1 January 2018	**1,413,300,648**	**87.5**
Issue of ordinary shares	**14,191,384**	**1.0**
At 31 December 2018	**1,427,492,032**	**88.5**

The own shares reserve of $6.8 million at 31 December 2018 (2017: $7.7 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 2018 was 17,165,314 (2017: 19,025,392).

Options outstanding under the Group’s 2002 share option scheme at 31 December 2018 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (pence per share)	Exercise period
2002 Share Option Scheme:				
Ordinary	589,705	30.06.09	25.9529	30.06.12 to 30.06.19

During the year ended 31 December 2018 4,313,304 (2017: 10,554,440) options under the Group’s 2002 share option scheme were exercised and 1,932,396 (2017: 6,809,255) 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 2018	**7.7**	**(7.7)**	**(48.8)**	**59.8**	**245.8**	**(58.6)**	**24.6**
Dividends	**–**	**–**	**–**	**–**	**–**	**(21.1)**	**(14.8)**
Currency translation differences	**–**	**–**	**(19.7)**	**–**	**–**	**–**	**(0.8)**
Decrease in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**(1.0)**	**–**	**–**
Transfer to income statement	**–**	**–**	**–**	**–**	**(0.6)**	**–**	**–**
Actuarial losses on employee benefits	**–**	**–**	**–**	**–**	**–**	**(21.8)**	**–**
Tax on actuarial gains and losses	**–**	**–**	**–**	**–**	**–**	**1.2**	**–**
Issue of ordinary shares	**2.7**	**–**	**–**	**–**	**–**	**(0.7)**	**–**
Movement in own shares	**–**	**0.9**	**–**	**–**	**–**	**–**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**7.4**	**–**
Deferred tax on share schemes	**–**	**–**	**–**	**–**	**–**	**(2.3)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**39.2**	**19.0**
At December 2018	**10.4**	**(6.8)**	**(68.5)**	**59.8**	**244.2**	**(56.7)**	**28.0**

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 2018 US$m	Year ended 31 December 2017 US$m	**31 December 2018 US$m**	31 December 2017 US$m
EMEA	**0.9**	0.4	**2.0**	1.8
Asia & Rest of World	**18.1**	13.9	**26.0**	22.8
	19.0	14.3	**28.0**	24.6

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 161 to 166.

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28 Contingent liabilities and environmental matters

Environmental matters

As noted in previous reports, the US Environmental Protection Agency ('EPA') has notified Coats & Clark, Inc. ('CC') that CC is a 'potentially responsible party' ('PRP') under the US Superfund law for investigation and remediation costs at the 17-mile Lower Passaic River Study Area ('LPR') in New Jersey in respect of alleged operations of a predecessor's former facilities in that area prior to 1950. Over 100 PRPs have been identified by EPA. Approximately 50 PRPs are currently members of a cooperating parties group ('CPG') of companies, formed to fund and conduct a remedial investigation and feasibility study of the area. CC joined the CPG in 2011.

CC has analysed its predecessor's operating history prior to 1950, when it left the LPR, and has concluded that it was not responsible for the contaminants and environmental damage that are the primary focus of the EPA process. CC also believes that there are many parties that will participate in the LPR's remediation that are not currently funding the study of the river, including those that are the most responsible for its contamination.

In March 2016, EPA issued a Record of Decision selecting a remedy for the lower 8 miles of the LPR at an estimated cost of $1.38 billion on a net present value basis. The EPA's Record of Decision did not include a remedial decision for the upper 9 miles of the LPR. The EPA may consider a remedial alternative proposed by the CPG for the upper 9 miles, or it may select a different remedy. Discussions with EPA regarding the nature and timing of such a decision are ongoing.

EPA has entered into an administrative order on consent ('AOC') with Occidental Chemical Corporation ('OCC'), which has been identified as being responsible for the most significant contamination in the river, concerning the design of the selected remedy for the lower 8 miles of the LPR. Maxus Energy Corporation ('Maxus'), which provided an indemnity to OCC that covered the LPR, has been granted Chapter 11 bankruptcy protection, but OCC remains responsible for its remedial obligations even in the absence of Maxus' indemnity. The approved bankruptcy plan also created a liquidating trust to pursue potential claims against Maxus' parent entity, YPF SA, and potentially others, which could result in additional funding for the LPR remedy. While the ultimate costs of the remedial design and the final remedy are expected to be shared among hundreds of parties, including many who are not currently in the CPG, the allocation of remedial costs among those parties has not yet been determined.

In March 2017, EPA notified 20 parties not associated with the disposal or release of any contaminants of concern as being eligible for early cash out settlements. As expected, EPA did not identify CC as one of the 20 parties. EPA has invited approximately 80 other parties, including CC, to participate in an allocation process to determine their respective allocation shares and potential eligibility for future cash out settlements. In the upcoming allocation, CC intends to present factual and scientific evidence that it is not responsible for the discharge of dioxins, furans or PCBs – the contaminants that are driving the remediation of the LPR – and that it is a de minimis party. The allocation process is expected to be completed by the end of 2019, although that date may be extended.

On 30 June 2018, OCC filed a lawsuit against approximately 120 defendants, including CC, seeking recovery of past environmental costs and contribution toward future environmental costs. OCC released claims for certain past costs from 41 of the defendants, including CC, and is not seeking recovery of those past costs from CC. OCC's lawsuit seeks resolution of many of the same issues being addressed in the EPA sponsored allocation process, and does not alter CC's defences or CC's belief that it is a de minimis party.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. During the year ended 31 December 2018, an additional provision of $8.0 million has been recorded as an exceptional item (see note 4) to cover legal and professional fees for continuation of the EPA allocation and defence of OCC's litigation against approximately 120 parties, including CC. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 31 December 2018, $6.2 million of this provision had been utilised. The remaining provision at 31 December 2018, taking into account insurance reimbursement, was $17.6 million. The process concerning the LPR continues to evolve and these estimates are subject to change based upon legal defence costs associated with the EPA sponsored allocation and OCC's lawsuit, the scope of the remedy selected by EPA for the upper nine miles, the share of remedial costs to be paid by the major polluters on the river, and the share of remaining remedial costs apportioned among CC and other companies.

Coats believes that CC's predecessor did not generate any of the contaminants which are driving the current and anticipated remedial actions in the LPR, that it has valid legal defences which are based on its own analysis of the relevant facts, that it is a de minimis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, 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.

Following the sale of the North America Crafts business, including CC, announced on 22 January 2019, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters, including related insurance reimbursements.

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29 Capital commitments
As at 31 December 2018, the Group had commitments of $8.0 million in respect of contracts placed for future capital expenditure (2017: $7.4 million).

30 Notes to the consolidated cash flow statement
a) Reconciliation of operating profit to net cash inflow/(outflow) from operations

Year ended 31 December	2018 US$m	Restated[2] 2017 US$m
Operating profit	**147.1**	154.1
Depreciation	**29.5**	28.4
Amortisation of intangible assets	**6.9**	9.3
Other operating exceptional and acquisition related items (see note 4)	**47.8**	6.5
Pre-exceptional operating profit before depreciation and amortisation (Adjusted EBITDA)	**231.3**	198.3
Increase in inventories	**(6.8)**	(13.5)
Increase in debtors	**(18.5)**	(11.3)
Increase in creditors	**8.8**	20.9
Provision movements[1]	**(49.5)**	(374.4)
Foreign exchange and other non-cash movements	**5.6**	6.2
Discontinued operations	**0.2**	16.4
Net cash inflow/(outflow) from operations	**171.1**	(157.4)

1 Includes cash flows in respect of exceptional and acquisition related items (see note 37 (e)).

b) Taxation paid

Year ended 31 December	2018 US$m	2017 US$m
Overseas tax paid	**(51.4)**	(55.9)
Discontinued operations	**1.3**	(4.6)
	(50.1)	(60.5)

c) Investment income

Year ended 31 December	2018 US$m	2017 US$m
Interest and other income	**–**	0.2
Dividends received from joint ventures	**1.6**	1.1
	1.6	1.3

d) Capital expenditure and financial investment

Year ended 31 December	2018 US$m	Restated[2] 2017 US$m
Acquisition of property, plant and equipment and intangible assets	**(47.6)**	(48.5)
Acquisition of other equity investments	**(5.4)**	–
Disposal of property, plant and equipment	**3.2**	0.4
Discontinued operations	**4.2**	(1.6)
	(45.6)	(49.7)

2 Restated to reflect the results of the North America Crafts business as a discontinued operation.

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e) Acquisitions and disposals

Year ended 31 December	2018 US$m	2017 US$m
Acquisition of businesses	**(1.8)**	(19.9)
Investment in joint venture	**–**	(3.2)
Discontinued operations	**1.7**	–
	(0.1)	(23.1)

f) Summary of net debt

Year ended 31 December	2018 US$m	2017 US$m
Total cash and cash equivalents	**135.7**	118.4
Bank overdrafts	**(20.0)**	(1.6)
Net cash and cash equivalents	**115.7**	116.8
Other borrowings	**(338.4)**	(358.3)
Total net debt	**(222.7)**	(241.5)

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 $1.4 million was paid in April 2018 following finalisation of certain completion consideration adjustments based on the amount of cash and net working capital at the acquisition date.

Contingent deferred consideration amounts are also payable 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 2018 was $2.3 million (2017: $0.2 million).

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Fair values of the identifiable assets and liabilities of Patrick Yarn Mill as at the date of acquisition were as follows:

	Fair value recognised on acquisition US$m
Assets:	
Intangible assets (excluding computer software)	1.3
Computer software	0.1
Property, plant and equipment	11.9
Inventories	6.7
Trade and other receivables	4.9
Cash and cash equivalents	1.3
	26.2
Liabilities:	
Trade and other payables	(2.5)
Deferred tax liabilities	(3.6)
Total identifiable net assets acquired at fair value	**20.1**
Goodwill recognised on acquisition	2.3
	22.4
Total consideration	**22.4**

In accounting for the acquisition, adjustments were made to the book values of the net assets of the companies acquired to reflect their fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies have been aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired was completed during the year ended 31 December 2018 within 12 months of the acquisition date.

Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial. There are no material contingent liabilities recognised in the amounts above in accordance with paragraph 23 of IFRS 3 (revised).

As part of the assessment of the fair value of the net assets acquired, an uplift of $4.6 million was made to the book values of land and buildings during the year ended 31 December 2018. Adjustments to increase trade and other payables by $0.4 million and deferred tax liabilities by $3.6 million were also made. The excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired is represented by brands and trade names of $0.6 million and know how related intangibles of $0.7 million, with residual goodwill now arising of $2.3 million compared to $4.6 million previously recognised. As a result, comparative amounts as of 31 December 2017 in the consolidated statement of financial position have been restated, with no change in net assets at 31 December 2017.

The goodwill represents:

- the technical expertise of the acquired workforce;
- the opportunity to leverage this expertise across the Group; and
- the ability to exploit the Group's existing customer base.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

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On 12 February 2019 the Group acquired 100% of the voting equity of Intellosol Softwares India Private Limited ('ThreadSol'), a company incorporated in India that is a cloud-based digital applications provider. ThreadSol's technology focuses on fabric usage optimisation in apparel manufacturing and helps customers reduce fabric waste and cost, and establish accurate product costing. The Group has acquired ThreadSol in order to expand the offerings of the existing Coats Global Services business.

The initial cash outflow for the acquisition is $5 million. Contingent deferred consideration amounts are also payable. For these amounts to be paid, in addition to financial targets being met, certain employees must also remain with the Group. Contingent deferred consideration amounts will therefore be charged to the income statement over the period of service they relate to. Up to $7 million is payable over a service period of four years to 31 December 2022.

Given the acquisition of ThreadSol was completed after the 31 December 2018 year end, 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 $4.0 million.

None of the goodwill arising on the acquisition is expected to be deductible for tax purposes.

As the transaction completed after the year end, the results of ThreadSol have not been consolidated in these financial statements. The provisional fair values of the identifiable assets and liabilities of ThreadSol are presented in the below table. These fair values are provisional given they are based on latest available management information which is subject to completion adjustments. Accounting policies will also be aligned with those of the Group where appropriate.

	Provisional fair value recognised on acquisition US$m
Assets:	
Property, plant and equipment	0.3
Trade and other receivables	0.9
Cash and cash equivalents	0.3
	1.5
Liabilities:	
Trade and other payables	(0.5)
Total identifiable net assets acquired at fair value	**1.0**
Goodwill to be recognised on acquisition (provisional)	4.0
Total consideration	**5.0**

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32 Discontinued operations
a) Discontinued operations
In January 2019, Coats agreed to sell its non-core North America Crafts business to Spinrite Acquisition Corp for cash consideration payable at completion of $37.0 million. The sale proceeds, which is on a debt and cash free basis, will be subject to an adjustment for the level of net working capital as at the time of completion.

The assets and liabilities at 31 December 2018 of the North America Crafts business have been reclassified as a disposal group held for sale and the results have been reclassified as discontinued operations in the income statement, including prior period amounts. The sale was completed on 20 February 2019, the date which control passed to the acquirer.

The results of discontinued operations are presented below. All amounts relate to the North America Crafts business unless stated:

Year ended 31 December	2018 US$m	2017 US$m
Revenue	**128.3**	149.9
Cost of sales	**(88.5)**	(90.8)
Gross profit	**39.8**	59.1
Distribution costs	**(29.2)**	(30.9)
Administrative expenses	**(11.5)**	(15.1)
Other operating income	**3.6**	–
Operating profit	**2.7**	13.1
Finance costs (net)	**–**	0.3
Profit before tax	**2.7**	13.4
Tax on profit	**0.1**	(3.9)
Profit from discontinued operations	**2.8**	9.5
Loss arising on measurement to fair value less cost to sell (see note 32 (b))	**(18.4)**	–
(Loss)/profit from discontinued operations	**(15.6)**	9.5

Revenue in the table above includes inter-company sales of $0.8 million for the year ended 31 December 2018 (2017: $0.8 million). External revenue of the North America Crafts business for the year ended 31 December 2018 was $127.5 million (2017: $149.1 million).

The (loss)/profit per ordinary share from discontinued operations is as follows:

Year ended 31 December	2018 Cents	2017 Cents
(Loss)/profit per ordinary share from discontinued operations:		
Basic (loss)/earnings per ordinary share	**(1.09)**	0.68
Diluted (loss)/earnings per ordinary share	**(1.08)**	0.67

The table below sets out the cash flows from discontinued operations:

Year ended 31 December	2018 US$m	2017 US$m
Net cash outflow from operating activities	**1.5**	11.8
Net cash inflow/(outflow) from investing activities	**5.9**	(1.6)
Net cash flows from discontinued operations	**7.4**	10.2

Net cash outflow from operating activities for the year ended 31 December 2018 includes an outflow of $0.1 million (2017: $0.6 million) in respect of a business discontinued in previous years.

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b) Assets and liabilities held for sale
The assets and liabilities of North America Crafts have been classified as a disposal group held for sale. Assets and liabilities classified as held for sale consist of the following:

31 December	2018 US$m	2017 US$m
Assets of the disposal group classified as held for sale	**50.6**	–
Other non-current assets classified as held for sale[1]	**0.8**	0.2
Total assets of the disposal group and non-current assets classified as held for sale	**51.4**	0.2
Liabilities of the disposal group classified as held for sale	**(17.9)**	–
Total net assets classified as held for sale	**33.5**	0.2

1 The other non-current assets held for sale of $0.8 million (31 December 2017: $0.2 million) are property, plant and equipment that do not relate to North America Crafts.

The major classes of assets and liabilities held for sale relating to North America Crafts at 31 December 2018 are as follows:

31 December	2018 US$m
Property, plant and equipment	**–**
Inventories	**34.0**
Trade and other receivables	**16.6**
Total assets of the disposal group classified as held for sale	**50.6**
Trade and other payables	**17.4**
Deferred tax liabilities	**0.5**
Total liabilities of the disposal group classified as held for sale	**17.9**

As at the date of reclassification of the North America Crafts disposal group to held for sale, the fair value less cost to sell was less than the carrying amounts. The loss arising on measurement to fair value less costs to sell was $18.4 million which has been included as an exceptional charge within the loss from discontinued operations and includes transaction costs incurred for the year ended 31 December 2018.

The loss arising on measurement to fair value less costs to sell have been applied to reduce the carrying amounts of property plant and equipment by $10.8 million to $nil and inventories by $3.5 million to $34.0 million with additional liabilities and costs of $4.1 million being recognised.

Following the sale of the North America Crafts business, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters (see note 28).

In addition Coats retains the previously incurred pensions obligations and post-retirement medical liabilities from the business. The pension scheme, which includes both Crafts and Industrial operations in North America, was in a surplus position of $64.7 million at 31 December 2018 with a recoverable surplus of $48.1 million recognised on the balance sheet. As a consequence of the disposal it is anticipated that during the year ended 31 December 2019 the recoverable surplus recognised on the balance sheet will reduce by approximately $11 million (although there will be no change in the gross surplus in the scheme) and a curtailment gain will arise on the post-retirement medical liabilities

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	2018 US$m	2017 US$m
Short-term employee benefits	**3.8**	3.6
Share based payments	**1.1**	0.9
	4.9	4.5

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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	
	2018 US$m	2017 US$m	**2018 US$m**	2017 US$m
Joint ventures	**3.7**	2.9	**50.9**	52.7

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. All transactions with joint ventures are at an arm's length and payment terms are consistent with normal trading terms with third parties.

34 Derivatives and Other Financial Instruments
The Group's main financial instruments comprise:

Financial assets:
- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial liabilities:
- trade, other payables and certain provisions that arise directly from the Group's operations;
- bank borrowings and overdrafts; and
- derivatives, including forward foreign currency contracts and interest rate swaps.

Financial assets
The Group's financial assets are summarised below:

Year ended 31 December	**2018 US$m**	2017 US$m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	**135.7**	118.4
Trade receivables (note 18 and 32)	**216.0**	216.1
Other receivables (note 18 and 32), net of non-financial assets $25.4 million (2017: $24.8 million)	**29.8**	30.5
	381.5	365.0
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 19)	**1.6**	1.9
	1.6	1.9
Other financial assets carried at fair value through the statement of comprehensive income:		
Other investments (note 15)	**6.7**	1.4
Derivative financial instruments (note 19)	**1.3**	1.1
	8.0	2.5
Total financial assets	**391.1**	369.4

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Financial liabilities
The Group's financial liabilities are summarised below:

Year ended 31 December	2018 US$m	2017 US$m
Financial liabilities carried at amortised cost:		
Trade payables (note 20 and 32)	**205.3**	195.1
Due to joint ventures (note 20)	**11.6**	13.0
Other financial liabilities	**97.8**	114.2
Provisions (note 24)	**3.9**	4.0
Borrowings (note 22)	**358.4**	359.9
	677.0	686.2
Financial liabilities carried at fair value through the income statement:		
Derivative financial instruments (note 21)	**0.7**	1.5
Derivatives designated as effective hedging instruments and carried at fair value through the statement of comprehensive income:		
Derivative financial instruments (note 21)	**3.5**	1.6
Total financial liabilities	**681.2**	689.3

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:

	2018		2017	
Year ended 31 December	Book value US$m	Fair value US$m	Book value US$m	Fair value US$m
Primary financial instruments:				
Cash and cash equivalents	**135.7**	**135.7**	118.4	118.4
Trade receivables	**216.0**	**216.0**	216.1	216.1
Other receivables	**29.8**	**29.8**	30.5	30.5
Other investments	**6.7**	**6.7**	1.4	1.4
Trade payables	**(205.3)**	**(205.3)**	(195.1)	(195.1)
Due to joint ventures	**(11.6)**	**(11.6)**	(13.0)	(13.0)
Other financial liabilities and provisions	**(101.7)**	**(101.7)**	(118.2)	(118.2)
Borrowings	**(358.4)**	**(358.4)**	(359.9)	(359.9)
Derivative financial instruments:				
Forward foreign currency contracts	**0.9**	**0.9**	0.4	0.4
Interest rate swaps	**(2.2)**	**(2.2)**	(0.5)	(0.5)
Net financial liabilities	**(290.1)**	**(290.1)**	(319.9)	(319.9)

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

Year ended 31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2018				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**1.6**	**–**	**1.6**	**–**
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	**6.7**	**1.7**	**–**	**5.0**
Derivatives designated as effective hedging instruments	**1.3**	**–**	**1.3**	**–**
	9.6	**1.7**	**2.9**	**5.0**
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:				
Other investments	1.4	1.4	–	–
Derivatives designated as effective hedging instruments	1.1	–	1.1	–
	4.4	1.4	3.0	–

Financial liabilities measured at fair value

Year ended 31 December	Total US$m	Level 1 US$m	Level 2 US$m	Level 3 US$m
2018				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(0.7)**	**–**	**(0.7)**	**–**
Financial liabilities measured at fair value through the statement of comprehensive income:				
Derivatives designated as effective hedging instruments	**(3.5)**	**–**	**(3.5)**	**–**
	(4.2)	**–**	**(4.2)**	**–**
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)	–

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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. Equity instruments that are classified as level 3 financial instruments relate to the Group's investment in Twine Solutions Limited which was acquired in December 2018 (see note 15). Given the close proximity to the year end, the carrying value is deemed to approximate to fair value.

The main risks arising from the Group's financial instruments are as follows:

- currency risk;
- interest rate risk.
- capital risk;
- market price risk;
- liquidity risk; and
- credit risk.

The Group's policies for managing those risks are described on pages 144 to 150 and, except as noted, have remained unchanged since the beginning of the year to which these financial statements relate.

Currency risk
The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of both its financial assets and financial liabilities are denominated in currencies other than US Dollars, which is the Group's presentational currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's US Dollar statement of financial position will be affected by short-term movements in exchange rates, particularly the value of Sterling, Euro, Indian Rupee and Brazilian Real. The Group's investments reflect the requirements of its customers, which results in investments in potentially more volatile developing market currencies. However, as a diverse global business, there are many natural offsets within the Group that tend to mitigate the risk associated with any individual currency volatility.

The Group uses forward foreign currency contracts to mitigate the currency exposure that arises on business transacted by group companies in currencies other than their functional currency. Such foreign currency contracts are only entered into when there is a commitment to the underlying transaction. The contracts used to hedge future transactions typically have a maturity of between three months and one year.

Interest rate risk
In 2018, the Group financed its operations through shareholders' funds, bank borrowings, Senior Notes and overdrafts. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to committed bank facilities amounting to some $350.0 million, of which $115.0 million had been drawn down at year end and $225.0 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. In order to achieve hedge effectiveness, when entering into interest rate swap contracts, the cash flows, interest rate references and maturity of the underlying exposure of the hedged item are considered so as to match the hedging instrument. The ratio of fixed to floating rate hedging is established according to Group policy which prescribes a banded range for the fixed to floating ratio. The ratio of fixed to floating will decrease over a rolling 5-year period.

The Group's interest income does not vary significantly from the returns it would generate through investing surplus cash at floating rates of interest since the interest rates are re-set on a regular basis.

A reasonably possible change of one per cent in market interest rates would reduce profit before tax by approximately $1.0 million (2017: $0.7 million), and would reduce shareholders' funds by approximately $8.9 million (2017: $7.0 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 136), and share capital and reserves attributable to the equity shareholders of the Company.

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Currency exposure

The table below shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation.

	Net foreign currency financial assets/(liabilities)						
Functional currency 2018	**Sterling US$m**	**US dollars US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**	**Other US$m**	**Total US$m**
Sterling	**–**	**6.2**	**(3.8)**	**–**	**–**	**0.6**	**3.0**
US dollars	**(24.6)**	**–**	**(12.9)**	**–**	**0.1**	**28.9**	**(8.5)**
Euros	**0.8**	**(3.9)**	**–**	**–**	**–**	**0.6**	**(2.5)**
Indian Rupees	**–**	**6.6**	**(0.9)**	**–**	**–**	**–**	**5.7**
Brazilian Reals	**–**	**0.8**	**–**	**–**	**–**	**0.1**	**0.9**
Other currencies	**(0.1)**	**(23.0)**	**12.4**	**–**	**–**	**(0.8)**	**(11.5)**
	(23.9)	**(13.3)**	**(5.2)**	**–**	**0.1**	**29.4**	**(12.9)**

	Net foreign currency financial assets/(liabilities)						
Functional currency 2017	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)

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:

2018	**Sterling US$m**	**Euro US$m**	**Indian Rupees US$m**	**Brazilian Reals US$m**
Increase in US dollar exchange rate	**10%**	**10%**	**10%**	**10%**
Decrease in profit before tax	**(4.3)**	**(0.9)**	**(0.7)**	**(0.1)**
(Decrease)/increase in shareholders' funds	**(12.3)**	**0.4**	**3.7**	**3.2**

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%
(Decrease)/increase in profit before tax	(3.9)	(0.6)	(0.2)	0.3
(Decrease)/increase in shareholders' funds	(12.3)	(0.9)	4.5	4.4

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Currency profile of financial assets
The currency profile of the Group's financial assets was as follows:

31 December	2018 Investments US$m	2018 Cash and cash equivalents US$m	2018 Trade and other receivables US$m	2018 Derivative financial instruments US$m	2018 Total US$m	2017 Investments US$m	2017 Cash and cash equivalents US$m	2017 Trade and other receivables US$m	2017 Derivative financial instruments US$m	2017 Total US$m
Currency:										
Sterling	**–**	**0.2**	**9.0**	**–**	**9.2**	–	0.4	6.7	(75.9)	(68.8)
United States dollars	**5.0**	**65.8**	**103.1**	**(46.1)**	**127.8**	0.1	56.0	101.5	102.5	260.1
Euros	**0.1**	**3.5**	**25.6**	**(3.9)**	**25.3**	0.1	3.9	27.4	2.1	33.5
Indian Rupees	**1.1**	**10.5**	**24.8**	**18.0**	**54.4**	1.2	5.1	26.7	(16.2)	16.8
Brazilian Reals	**–**	**5.5**	**18.1**	**(7.8)**	**15.8**	–	3.1	17.6	1.4	22.1
Other currencies	**0.5**	**50.2**	**65.2**	**42.7**	**158.6**	–	49.9	66.7	(10.9)	105.7
Total financial assets	**6.7**	**135.7**	**245.8**	**2.9**	**391.1**	1.4	118.4	246.6	3.0	369.4

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	2018 Floating rate US$m	2018 Fixed rate US$m	2018 Interest free US$m	2018 Derivative financial instruments US$m	2018 Total US$m	2017 Floating rate US$m	2017 Fixed rate US$m	2017 Interest free US$m	2017 Derivative financial instruments US$m	2017 Total US$m
Currency:										
Sterling	**0.2**	**–**	**15.2**	**(60.4)**	**(45.0)**	–	–	15.1	(16.3)	(1.2)
United States dollars	**143.8**	**200.1**	**148.4**	**31.8**	**524.1**	136.8	220.2	144.1	(8.0)	493.1
Euros	**10.4**	**–**	**16.2**	**31.5**	**58.1**	–	–	20.8	40.1	60.9
Indian Rupees	**–**	**–**	**44.4**	**–**	**44.4**	–	–	42.7	–	42.7
Brazilian Reals	**–**	**0.8**	**12.6**	**–**	**13.4**	–	1.1	17.8	–	18.9
Other currencies	**3.0**	**0.1**	**81.8**	**1.3**	**86.2**	1.6	0.2	85.8	(12.7)	74.9
Total financial liabilities	**157.4**	**201.0**	**318.6**	**4.2**	**681.2**	138.4	221.5	326.3	3.1	689.3

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:

	2018			2017		
	Fixed rate financial liabilities		**Financial liabilities on which no interest is paid**	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Year ended 31 December	**Weighted average interest rate %**	**Weighted average period for which rate is fixed (months)**	**Weighted average period until maturity (months)**	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Currency:						
Sterling	**–**	**–**	**18**	–	–	18
United States dollars	**3.47**	**61**	**–**	3.40	70	–
Weighted average	**3.47**	**61**	**18**	3.40	70	18

Currency profile of foreign exchange derivatives

	Assets		Liabilities	
Year ended 31 December	**2018 US$m**	2017 US$m	**2018 US$m**	2017 US$m
Currency:				
Sterling	**62.3**	103.8	**(1.9)**	(10.3)
United States dollars	**59.1**	82.6	**(134.8)**	(174.7)
Euros	**–**	10.2	**(35.4)**	(52.3)
Indian Rupee	**18.0**	16.9	**–**	–
Brazilian Real	**–**	–	**(7.8)**	(1.3)
Other currencies	**59.2**	50.6	**(17.8)**	(25.1)
	198.6	264.1	**(197.7)**	(263.7)

Market price risk
The Group has equity and bond investments at 31 December 2018 of $6.7 million (2017: $1.4 million) held for strategic rather than trading purposes. The Group does not actively trade these investments and is not materially exposed to price risk.

The sensitivity analyses below have been determined based on the exposure to reasonably possible price changes for the investments held at the year end.

Year ended 31 December	**2018 US$m**	2017 US$m
Impact of a 10% increase in prices:		
Increase in pre-tax profit for the year	**–**	–
Increase in equity shareholders' funds	**0.7**	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:

Year ended 31 December	2018 US$m	2017 US$m
Expiring between two and five years	**235.0**	215.0

Maturity of undiscounted financial assets (excluding derivatives)
The expected maturity of the Group's financial assets, using undiscounted cash flows, was as follows:

Year ended 31 December	2018 US$m	2017 US$m
In one year or less, or on demand	**368.5**	351.3
In more than one year but not more than two years	**7.6**	7.8
In more than two years but not more than five years	**2.1**	1.7
In more than five years	**10.0**	5.6
	388.2	366.4

Maturity of undiscounted financial liabilities (excluding derivatives)
The expected maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

Year ended 31 December	2018 US$m	2017 US$m
In one year or less, or on demand	**333.3**	323.9
In more than one year but not more than two years	**7.1**	7.0
In more than two years but not more than five years	**115.5**	136.8
In more than five years	**225.0**	225.0
	680.9	692.7

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

Maturity of undiscounted financial derivatives
The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows, was as follows:

	Assets		Liabilities	
Year ended 31 December	2018 US$m	2017 US$m	2018 US$m	2017 US$m
In one year or less, or on demand	**199.6**	264.7	**(198.5)**	(264.3)
In more than one year but not more than two years	**0.3**	0.6	**(0.7)**	(0.6)
In more than two years but not more than five years	**–**	0.2	**(1.6)**	(1.7)
In more than five years	**–**	–	**(0.4)**	(1.1)
	199.9	265.5	**(201.2)**	(267.7)

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Credit risk

Year ended 31 December	2018 US$m	2017 US$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**135.7**	118.4
Derivative financial instruments	**2.9**	3.0
Trade receivables (net of impairment provision)	**216.0**	216.1
Other receivables	**29.8**	30.5
	384.4	368.0
Financial assets considered not to have exposure to credit risk:		
Other investments	**6.7**	1.4
Total financial assets	**391.1**	369.4
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**22.0**	17.5
Trade receivables between 1 and 2 months over permitted credit period	**5.5**	5.6
Trade receivables between 2 and 3 months over permitted credit period	**2.2**	1.7
Trade receivables between 3 and 6 months over permitted credit period	**2.2**	1.3
Trade receivables in excess of 6 months over permitted credit period	**0.7**	0.2
Total trade receivables (net of impairment provision) in excess of permitted credit period	**32.6**	26.3
Trade receivables within permitted credit period	**183.4**	189.8
Total net trade receivables	**216.0**	216.1
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**0.1**	0.2
Trade receivables between 1 and 2 months over permitted credit period	**–**	0.3
Trade receivables between 2 and 3 months over permitted credit period	**0.1**	0.3
Trade receivables between 3 and 6 months over permitted credit period	**0.4**	0.6
Trade receivables in excess of 6 months over permitted credit period	**9.0**	9.0
Total impairment provision	**9.6**	10.4

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual review, or more frequent if appropriate, review of their credit limits and credit periods.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

The Group monitors receivables for any significant increases in credit risk, and fully provides for trade receivables which are more than 6 months overdue, unless there are specific circumstances which would indicate otherwise. For all other trade receivables, when determining expected losses, the Group takes into account the historical default experience and the financial position of the counterparties, as well as the future prospects considering various sources of information.

The Group does not have a significant credit risk exposure to any single customer.

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Hedges
During 2018, 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 2018, the fair value of such hedging instruments was a net liability of $1.3 million (2017: $0.1 million). During the year a loss of $1.0m (2017: $1.1 million loss) in respect of interest rate swap hedges was recognised in other comprehensive income. In addition a loss of $0.6m (2017: $0.2 million profit) was reclassified from other reserves to the profit and loss account.

Cash flow hedges outstanding at 31 December are expected to increase/(decrease) the income statement in the following periods:

Year ended 31 December	2018 US$m	2017 US$m
Within one year	**0.3**	–
Within one to two years	**(0.4)**	0.2
Within two to five years	**(1.6)**	(0.5)
In more than five years	**(0.4)**	(0.2)
	(2.1)	(0.5)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

The Group holds both interest rate swaps exchanging floating rate amounts for fixed rate amounts and exchanging fixed rate amounts for floating amounts. This ensures that the Group holds an appropriate level of both fixed rate and floating rate borrowings, in line with Board approved policies. The amount accumulated in equity is reclassified to profit or loss over the period that the interest payments on debt affect profit or loss.

35 Share-based payments
The total cost recognised in the consolidated Income Statement in respect of equity settled share-based payment plans was as follows:

Year ended 31 December	2018 US$m	2017 US$m
Long Term Incentive Plan ('LTIP')	**7.5**	5.5
Deferred bonuses	**0.6**	0.9
	8.1	6.4

The average share price for the year ended 31 December 2018 was 79.8p (2017: 71.4p).

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:

	2018 Options	2017 Options
Outstanding at 1 January	**69,840,970**	81,328,453
Granted during the year	**12,553,061**	17,201,479
Vested during the year	**(9,831,730)**	(11,333,072)
Lapsed during the year	**(3,502,615)**	(11,026,303)
Exercised during the year	**(10,424,991)**	(6,329,587)
Outstanding at 31 December	**58,634,695**	69,840,970
Exercisable at 31 December	**6,752,045**	2,429,441

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 7.0 years (2017: 8.0 years).

The fair value of the market-based component of these awards was calculated using the Monte Carlo simulation method to reflect the likelihood of the market-based Total Shareholder Return ('TSR') performance condition, which attach to 20% (2017: 20%) of the award, being met, using the following assumptions:

	2018	2017
Vesting period	**3 years**	3 years
Share price at valuation date	**82.0p**	52.0p
Exercise price	**Nil**	Nil
Risk free rate	**0.84%**	0.12%
Expected dividend yield	**0%**	0%
Expected volatility	**30.92%**	28.04%
Fair value per share	**49.0p**	38.6p

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 2018 had a weighted average remaining contractual life of 2.2 years (2017: 1.3 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:

	2018		2017	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	**6,835,406**	**47.92p**	24,199,101	50.46p
Lapsed during the year	**(1,932,396)**	**50.00p**	(6,809,255)	56.55p
Exercised during the year	**(4,313,304)**	**50.00p**	(10,554,440)	48.18p
Outstanding at 31 December	**589,705**	**25.95p**	6,835,406	47.92p
Exercisable at 31 December	**589,705**	**25.95p**	6,835,406	47.92p

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 0.5 years (2017: 0.4 years).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

36 Post balance sheet events
On 12 February 2019 the Group completed the acquisition of ThreadSol a cloud-based digital applications provider. ThreadSol's technology focuses on fabric usage optimisation in apparel manufacturing and helps customers reduce fabric waste and cost, and establish accurate product costing. The Group has acquired ThreadSol in order to expand the offerings of the existing Coats Global Services business. The initial cash outflow for the acquisition is $5 million with further consideration of up to $7 million payable over the period to 2022 based on certain performance criteria. Please refer to note 31 for further details.

On 20 February 2019 the Group completed the sale of the North America Crafts business (see note 32 for further details).

37 Alternative Performance Measures
This Annual Report contains both statutory measures and alternative performance measures which, in management's view, reflect the underlying performance of the business and provide a more meaningful comparison of how the Group's business is managed and measured on a day-to-day basis.

The Group's alternative performance measures and key performance indicators are aligned to the Group's strategy and together are used to measure the performance of the business. A number of these measures form the basis of performance measures for remuneration incentive schemes.

Alternative performance measures are non-GAAP (Generally Accepted Accounting Practice) measures and provide supplementary information to assist with the understanding of the Group's financial results and with the evaluation of operating performance for all the periods presented. Alternative performance measures, however, are not a measure of financial performance under International Financial Reporting Standards ('IFRS') as adopted by the European Union and should not be considered as a substitute for measures determined in accordance with IFRS. As the Group's alternative performance measures are not defined terms under IFRS they may therefore not be comparable with similarly titled measures reported by other companies.

A reconciliation of alternative performance measures to the most directly comparable measures reported in accordance with IFRS is provided on pages 152 to 155.

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	2018 US$m	Restated[1] 2017 US$m	% Growth
Revenue from continuing operations	**1,414.7**	1,356.1	4%
Constant currency adjustment	**–**	(27.2)	
Revenue on a CER basis	**1,414.7**	1,328.9	6%
Revenue from acquisitions	**(41.0)**	–	
Organic revenue on a CER basis	**1,373.7**	1,328.9	3%

1 Restated to reflect the results of the North America Crafts business as a discontinued operation and to reflect the impact of the adoption of IFRS 15 'Revenue from contracts with customers' (see note 1).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m	% Growth
Operating profit from continuing operations[2]	**147.1**	154.1	(5)%
Exceptional and acquisition related items (note 4)	**47.8**	6.5	
Adjusted operating profit from continuing operations	**194.9**	160.6	21%
Constant currency adjustment	**–**	(3.4)	
Adjusted operating profit on a CER basis	**194.9**	157.2	24%
Operating profit from acquisitions[1]	**(2.1)**	–	
Organic adjusted operating profit on a CER basis	**192.8**	157.2	23%

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.
2 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 from continuing operations before exceptional and acquisition related items and before depreciation and amortisation (Adjusted EBITDA) for the year ended 31 December 2018 was $231.3 million (2017: $198.3 million).

Net debt at 31 December 2018 was $222.7 million (2017: $241.5 million).

This gives a leverage ratio of net debt to Adjusted EBITDA at 31 December 2018 of 1.0 (2017: 1.2).

Refer to notes 30(a) and 30(f) 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	2018 US$m	Restated[1] 2017 US$m
Profit before taxation	**122.8**	129.5
Exceptional and acquisition related items (note 4)	**47.8**	9.1
Net interest on pension scheme assets and liabilities	**3.8**	9.4
Underlying profit before taxation from continuing operations	**174.4**	148.0
Taxation charge	**49.0**	43.9
Tax credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**4.9**	0.8
Underlying tax charge from continuing operations	**53.9**	44.7
Underlying effective tax rate	**31%**	30%

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.

The taxation charge from continuing operations for the year ended 31 December 2017 includes a one-off non-cash tax credit of $2.1 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%.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

d) Adjusted earnings per share
The calculation of adjusted earnings per share is based on the profit from continuing operations attributable to equity shareholders before exceptional and acquisition related items as set out below.

Adjusted earnings per share growth measures the underlying progression of the benefits generated for shareholders.

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Profit from continuing operations	**73.8**	85.6
Non-controlling interests	**(19.0)**	(14.3)
Profit from continuing operations attributable to equity shareholders	**54.8**	71.3
Exceptional and acquisition related items net of non-controlling interests (note 4)	**47.6**	9.1
Tax credit in respect of exceptional and acquisition related items	**(4.8)**	(0.7)
Adjusted profit from continuing operations	**97.6**	79.7
Weighted average number of Ordinary Shares	**1,420,069,352**	1,399,209,804
Adjusted earnings per share (cents)	**6.87**	5.70
Adjusted earnings per share (growth %)	**21%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2018 is 1,420,069,352 (2017: 1,399,209,804), the same as that used for basic earnings per ordinary share from continuing operations (see note 11).

e) Adjusted free cash flow
Net cash generated by/(absorbed in) operating activities, a GAAP measure, reconciles to changes in net debt resulting from cash flows (free cash flow) as set out in the consolidated cash flow statement. A reconciliation of free cash flow to adjusted free cash flow is set out below. Adjusted free cash flow measures the Group's underlying cash generation that is available to service capital demands.

Year ended 31 December	2018 US$m	Restated[1] 2017 US$m
Change in net debt resulting from cash flows (free cash flow)	**24.9**	(330.0)
Acquisition of businesses (note 30(d))	**1.8**	19.9
Acquisition of other equity investment	**5.0**	-
Net cash flows from discontinued operations (note 32)	**(7.4)**	(10.2)
Net cash outflow in respect of exceptional reorganisation costs	**20.7**	0.2
UK Pensions Regulator ('TPR') investigation and UK pension consolidation costs	**2.2**	3.5
Payments to UK pension schemes	**24.0**	373.2
Net cash flows in respect of other exceptional and acquisition related items	**7.5**	5.8
Receipts from exercise of share options	**(3.0)**	(3.0)
Dividends paid to equity shareholders	**21.1**	17.6
Tax inflow in respect of adjusted cash flow items	**(0.6)**	(0.6)
Adjusted free cash flow	**96.2**	76.4

1 Restated to reflect the results of the North America Crafts business as a discontinued operation.

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.

Year ended 31 December	**2018 US$m**	Restated 2017 US$m
Operating profit from continuing operations before exceptional and acquisition related items[1]	**194.9**	160.6
Non-current assets:		
Acquired intangible assets	**40.0**	44.1
Property, plant and equipment	**282.2**	284.2
Trade and other receivables	**21.4**	20.1
Current assets:		
Inventories	**185.4**	190.6
Trade and other receivables	**253.8**	255.5
Current liabilities:		
Trade and other payables	**(302.7)**	(313.5)
Non-current liabilities:		
Trade and other payables	**(23.1)**	(27.3)
Capital employed	**457.0**	453.7
ROCE	**43%**	35%

1 Refer to note 4 for details of exceptional and acquisition related items.

The amounts shown above for non-current assets, current assets, current liabilities and non-current liabilities at 31 December 2017 exclude the discontinued North America Crafts business.

COMPANY BALANCE SHEET

Year ended 31 December	Notes	2018 US$m	2017 US$m
Fixed assets:			
Investments	4	**1,244.2**	1,235.7
Current assets:			
Trade and other receivables		**–**	0.1
Cash at bank and in hand		**0.4**	0.3
		0.4	0.4
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		**(67.0)**	(70.9)
Trade and other payables		**(0.3)**	(0.6)
Net current liabilities		**(66.9)**	(71.1)
Total assets less current liabilities		**1,177.3**	1,164.6
Provisions for liabilities	5	**–**	(0.8)
Net assets		**1,177.3**	1,163.8
Capital and reserves:			
Share capital	6	**88.5**	87.5
Share premium account		**10.4**	7.7
Capital redemption reserve		**14.1**	14.1
Share options reserve		**18.5**	18.5
Capital reduction reserve		**59.8**	59.8
Own shares	6	**(6.8)**	(7.7)
Profit and loss account		**992.8**	983.9
Shareholders' funds		**1,177.3**	1,163.8

The Company reported a profit for the financial year ended 31 December 2018 of $25.3 million (2017: $144.7 million).

Rajiv Sharma
Group Chief Executive
Approved by the Board 7 March 2019

Simon Boddie
Chief Financial Officer

Company Registration No.103548

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Capital redemption reserve US$m	Share options reserve US$m	Capital reduction reserve US$m	Own shares US$m	Functional currency reserve US$m	Profit and loss account US$m	Total equity US$m
1 January 2017	127.0	11.6	18.3	18.4	85.2	(10.5)	(78.9)	34.4	205.5
Change in functional currency[1]	(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 in 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
Net comprehensive income and expense for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25.3**	**25.3**
Issue of ordinary shares	**1.0**	**2.7**	**–**	**–**	**–**	**–**	**–**	**(0.7)**	**3.0**
Movement in own shares	**–**	**–**	**–**	**–**	**–**	**0.9**	**–**	**5.4**	**6.3**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(21.1)**	**(21.1)**
31 December 2018	**88.5**	**10.4**	**14.1**	**18.5**	**59.8**	**(6.8)**	**–**	**992.8**	**1,177.3**

1 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

Year ended 31 December	2018 US$m	2017 US$m
Net cash flows from operating activities:		
Operating profit	**21.8**	153.7
Decrease in debtors	**0.1**	0.3
Decrease in creditors	**(0.7)**	(8.1)
Impairment of investments in subsidiary undertakings	**–**	54.9
Non cash dividend	**–**	(187.8)
Movement in provisions	**(0.8)**	(2.5)
Foreign exchange	**–**	(0.7)
Net cash flows from operating activities	**20.4**	9.8
Net cash flows from investing activities:		
Investments in subsidiary undertakings	**(8.5)**	–
Net cash flows from investing activities	**(8.5)**	–
Net cash flows from financing activities:		
Proceeds from sale of own shares	**6.3**	5.1
Receipts from exercise of share options	**3.0**	3.0
Dividends paid to equity shareholders	**(21.1)**	(17.6)
Net cash flows from financing activities	**(11.8)**	(9.5)
Net increase in cash and cash equivalents	**0.1**	0.3
Cash at bank and in hand at the beginning of the year	**0.3**	–
Cash at bank and in hand at the end of the year	**0.4**	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.

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.

b) Fixed assets – investments

Investments in subsidiary undertakings are reflected at cost less provisions for any impairment.

c) Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All financial assets and financial liabilities are initially measured at transaction price. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

d) Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss and the assets is reduced to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

e) Share-based payments

Cash-settled

Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the vesting period, with a corresponding increase in liabilities.

Equity-settled

The Group operates an equity-settled Long Term Incentive Plan for executives and senior management, settlement is in the form of Coats Group plc shares. Awards under this plan are subject to both market-based and non-market-based vesting criteria.

The fair value at the date of grant is established by using an appropriate simulation method to reflect the likelihood of market-based performance conditions being met. As the Long Term Incentive Plan relates to employees of a subsidiary, when there is no recharge of the cost, the fair value is charged to Investments on a straight-line basis over the vesting period, with appropriate adjustments being made during this period to reflect expected vesting for non market-based performance conditions and forfeitures. The corresponding credit is to shareholders' funds.

To satisfy awards under this Plan, shares may be purchased in the market by an Employee Benefit Trust ('EBT') over the vesting period. Coats Group plc is the sponsoring employer of the EBT and its activities are considered an extension of the Company's activities. Therefore the shares purchased by the EBT are included as a deduction from shareholders' funds and other assets and liabilities of the EBT are recognised as assets and liabilities of Coats Group plc.

f) Taxation

Provision is made for taxation assessable on the profit or loss for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred taxation is measured on a non-discounted basis.

g) Dividends

Dividends proposed are recognised in the period in which they are formally approved for payment.

h) Critical accounting judgements and key sources of estimation uncertainty

Carrying value of investments:

The carrying values of investments are assessed annually for indicators of impairment. If an impairment review is required judgement is involved in calculating the recoverable amount. No indicators of impairment were identified during the year ended 31 December 2018.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
CONTINUED

2 Result for the year
The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The profit for the year attributable to shareholders was $25.3 million (2017: $144.7 million).

Details of directors' remuneration are set out on pages 57 to 71 within the Remuneration Report and form part of these financial statements.

3 Dividends
Dividends amounting to $21.1 million in respect of the year ended 31 December 2018 were paid to Coats Group plc shareholders during the year (2017: $17.8 million). Details of the proposed final dividend for the year ended 31 December 2018 are set out in note 12 of the consolidated financial statements.

4 Investments

	Investments in subsidiary undertakings US$m
At 1 January 2017	465.7
Change in functional currency	1.6
Additions	823.3
Impairment	(54.9)
At 31 December 2017	1,235.7
Additions	8.5
At 31 December 2018	**1,244.2**

Additions to investments during the year ended 31 December 2018 of $8.5 million represents additional investments in existing subsidiary undertakings. Further information about subsidiaries is provided on pages 161 to 166.

5 Provisions
Provisions are analysed as follows:

	Other provisions US$m	Total US$m
At 1 January 2018	0.8	0.8
Utilised in year	(0.8)	(0.8)
At 31 December 2018	**–**	**–**

Other provisions in the prior year included costs expected to be incurred in connection with the Group's three UK pension schemes. The provision was fully utilised during the year ended 31 December 2018.

6 Share capital
There are 1,427,492,032 Ordinary Shares of 5p issued at 31 December 2018 (2017: 1,413,300,648).

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 2018 of $6.8 million (2017: $7.7 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 2018 was 17,165,314 (2017: 19,025,372).

7 Related party transactions
Amounts due from and to other Group companies are disclosed on the face of the Balance sheet on page 156.

Interest payable to other Group companies during 2018 was $0.9 million (2017: $2.6 million).

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
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	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	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

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	GPG Services Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	Guinness Peat Group (Australia) Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary, AUD14,977.77 Redeemable Preference
Australia	Sabatica Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Bangladesh	Coats Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Bangladesh	Coats Crafts Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
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	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	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	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
Bulgaria	Coats Bulgaria Eood	Tharigradsko shouse bld 7th Km, Sofia 1748, Bulgaria	BGL50.00 Ordinary

1 100% owned by the joint venture ACS Nominees Pty Limited.

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
Canada	Coats Canada Inc	10 Roybridge Gate Blvd, Vaughan ON L4H 3M8, Canada	Common (no par value)
Canada	Staveley Services Canada Inc	44 Chipman Hill, Suite 1000, Saint John NB E2L 2A0, Canada	CAD Common, CAD Class A Pref 1, CAD Class A Pref 2
Chile	Coats Cadena Ltda	Enrique Gomez Correa No. 5750, Of. 4, Macul, 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	EGP40.00 Ordinary
El Salvador	Coats El Salvador, S.A. de C.V.	Zona Franca Export Salva, Edificio No 18C, San Salvador, El Salvador	US$100.00 Ordinary
Estonia	Coats Eesti AS - Estonia	Ampri tee 9/4, Haabaneeme, 74010 Viimsi Vald, Harjumaa, Estonia	€63.90 Ordinary
France	Coats France S.A.S.	8 avenue Hoche, 75008, Paris, France	€0.60 Ordinary
Germany	Coats GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	€12,000,000.00 Ordinary
Germany	Coats Opti Germany GmbH	1 Suedwieke 180, 26817 Rhauderfehn, Germany	€1.00 Ordinary
Germany	Coats Thread Germany GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	€1.00 Ordinary
Germany	Schwanenwolle Tittel & Krueger AG i. L	RHS, Stadtstrasse 29, 79104 Freiburg, Germany	DEM1.00 Ordinary
Guatemala	Centraltex de Guatemala, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Coats de Guatemala, S.A.	13-78 Zona 10, Edif. Intercontinental Plaza Torre Citigroup Nivel 17, Oficina 1702, Ciudad, Guatemala	GTQ1.00 Ordinary
Guatemala	Crafts Central America, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Distribuidora Coats de Guatemala, Sociedad Anomina	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ1.00 Ordinary
Guatemala	Guatemala Thread Company Sociedad Anonima	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ10.00 Ordinary
Honduras	Coats Honduras, S.A.	Edificio #13 Zona Libre Inhdelva, 800 mts. Carretera a la Jutosa, Choloma, Cortes, Honduras	HNL100.00 Ordinary
Hong Kong	China Thread Development Company Limited	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	Intellosol Softwares India Private Limited[2]	Ground Floor, S-606-B School Block, Shakarpur Delhi, East Delhi, DL – 110092 India	INR10.00 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

2 Acquired 12 February 2019. See note 31 regarding the Group's acquisition of the ThreadSol business.

GROUP STRUCTURE
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Country of Incorporation	Company Name	Registered Office address	Share class
Indonesia	PT. Coats Rejo Indonesia	Jl RA Kartini No 26, Jakarta 12430, Indonesia	IDR415.00 Ordinary-A, IDR627.00 Ordinary-B, US$1.00 Preference
Indonesia	PT Coats Trading Indonesia	Ventura Building, 4th Floor, Jl RA Kartini No 26, Cilandak, Jakarta 12430, Indonesia	USD1.00 Ordinary
Israel	Coats (Israel) Ltd	2 Shidlovsky Road, Yavne, Israel	US$400.00 Ordinary
Italy	Coats Italy S.r.l.	Viale SARCA, No. 223, Milano, Italy	€5,000,000.00 Quota
Korea, Republic of	Coats Korea Co., Limited	74 Siu-ro, Danwon-gu, Ansan City, Republic of Korea, 15436	KRW10,000.00 Ordinary
Madagascar	Coats (Madagascar) International	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	MGF100,000.00 Ordinary
Madagascar	Coats (Madagascar) S.AR.L (EPZ)	First Immo, Galaxy Industrial Estate, Rue du Dr. Raseta, Andraharo, Antananarivo, Madagascar	MGF100,000.00 Ordinary
Malaysia	Coats Thread (Malaysia) Sdn. Bhd.	49-B Jalan Melaka Raya 8, Taman Melaka Raya, 75000 Melaka, Malaysia	RM10.00 A, RM10.00 B, RM10.00 C (99%)
Mauritius	J & P Coats (Mauritius) Ltd	Allee des Mangues, Pailles, Mauritius	Rs100.00 Ordinary
Mauritius	Coats Indian Ocean Holding Co Limited	2nd Floor, IBL House, Caudan, Port-Louis, Mauritius	US$100.00 Ordinary
Mexico	Coats Assets de Mexico SA de CV	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXN1.00 Series A Fixed
Mexico	Coats Mexico S.A. de C.V.	Periferico Sur #3325 Piso 8, Col. San Jerónimo Lídice, Magdalena Contreras, Mexico City, CP10200, Mexico	MXP1.00 Ordinary-A, MXP1.00 Ordinary-B
Morocco	Coats Maroc	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Morocco	Mercerie Industrielle de Casablanca	220 Bld Chefchaouni, Ain Sebaa, Casablanca, Morocco	MAD100.00 Ordinary
Netherlands	Coats Industrial Europe Holdings B.V.	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	Naritaweg 165, 1043 BW, Amsterdam, Netherlands	€500.00 Ordinary
New Zealand	Australian Country Spinners (NZ) Limited[3]	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	Suites 112-113, Prime Office Lobby, Park Towers, Shahrah-e-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	RON169.38 Ordinary
Russian Federation	Coats LLC	53 Lenin Street, Oktyabrsky, Lubertsy, 140060, Moscow Region, Russia	SUR173.55 Ordinary
Singapore	Coats International Pte. Limited	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
Singapore	Coats Overseas Pte Ltd	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
South Africa	Coats South Africa (Proprietary) Limited	107 Escom Road, New Germany, 3620, KZN, Natal, South Africa	ZAR0.01 Ordinary, ZAR0.01 Cumulative Redeemable Preference, ZAR0.01 Non-redeemable Preference Shares, ZAR0.01 Non-redeemable Non-cumulative Variable Rate Convertible Preference
South Africa	Cotnat Properties (Proprietary) Limited	107 Escom Road, New Germany, 3620, KZN, Natal, South Africa	ZAR1.00 Ordinary
Spain	Coats Spain, S.L.	Poligono Industrial Can Roqueta, Avda.Ca N'Alzina nr.79, Calle N'Alzina, Sabadell, Barcelona, Spain	€1.00 Ordinary

3 % owned by Australian Country Spinners Pty Limited.

GROUP STRUCTURE
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Country of Incorporation	Company Name	Registered Office address	Share class
Spain	Gotex S.A.	Poligono Industrial Can Roqueta, Calle N'Alzina, 79 Sabadell, Barcelona, Spain	€6.02 Ordinary
Sri Lanka	Coats Thread Exports (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR100.00 Ordinary (99%)
Sri Lanka	Coats Thread Lanka (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR10.00 Ordinary (99%)
Sweden	Coats 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	c/o Haussmann Treuhand AG, Seefeldstrasse 45, 8008 Zurich	CHF2,500.00
Thailand	Coats Threads (Thailand) Ltd	39/60 Moo 2 Tambol Bangkrachaw, Amphur Muang, Samutsakorn Province 74000, Thailand	THB1,000.00 Ordinary
Tunisia	Coats Industrial Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Tunisia	Coats Trading Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Turkey	Coats (Turkiye) Iplik Sanayii AS	Organize Sanayi Bolgesi Mavi Cad. No 2, 16371 Bursa, Turkey	TRY1.00 New Ordinary (92%)
Ukraine	Coats Ukraine Ltd	Moskovskiy ave. 28A, litera B, Kiev, 04655, Ukraine	UAH1.00 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	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	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	£1.00Ordinary
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 Thread (UK) Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
United Kingdom	Coats UK Pension Scheme Trustees 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	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

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company Name	Registered Office address	Share class
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 Europe 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
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	Marshaide Limited	1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD, England	£1.00 Ordinary
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 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[4]	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 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

4 Sale completed on 20 February 2019. See note 32.

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	2014[2] US$m	2015 US$m	2016 US$m	2017 US$m	**2018 US$m**
Continuing operations (before exceptional and acquisition related items)[4]:					
Revenue[5]	1,323.6	1,270.5	1,276.0	1,356.1	**1,414.7**
Cost of sales	(856.2)	(803.6)	(789.2)	(849.7)	**(901.9)**
Gross profit	467.4	466.9	486.8	506.4	**512.8**
Operating costs[5]	(376.5)	(353.9)	(347.6)	(345.8)	**(317.9)**
Operating profit	90.9	113.0	139.2	160.6	**194.9**
Share of profits from joint ventures	1.5	1.5	0.8	1.3	**0.1**
Investment income	11.5	10.5	4.3	2.1	**1.7**
Finance costs[3]	(19.5)	(41.7)	(35.9)	(25.4)	**(26.1)**
Profit before taxation	84.4	83.3	108.4	138.6	**170.6**
Taxation	(34.3)	(37.1)	(41.0)	(44.6)	**(53.8)**
Profit from continuing operations	50.1	46.2	67.4	94.0	**116.8**
Adjusted earnings per share (cents)	1.54	2.73	4.02	5.70	**6.87**
Dividend per share (cents)	–	–	1.25[1]	1.44	**1.66**
Adjusted free cash flow ($m)	53.7	44.6	58.9	76.4	**96.2**
Return on capital employed (%)	21%	31%	35%	35%	**43%**

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 Includes foreign exchange gains / losses on parent group cash balances.
4 The results for 2014-2017 have been restated following the disposal of the North America Crafts business.
5 Revenue and Operating costs have been restated for prior years following the Group's adoption of IFRS 15 on 1 January 2018.

SHAREHOLDER INFORMATION

United Kingdom
1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD

Tel: 020 8210 5000
www.coats.com

UK registered members
To manage your shareholding online, please visit: **www.investorcentre.co.uk**

Incorporated and registered in England No. 103548

Registered office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD

Location of share registers
The Company's register of members is maintained in the United Kingdom

Register enquiries may be addressed direct to the Company's share registrars named below:

Registrar	Telephone and postal enquiries	Inspection of Register
UK Main Register:		
Computershare Investor Services PLC	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ Tel: 0370 707 1022 Facsimile: 0370 703 6143	The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

WWW.COATS.COM/ARA2018

A full copy of our Annual Report can be downloaded, along with other relevant documents from www.coats.com/ara2018

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