COATS GROUP PLC
ANNUAL REPORT 2020

Connecting talent, textiles and technology

to make a better and more sustainable world

CONNECTING TALENT, TEXTILES AND TECHNOLOGY

CONTENTS

OUR PURPOSE IS TO CONNECT TALENT, TEXTILES AND TECHNOLOGY TO MAKE A BETTER AND MORE SUSTAINABLE WORLD

Coats is the world's leading industrial thread company. Coats' pioneering history and innovative culture ensure the Company leads the way around the world. We provide complementary and value-adding products, services and software solutions to the Apparel & Footwear (A&F) industries. We apply innovative techniques to develop high technology Performance Materials (PM) threads, yarns and fabrics in areas such as Transportation, Telecoms and Energy, and Personal Protection.

A key part of our Company purpose is to make a better and more sustainable world.

This report details how we deliver our purpose to support our customers, their industries, our shareholders, our people and the communities in which we operate.

We are achieving this by focusing on three key areas:

- Talent – our people are our greatest asset and we continue to invest in their development to enhance their specialised skills and acquire new ones through our ever-growing digital learning platform and peer-to-peer sessions led by internal experts
- Textiles – we develop innovative textile solutions to enhance people's lives, touching everything from sewing thread to fibre optic cables
- Technology – we embrace new, emerging and disruptive technologies to penetrate markets with new and improved textile applications and material solutions that are more sustainable and functional

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 coats.com/ar2020
- A full copy of this Annual Report can also be downloaded from coats.com/investors
- Throughout this document you will see references to where supporting information can also be found online at coats.com

Sustainability Report:

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

FTSE4Good

THE GLOBAL COMPACT

2020 FULL YEAR RESULTS AND HIGHLIGHTS

Continuing operations: Revenue ($m)

Ⓐ Adjusted operating profit ($m)

Operating profit ($m)

Key Performance Indicators
We have indicated with * those measures we consider KPIs. See pages 15–16 for more details and historical performance.

1. Adjusted measures are non-statutory measures (Alternative Performance Measures). These are reconciled to the nearest corresponding statutory measure in note 37. Constant exchange rate (CER) figures are 2019 results restated at 2020 exchange rates. Organic figures are results on a CER basis and excluding contributions from bolt-on acquisitions (Pharr HP and ThreadSol). Revenue figures are an IFRS measure; however CER and Organic growth rates constitute Alternative Performance Measures.
2. Reported refers to values contained in the IFRS column of the primary financial statements in either the current or comparative period.
3. All figures on a continuing basis, unless otherwise stated.
4. Leverage calculated on a frozen GAAP basis, and therefore excludes the impact of IFRS 16 on both adjusted EBITDA and net debt.

Ⓐ Alternative Performance Measures – see note 37 on pages 176–179.

Financial performance

Continuing operations[3]	**2020**	2019	Change	Ⓐ CER change[1]	Ⓐ Organic change[1]
Revenue	$1,163m	$1,389m	(16)%	(14)%	(19)%*
Adjusted[1]					
Ⓐ Operating profit	$111m	$198m	(44)%	(43)%	(43)%*
Ⓐ Basic earnings per share	2.4c	7.0c			
Ⓐ Free cash flow	$28m*	$107m			
Ⓐ Net debt (excl. IFRS 16)	$181m	$150m			
Reported[2,3]					
Operating profit	$103m	$191m	(46)%	(45)%	(44)%
Basic earnings per share	1.8c	6.7c			
Net cash generated by operating activities	$66m	$144m			
Final dividend per share	1.30c	nil			

Highlights

- Improving sales momentum with Group organic sales exit rate down 5% for November and December (versus down 26% H1 2020 and down 15% four months to October 2020), following the impact of Covid earlier in the year.
- Continued share gains in Apparel & Footwear and customer wins in Performance Materials as customers' priorities pivot to reliability, speed and flexibility during Covid.
- Continued Innovation focus despite Covid disruption; 22 new products launched in the year, generating $13 million of incremental revenue, and with a rich pipeline of opportunities.
- Adjusted operating profit of $111 million, ahead of previous expectations, with solid recovery in H2; ability to significantly flex cost base leading to resilient margins of 12.2% in H2 (6.4% H1).
- Further advancement on Sustainability agenda; increased demand for EcoVerde product range with revenues up 6x year-on-year; signed up to Science Based Targets initiative, specifically to achieving net-zero emissions by 2050.
- Net debt (excl. IFRS 16) of $181 million, 1.2x leverage[4]; committed facility headroom of $330 million.
- Proposed final dividend of 1.30 cents per share as a result of the strength of the balance sheet, the encouraging recovery, and the Board's confidence in the strategy and outlook for the Group.

COATS AT A GLANCE

COATS IS THE WORLD'S LEADING INDUSTRIAL THREAD COMPANY. HEADQUARTERED IN THE UK, WE OPERATE GLOBALLY AND IN 2020 GENERATED REVENUES OF $1.2BN

What we do

$1.2bn Group revenues

9.5% operating margins

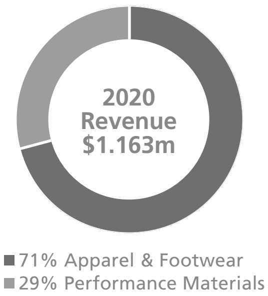
1.2x leverage

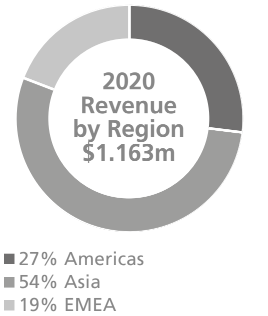
We deliver innovative and value add product and service solutions for our c.40,000 global customers to meet the design specifications they require.

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

Sustainability is at the heart of our core business values. We look to do business at all times in an ethical manner, respectful of our environment, and delivering peace of mind for our customers. Each year we aim to produce more from less of the planet's resources.

Whilst our industry was significantly impacted by Covid during 2020 we were able to use our flexible business model to maintain robust financial performance.





Where we operate

100
Sales in around countries

c.40,000
Customers globally

250
Years of textiles experience

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

How we operate: Our Sustainability Strategy

We launched our strategy in 2019 with challenging targets for 2022 and 2024. We have continued to make good progress towards these goals notwithstanding the considerable disruption caused by Covid, but not all the actions that we planned for 2020 were achievable in the circumstances. This was especially the case with our Social targets (for details go to coats.com/sustainability).

While this means that we have more to achieve in the time remaining to deliver on our targets, we are holding to our commitments and not extending the strategy horizon or reducing our ambition. Action plans have been revised to accelerate progress in 2021.

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

- WATER
- ENERGY
- EFFLUENT & EMISSIONS
- SOCIAL
- LIVING SUSTAINABLY

APPAREL & FOOTWEAR

2020 revenue: $823m

2020 operating profit: $96m

(11.6% margin)

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

Our industry was significantly impacted by Covid during 2020, as large-scale lockdown activities impacted a number of our end customers. Local lockdown activities also impacted our supply chain, and our own operations, particularly during Q2.

Main customer markets

We ultimately supply products and services to premium global brands across many markets such as mid-market, premium lifestyle, value / mass, Fast Fashion, luxury / affordable luxury, footwear, and apparel tailoring.

30,000

Apparel & Footwear manufacturers

4,000

Retailers & brands

Product type	End uses	Key Coats brands
Apparel & Footwear and accessories threads (c.85% of A&F sales)	Sport / athleisure, denim, ladieswear, menswear, children's wear, leather wear, workwear, footwear, and intimates and underwear	Epic, Dual Duty, Seamsoft, Nylbond, Gral, Gramax, Astra, Sylko, Knit and EcoVerde
Zips, trims and crafting (c.14% of sales)	Zips, interlinings, reflective tapes, and crafting products (Latin America)	Opti, Signal and Connect
Software solutions (c.1% of sales)	Enabling supply chain productivity gains, increasing speed of supply and facilitating compliance	Coats Digital – including FastReactPlan, VisionPLM, GSDCost, Intellocut and Intellobuy

PERFORMANCE MATERIALS

2020 revenue: $341m

2020 operating profit: $15m

(4.4% margin)

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

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

Covid caused disruption during 2020 to a number of our end use markets, although due to diverse customer / end-use, business was not impacted quite as severely as Apparel & Footwear.

Main customer markets

These include highly engineered applications for the Telecoms and Energy sector, Personal Protection clothing and solutions for the Transportation sector.

c.7,000

PM customers

End-use sector	End uses	Key Coats brands
Telecoms and Energy (c.15% of PM sales)	Protective layers for cables / steel replacement composites	Gotex, Ultrabloc, Aptan XU, Gral Binder, Protos Ripcord and Dabond Ultrabloc
Personal Protection (c.40% of sales)	Combining comfort, safety and protection – fire retardant and cut resistant threads and yarns	Firefly, Flamepro and Armoren
Transportation (c.10% of sales)	High performance threads and yarns for various parts of the automotive industry	Neophil, Synergex, Lattice and Webflex
Household and Recreation (c.20% of sales)	Everyday consumer applications, including bedding, quilting and outdoors	Gral Quilt, Protos Fil, Epic, Gramax and Admiral
Other Industrial Applications (c.15% of sales)	Various technical applications for light / strong / flexible / innovative threads	Astra FH, Stricose, Admiral FH, Prolene, Gral and Helios

CHAIRMAN'S STATEMENT

'WE CONNECT TALENT, TEXTILES AND TECHNOLOGY TO MAKE A BETTER AND MORE SUSTAINABLE WORLD.

WE ENTER 2021 WITH RENEWED RESILIENCE AND FORTITUDE AS WE COME OUT OF THIS EXTRAORDINARY YEAR.'

Dear Shareholder,
Our business has been operating continuously for over 250 years including through two world wars, but this year has been one of the most testing times in our history. Despite the great challenges of 2020, we have been guided by our values and core priorities and we have made real progress. The Coats workforce has shown great resilience and rallied together in this crisis and we have delivered beyond all expectations. The manner in which our colleagues have been galvanised to act with pace and determination has ensured that we emerge stronger and I pay testament to the hard work and adaptability of all our employees across the entire Coats family.

Purposeful business
Our people have demonstrated exceptional agility in keeping the supply chain going and meeting our customer needs. In this time of crisis, we have managed to stay on the front foot, introducing new products, gaining market share, and bringing in new customers. We are now coming back stronger and more competitive, refocusing our activities to meet the needs of our current and future customers. Never has our purpose – Connecting Talent, Textiles and Technology to Make a Better and More Sustainable World – seemed so relevant. The lens is now firmly focused on purposeful business, and customers and wider society are now demanding more transparency on responsible business practices. Since the establishment of Coats, ethical behaviour has been core to everything we have done – from offering free schooling to the workers at our first factory in Paisley, to most recently going out into the community in India to help deal with the health crisis – ethical and sustainable business practice has been in our DNA and our culture right from the start.

Performance
Coats has a long heritage which has relied on its ability to respond and evolve with the times, adopting key technologies. We have a strong leadership team who have been the drivers in ensuring that the business is ready for the digital age. We were able to pivot so swiftly to the new ways of working since we had already implemented digitisation as a strategic priority for the business. In an industry which is traditionally behind the game on digital tools, we had already taken a big step forward. This digital preparedness was coupled with the robust risk management practices we had in place. Our business continuity planning exercises prepared us for potential disruption in the supply chain and were put to good use at the start of the crisis when we executed our contingency plans. Another truly outstanding aspect of our performance has been cash management, a testament to Coats' agility, perseverance and digital approaches.

In my final year as Chairman of the business, I have been both proud and saddened. I am very proud of our health and safety agenda as an industrial company, and there is no doubt in my mind that the impacts in this area have ensured that the business could respond immediately to the challenges it faced as the pandemic hit. The speed at which we implemented industry-leading health and safety responses is down to the fact that health and safety has always been at the top of our agenda. We moved quickly, adopting best practice, deploying these methods across our global sites. The speed of collaboration, and our trust in each other, meant that best practice was passed from China and Vietnam to all our sites in Asia and then to all our clusters simultaneously. We applied meticulous discipline to ensure that our employees remained safe within our factory gates and introduced cutting-edge safety tools, such as the roll out of our artificial intelligence enabled health and safety cameras. As the pandemic worsened, we went outside the factory gates and took these best practices and resource investment to help families in the communities in which we operate. However, despite all our best efforts, we have lost colleagues to the virus, and our thoughts and prayers have been with them and their families.

The Board
It has been a privilege to serve Coats as Chairman. When I arrived in 2014, I set out with a real desire to have a Board from multiple industries and geographies, that had multiple experiences, as well as gender and ethnic diversity. There is now real diversity in every respect on the Coats Board and I think it has made for better decision making and I am really proud of that. I firmly believe that different perspectives and different experiences ensure that wiser decisions are made when applying judgements in complex situations. I am therefore very pleased to welcome our first female Executive Director, Jackie Callaway, our new Chief Financial Officer Designate, to the Board. Simon Boddie has served as Chief Financial Officer since 2016 and will retire from the Company and the Board with effect from 31 March 2021, at which point Jackie will become Chief Financial Officer. Jackie brings rich and diverse experience to the Board and I warmly welcome her to Coats. I would like to pay tribute to Simon for his significant contribution since joining the Board as an Executive Director. The Board and the wider organisation have benefited greatly from his extensive knowledge and experience and his presence will be greatly missed.

'COATS HAS A LONG HERITAGE WHICH HAS RELIED ON ITS ABILITY TO RESPOND AND EVOLVE WITH THE TIMES, ADOPTING KEY TECHNOLOGIES.'

The company I joined was a jewel hidden within an investment group. In my time at Coats, it has risen to join the FTSE 250 once again, is listed on the FTSE4Good and is a participant in the UN Global Compact. The pension litigation resolution removed uncertainty in the minds of our investors and allowed the Company to consider bolt-on acquisitions to accelerate growth. Our Apparel & Footwear business is flourishing and the Performance Materials business has been expanded and developed, with the acquisition of Gotex, Pharr and Patrick Yarns. Together with our innovation programmes, there is huge potential for growth and exciting times lie ahead for Coats.

I will miss the Coats family, the openness with which myself and the rest of the Board have been invited to the annual conferences, where I engaged with both senior leaders and young talent coming up through the Company, with almost every nationality and ethnic group represented. In my day-to-day role, I have enjoyed visiting our many sites across the world, from Bursa, Turkey, to Ho Chi Minh City, to our plant outside Jakarta, and Sevier in North Carolina, to name just a few. In each Coats site, I see the same place – the same culture, the same respect for rigorous health and safety approaches, the same attitude to customers, to people development and to diversity.

Chairman succession

I am delighted with my replacement, David Gosnell, who has served on the Coats Board for five years as an Independent Non-Executive Director. I have worked with David very closely over the last five years and he has been a great support to both me and the business throughout this time. I am confident that he has the right combination of experience and talent to lead the Board going forward. I hand over the mantle, secure in the knowledge that we have a strong leadership team performing at a very high level. I am certain that alongside our Chief Executive Officer, Rajiv Sharma, David will leverage the fact that we have a platform from which we can build back stronger, and there has already been signs of this in the last few months.

Dividend

The Board is mindful of the importance of income to shareholders and as a result of the strength of the Group's balance sheet, the encouraging recovery out of the Covid pandemic, and its confidence in the strategy and outlook for the Group, is pleased to propose a final dividend of 1.30 cents per share (2019 final dividend: nil). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2021 to ordinary shareholders on the register at 30 April 2021, with an ex-dividend date of 29 April 2021.

Going forward, the Board will continue to aim to use the free cash flow the Group generates to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. As underlying earnings and cash flows continue to recover from the impact of Covid, the Board intends to return to its previously published progressive dividend policy.

Looking ahead

I would like to take this opportunity to thank my fellow Board members for being continuously engaged throughout this crisis. I remain immensely grateful to the leadership team for their stalwart performance during this time and, above all, I thank all my colleagues across the business who have been resolute during one of the toughest years in our history. Thank you for your commitment, your hard work and determination to succeed, these strengths have been and will continue to be instrumental to our success.

Mike Clasper
Chairman

3 March 2021

MARKET TRENDS

What markets do we serve?

Apparel & Footwear (A&F)

Coats is the global market leader in supplying premium thread to the A&F industries, and is estimated to be over twice the size of the nearest thread competitor. The global thread market is estimated to be c.$4bn (pre-Covid) and whilst thread represents only 1-2% of the cost of a typical garment, it is a critical component in the performance and efficiency of the production process. We are one of the few global players of a key supply chain component in the $1.5tn global apparel and c.$350bn footwear industries which are projected to grow at low single digits in the medium term. Whilst Covid had a significant impact on the industry in 2020, we expect growth rates to normalise to previous levels medium term. We also provide software solutions to customers which help drive speed, productivity, efficiency, and savings in their operations.

Performance Materials (PM)

We are global experts in the design and supply of highly engineered, high performance technical threads, yarns and composites used in a range of industries including personal protection, transportation, household and recreation, telecoms and energy, and other industrial end-uses. We estimate the addressable market (i.e. into which we currently or could realistically serve near term) is c.$2.9bn (pre-Covid), of which c.$2.3bn relates to highly-engineered end uses (e.g. personal protection, telecoms and energy, and transportation), and hence we estimate we have a market share of around 10%. We anticipate upper single digit medium-term organic percentage growth (post-Covid), with growth weighted towards higher technology end uses.

Trends that are impacting our businesses:

1. Covid

The onset of Covid during 2020 had a significant impact on our industry. During Q2 almost half our manufacturing footprint was subject to enforced mandatory government closures, alongside significant demand disruption to our customers. Our industries had to pivot quickly to respond with a heightened focus on speed and reliability alongside an ongoing focus on quality, innovation, responsibility and compliance. As a business we are in the process of identifying and adapting to any potential lasting structural effects on our industry, but as the largest, most adaptable and advanced player we are well positioned to respond to these potential changes and to be a net beneficiary.

Trend #1: Our response in the year

We quickly pivoted to focus on four key priorities: the health and safety of our employees, cash management, customer support and maintaining critical elements of our supply chain. We procured PPE for our global facilities, implemented protocols ensuring social distancing, enhanced hygiene and sanitation, invested in new touchless technology and enhanced medical care for affected individuals.

2. Speed to market

Changes in our industry mean speed to market is increasingly important, with dramatically reduced times between the catwalk and the high street. Consumers now demand more than just the traditional two season cycle, which has put tremendous pressure on the full garment supply chain. Not only do all participants need to act faster to respond to shorter lead times, they need to act smarter, focusing on productivity, whilst doing this in a way that does not compromise quality or compliance. Our unrivalled global footprint means we are uniquely placed, across the entire component supply chain, to manufacture and distribute consistently high-quality products to service retailers' multi-location sourcing strategies. We also have industry-leading digital tools such as our web-based service Coats Colour Express, the fastest thread sampling service in the world. As detailed above, the impact of Covid during the year has further amplified the need for reliable and quick supply in our industry.

Trend #2: Our response in the year

Despite the Covid crisis, our global scale and flexibility allowed us to pivot our operations and to quickly and reliably deliver products and services to customers where they needed them.

3. Innovative uses of threads, yarns and fabrics

Consumers are demanding more innovative products in every area of their lives and so new thread-based application end uses continue to be identified. As a global market leader, we are at the forefront of innovating smart thread and yarns to enhance the functionality or performance of products in multiple end markets. This is a core competency in Performance Materials where we have developed and grown sales in many new products such as flame retardant threads used in protective wear, water swellable yarns that protect fibre optic cables, and composites that deliver high performance, lightweight solutions in industries such as oil and gas (e.g. deep water pipes) and automotive. In A&F, we continue to partner closely with global brands to support their ambitious innovation agendas. We listen to their requirements and work with them to develop solutions.

Trend #3: Our response in the year

We have three Innovation Hubs around the world which reduce innovation lead times for customers. Our innovation ecosystem gives us dedicated capacity to develop new product solutions as well as products in collaboration with customers. Despite Covid, the pace of innovation has not wavered and we launched 22 new products this year, delivering incremental sales of $13m. We also saw continued increased commercial interest from the automotive industry in our innovative carbon composite solution – this provides a lightweight, low waste, steel replacement solution. We now have our first commercial orders with this product and are looking to drive further scale.

4. Operating sustainably, increasing standards
The global A&F market is under increased pressure to be more sustainable, which requires improvements from their supply chains. We continue to maintain our leadership position as a major component supplier by pursuing ambitious targets related to Environmental, Social and Governance (ESG) issues. Industry momentum has been relatively unaffected by Covid as supply chain compliance and reliability remain critical. As a result, a growing share of stakeholders are demanding more sustainable products and becoming increasingly focused on operating in a compliant and ethical way. Entire supply chains are under pressure not just to conform to local requirements but also to higher international standards.

Increasingly, ESG standards are being used by investors as a critical part of their assessment criteria. These challenges present a need to drive change at scale and also an opportunity for long-term value creation. This goes to the heart of Coats' values and standards. Our sustainability programme gives us competitive advantage and helps us build our reputation and our relationships with key stakeholders. Specifically regarding climate change, we treat this as a principal risk which means it is considered at Board level and we developed our mitigation approach during 2020. For details refer to coats.com/sustainability, and pages 28–33 in this report.

Trend #4: Our response in the year
Our 100% recycled thread, EcoVerde, saw significant traction, especially with brands aligned to our ambitious sustainability targets. Our sales of recycled thread increased 6x year-on-year, despite Covid headwinds.

5. Growth of the urban middle class in Asia
Globally, the A&F thread market is expected to grow by low single digits percentage over the medium term, but this is projected to be higher in Asia. Not only will Asian consumers demand more garments, but more affluent consumers will demand higher-end garments, so we expect regional sales from our factories in Asia to increase over time. Demand for PM threads and yarns is increasing due to the pace of urbanisation (e.g. the rollout of fibre optic cable networks) and economic growth, which means consumers purchase more products needing high performance materials (e.g. leisure goods and automotive). In automotive, demand is driven by the need to conserve energy with lightweight materials. In personal protection, demand is being driven by increasing levels of worker protection, industry regulation and the need for comfort with multi-hazard protection.

Trend #5: Our response in the year
Our China domestic strategy was reviewed by the Board during the year and we have approved plans for capital and operational expenditure in order to drive forward our strategic growth ambitions from 2021.

6. Increasing adoption of digital services
Digital solutions and services play an ever-increasing role in everyday life and this is replicated in our industry. We have been at the forefront of digital innovation by component suppliers to the global garment industry for several years now. We have a market-leading online proposition and apply digital technology and services proactively to benefit both our internal operations and as a service offering for our customers. Our Coats Colour Express service is the fastest thread sampling service in the world and Opti Express is a revolutionary zip sampling service. 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 #6: Our response in the year
In 2020 we launched Coats Fast Start, a digitally enabled initiative which supports manufacturers switching parts of their production facilities and supply chains to PPE production. We also launched a strategic collaboration with Res.Q and Serai, providing access to a range of interconnected digital solutions over a single digital platform, reducing inefficiencies by connecting multiple standalone systems. This drives real-time data and end-to-end transparency across the supply chain, increasing efficiency, and reducing cost and the need for face-to-face contact. Our customer-facing eCommerce platform saw adoption reach 85% (proportion of thread orders) This allows us to engage with our customers online to deliver speed, convenience, transparency and efficiency. Our foundation in the digital space was a significant differentiator in our offering during 2020 when Covid forced many interactions to be performed virtually.

For more information about our market environment refer to coats.com/investors

BUSINESS MODEL

OUR PURPOSE

Why we exist

To connect talent, textiles and technology to make a better and more sustainable world

OUR VISION AND STRATEGY

What we are working to achieve

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

OUR FOUNDATIONS

Underpinning our business model

Safety | Governance

Environment | Climate

Performance | Technology

OUR PRINCIPLES

Shaping the way we work

Energy for change

Respectful & inclusive

Freedom to operate

Openness & honesty

Positive teamwork

Our capabilities

Sales and marketing

- A network of customer and supplier relationships
- Close interactions with leading global retailers, brands and manufacturers
- Ability to respond quickly to specific needs, pressures and aspirations

Technical

- Technical support for customers with thousands of technical interventions on the shop floor of our customers as well as digital and technological interventions

New product / process innovation

- A culture of innovation
- Innovation hubs providing spaces to collaborate with customers
- An R&D team working with customers to understand their needs and develop new product solutions

Manufacturing

- Consistent quality and colour
- Manufactured to high ethical, labour and environmental standards
- Tested and measured against stringent quality and safety standards

Digital

- Industry-leading set of digital services including colour sampling, online training, e-commerce and supply chain management

Our key strengths

Customer relationships

- Strong relationships across all levels of our customers' organisations provide deep market insight
- 30,000 apparel, footwear and accessories customers
- 4,000 retailers and brands globally
- 8,500 customers in our Performance Materials

Global asset base

- Uniquely positioned to deliver consistently high service levels on a short lead time basis
- Manufacturing on 50 sites, on six continents, with 100+ warehouses, the majority of which are connected by a global ERP system

People

- Diverse international workforce of nearly 17,000 employees
- Innovative and solution-focused culture
- Highly engaged and committed employees

Suppliers

- Diverse and global supplier base
- Proactively review market developments
- Careful monitoring and managing of supply chain
- Transition to recycled inputs where possible

Responsibility

- 'Doing the right thing' is in our DNA
- Strong ESG and sustainability credentials
- Ethical reputation amongst suppliers to the global garment industry

The value we create

Employees	We are committed to the safety, rights and wellbeing of our employees. Our aspiration is to create a culture that nurtures innovative, solutions-focused performance	We adjusted our people priorities to focus on our number one priority – health and safety
Customers	As customer expectations evolve, we are continuing to focus on responsibly sourced, sustainably produced products	c.40,000 customers served
Shareholders	We are committed to delivering superior returns and aim to deliver long-term value	Return to dividend Maintained strong balance sheet through Covid
Environment	We are developing ways to work more sustainably including producing less waste, lower carbon emissions and less water / energy usage	74% of effluent compliant with ZDHC standards
Communities	We create jobs for local communities and contribute to local economic and social development, the impact of which is often felt after our operations have ended	Provided Covid information about the pandemic, safety equipment and other donations to support communities
Suppliers	We look for the right balance of global, national and local capability and create local supply chains wherever we can	>$0.7bn paid to suppliers

INVESTMENT CASE

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

Throughout 2020 we continued to review each element of our investment case and looked to align these more closely to the future core operations of our key business segments and the ongoing integration of recent acquisitions.

Element	**1. Global market leader in Apparel & Footwear (A&F)**	**2. Leading player in Performance Materials market**	**3. Focus on digital, innovation and sustainability**
Which provides us as an organisation with:	A strong and defendable core business representing some 71% of Group sales.	Ability to build scale through technology, innovation and acquisition. Representing some 29% of Group sales.	Ability to focus on the continuing challenges from macro trends that are shaping the world and give us the tools to enable us to deliver value to all our stakeholders.
Key attributes of this element	Global leader in A&F thread market, consistently increasing market share in a stable market (pre/post-Covid). Leading the response to meet changing industry needs – speed, personalisation, innovation, cost, quality, responsibility and sustainability.	Global presence in multiple but focused end use sectors; building scale both organically and inorganically. Performance Materials offer products that guarantee performance and safety, and solve industry problems through applying our vast textile expertise. Innovation in developing or acquiring new competencies and technologies – such as carbon and glass composites.	Thinking 'beyond the stitch line' to collaborate with internal and external stakeholders to repurpose our products into new ones and use machine learning and AI for new ways of operating – fit for the digital age. Innovation and big, bold game-changing ideas are crucial to our success. Industry leader in sustainability agenda, giving us competitive advantage as well as to support our customers' ambitious sustainability agendas.
Highlights	**-21%** Revenue decline due to significant Covid impacts Continued market share gains and customer wins **+6x** Increased demand for our EcoVerde product range	**-14%** Organic revenue decline due to significant Covid impacts Notable customer wins (e.g. in Transportation) Encouraging and improving trend with year-on-year organic sales exit rate down only 2% in November / December	At the start of 2021 we signed up to the Science Based Target initiative (SBTi), specifically to 1.5°C commitment and a longer-term commitment to achieving net-zero emissions by 2050 Continued Innovation focus – launched 22 new products, generating $13m of incremental revenue and with a rich pipeline of opportunities

For more information visit coats.com/investor.

Element	4. Track record of delivering continuous improvements and operational excellence	5. Track record of delivering free cash flow	6. Value-adding acquisitions
Which provides us as an organisation with:	Focused improvement programmes and experienced management to deliver margin and other financial improvements. Ensuring the Group is 'fit for purpose' and agile in the modern high-paced world.	Strong cash flow generation and high Return on Capital Employed (ROCE).	Ability to build scale in the strategic focus areas which are currently fragmented competitively.
Key attributes of this element	Productivity gains and procurement initiatives. Investing in energy / waste reduction to improve operational efficiencies. General cost and cash discipline around the organisation, in order to mitigate the impacts of Covid and safely navigate.	Balancing key cash demands of organic investment, pension schemes and shareholder returns.	Continuing to identify strategic acquisitions, including value-adding bolt-on acquisitions principally in the areas of highly engineered Performance Materials and software solutions for the Apparel & Footwear industry.
Highlights	**-$47m** Reduction in cost base (e.g. discretionary spend) in response to Covid impacts and lower demand **$16m** Productivity benefits across manufacturing and sourcing	**1.2x** 1.2x leverage (net debt excluding IFRS 16 / adjusted EBITDA) maintained at low end of target 1–2x range **$330m** Committed facility headroom of $330m providing significant liquidity (as at 31 December 2020)	Completion of Pharr HP acquisition delivering further scale and presence in the attractive US Personal Protection growth market

GROUP CHIEF EXECUTIVE'S STATEMENT

'DURING 2020 WE FOCUSED ON FOUR KEY PRIORITIES: THE HEALTH AND SAFETY OF OUR EMPLOYEES AND FAMILIES, CASH MANAGEMENT, SUPPORTING OUR CUSTOMERS AND MAINTAINING THE CRITICAL ELEMENTS OF OUR SUPPLY CHAIN. WE HAVE DELIVERED A STRONG OPERATIONAL PERFORMANCE DESPITE A VERY DIFFICULT GLOBAL BACKDROP.'

Dear Shareholder,
In response to the emergence of Covid, we quickly pivoted to focus on four key priorities: the health and safety of our employees and their families, cash management, supporting our customers and maintaining the critical elements of our supply chain. We moved quickly to procure PPE for all our facilities worldwide. We implemented protocols to ensure social distancing and enhanced hygiene and sanitation. We invested in new touchless technologies, enhanced medical care for affected individuals, as well as maintaining our operating platform and safeguarding jobs. Our culture and values meant that we worked as a team and I am proud of how the whole Coats family pulled together.

We entered 2020 with a robust balance sheet, with healthy levels of cash generation, and with comfortable headroom on our banking covenants. This meant we were in a strong position to manage through the period of Covid uncertainty, and we maintained a relentless focus on cash management, which included cash collections, reducing capital expenditure and cutting discretionary spend. As a result of these actions we saw encouraging cash generation in the second half, and ended the year as we started; with a robust balance sheet and comfortable headroom which gives us the platform and optionality to invest in the most attractive opportunities in the Covid recovery phase.

As we recover out of Covid, and in order to continue to support our longer-term growth strategy and further reinforce our strong environmental compliance credentials, we anticipate capital expenditure to be in the $35–40 million range for 2021. This includes around $7 million (alongside $5 million operating costs) in relation to supporting strategic growth initiatives primarily in our Asian operations.

Our customers remain at the heart of our approach and we will continue to dedicate ourselves to supporting our partners. Our long-standing and deep customer relationships with retailers and brands, and the 'peace of mind' we provide as a supplier have all remained crucial, as supply decisions factor in quality, reliability and reputation, and more increasingly speed and flexibility, as time to market has decreased. We continued to leverage our global footprint, flexibility, innovation and sustainability credentials and digital tools to deliver exceptional customer service, and saw continued share gains from customers in Apparel & Footwear (A&F) such as emerging online athleisure brands, growing Chinese sportswear players, and major manufacturing groups across Asia, as well as customer wins across all industry segments in Performance Materials (PM). We would not have been able to deliver this service to our customers without close collaboration with, and support from, the critical elements of our supply chain as we worked through the crisis together. These entrenched relationships, further strengthened through our shared Covid experience, place us well to succeed together in the recovery phase.

2020 results overview
We saw improving sales momentum through the second half, with the Group organic sales exit rate down 5% year-on-year for November and December versus down 26% in H1 2020 and down 15% for the four months to October 2020. We saw continued market share gains in A&F and customer wins in PM as priorities pivoted even more towards reliability, speed and flexibility during Covid. Adjusted operating profit was ahead of our previous expectations, with a solid recovery in the second half. Our ability to significantly flex our cost base meant our margins were resilient. Our balance sheet remains strong and we ended the year with gearing of 1.2x, which provides strategic optionality.

Purpose and strategy
We aim to connect talent, textiles and technology to make a better and more sustainable world. In A&F we will grow our market share by delivering innovative and value-adding product and service solutions to our global customer-base. In PM we are leading with innovation, developing highly-engineered products to create textile-based industry solutions for existing and new markets. We are also strengthening the core of our business by becoming even more customer-centric: this means we must relentlessly focus on the industry imperatives of speed, personalisation, innovation, cost, quality, reliability and sustainability. We are also investing in our employees so they can develop to their full potential within a safe, respectful and inclusive workspace. We will also maintain our disciplined use of capital to fund inorganic opportunities to build scale, and to acquire new capabilities, technology and talent. This strategy is underpinned by our strategic pillars of Digital, Innovation and Sustainability.

Strategic pillars: Digital, Innovation and Sustainability
Our strategic pillars of Digital, Innovation and Sustainability underpin our strategy and give us a competitive advantage. As with many existing trends, the Covid crisis has highlighted even further the critical need for digital adoption in our industry. We have benefited

GROUP CHIEF EXECUTIVE'S STATEMENT CONTINUED

from being ahead of the curve in this space as a result of our previous investments; both in terms of customer facing tools (e.g. sampling and online ordering) and a fully integrated and global ERP environment allowing us to align supply chains to the volatile environment caused by Covid. As part of our 'factory of the future' roadmap we complemented our camera network with Intenseye, a software using artificial intelligence and machine-learning to identify events and actions which could pose a risk to our employees, such as not wearing PPE or not social distancing. During 2020, we continued our investment in factory automation with a state-of-the-art pilot in one of our facilities in China, which we are expecting to complete by June 2021.

We remain focused on delivering high levels of customer service and creating innovative new solutions for our customers in order to deliver incremental market share over time. We launched 22 new products in the year, across both A&F and PM, and these delivered incremental sales of $13 million. Examples include a new engineered thread product for optimum down-jacket quality and a PFC-free environmentally friendly thread for outdoor performance-wear.

In PM we continued to build our Composites business with solutions for automakers, sporting goods manufacturers and the energy sector. For example, Coats used its unique expertise to work with one of the major US automakers to develop a carbon fibre composite that can replace existing steel load floors with comparable or better crash performance. This composite technology has many advantages compared to traditional fabrics such as reduced part cycle time, reduced investment and labour costs, minimised direct material costs and minimised waste and lower part costs, as well as a significant reduction in overall carbon fibre use.

Our innovation pipeline to deliver further incremental revenues in the future remains strong and we will continue to accelerate our innovation credentials and solutions in order to deliver tailored customer solutions to meet their design requirements.

We made good progress on our Sustainability agenda and are moving towards our 2022 targets, as set out in our latest Sustainability Report, despite some obvious disruption from Covid during the year. Demand for our EcoVerde product range (100% recycled threads) continued to increase at pace and revenues were up 6x year-on-year (to $37 million). We also recently committed to set science-based emissions reduction targets, across the entire value chain, that are consistent with keeping global warming to 1.5°C above pre-industrial levels. We have also committed to developing a long-term target to reach net-zero emissions by 2050, the highest level of ambition on climate under the Science Based Target initiative (SBTi). A key part of our Company purpose is to make a better and more sustainable world. We have already laid out an ambitious set of targets in our sustainability strategy. Making commitments like this to address our emissions builds on our sustainability strategy and demonstrates our resolve to be a role model for change in the area of climate change. For example, our continued commitment to upgrading our effluent treatment plants means that 74% of our effluent is now compliant with the Zero Discharge of Hazardous Chemicals standard both for effluent and sludge, up from 34% in 2019.

Dividend

As the Chairman has said, the Board is mindful of the importance of income to shareholders and as a result of the strength of the Group's balance sheet, the encouraging recovery out of the Covid pandemic, and its confidence in the strategy and outlook for the Group, is pleased to propose a final dividend of 1.30 cents per share (2019 final dividend: nil). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2021 to ordinary shareholders on the register at 30 April 2021, with an ex-dividend date of 29 April 2021.

Going forward, the Board will continue to aim to use the free cash flow the Group generates to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. As underlying earnings and cash flows continue to recover from the impact of Covid, the Board intends to return to its previously published progressive dividend policy.

Outlook

Throughout 2020 the Group moved quickly and prudently to put in place measures to underpin our future success and, through 2021, we will continue to invest in order to win the Covid recovery. We have a strong balance sheet, which provides strategic optionality and positions us well to navigate the ongoing challenging environment.

We remain cautious around the recovery profile of our various global end markets and will be vigilant regarding inflationary pressures within the supply chain. Notwithstanding this uncertainty we are encouraged by our improved trading performance towards the end of last year as well as in the first two months of this year, and the Board expects to see continued recovery through 2021.

Rajiv Sharma

Group Chief Executive

3 March 2021

OUR STRATEGIC GOALS

WE HAVE THREE STRATEGIC GOALS TO WORK TOWARDS IN ORDER TO ACHIEVE OUR VISION

To connect talent, textiles and technology to make a better and more sustainable world.

Goal	Description	Relevant risks
1. PROFITABLE SALES GROWTH	**Apparel & Footwear** Increasing our market share by delivering innovative and value-adding product and service solutions to our global customer base. **Performance Materials** Lead with innovative developments in highly engineered products creating textile-based industry solutions for attractive and growing end markets.	*Ever-increasing customer expectations *Appropriate talent and capability development *Economic and geopolitical *Health and safety
2. CONTINUING TO STRENGTHEN THE CORE	**Employee investment** Continued investment in the development of our employee capabilities so they can reach their full potential in a safe, respectful and inclusive workplace. **Customer centricity** Maintain focus to ensure we meet industry demand for speed, personalisation, innovation, cost, quality, reliability and sustainability in support of critical elements within the supply chain.	*Ever-increasing customer expectations *Appropriate talent and capability development *Cyber *Climate change *Environmental non-performance *Health and safety *Bribery and anti-competitive behaviour
3. VALUE CREATION	Disciplined use of capital to fund inorganic opportunities to build scale and acquire new capabilities, technology and talent.	*Mergers and acquisition scale ambition *Appropriate talent and capability development *Economic and geopolitical

*Refer to Principal Risks and Uncertainties on pages 34–44.

Our goals are underpinned by the following strategic pillars:

DIGITAL	INNOVATION	SUSTAINABILITY
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 to inform new ways of operating, fit for the digital age.	Innovation is at the heart of everything we do. We recognise that big, bold, game-changing ideas are crucial to our success. We continue to accelerate our innovation credentials and solutions to deliver tailored customer solutions to meet their design requirements.	Sustainability has long been at the core of how we do business and is a key driver of our strategic decisions. Our sustainability agenda is important to all our stakeholders. Not only does it give us a competitive advantage, but it also allows us to help our customers with their own sustainability agendas. For details refer to coats.com/sustainability, and pages 28–33 in this report.

KEY PERFORMANCE INDICATORS

Approach in 2020

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

During 2020 we continued to monitor our performance and progress using the consistent range of key performance indicators used in the prior year, each of which is a non-GAAP measure. For further details of how these financial Alternative Performance Measures are reconciled to the nearest corresponding statutory measure, see note 37 on page 176.

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2020 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.	**2020 – (19%)** **2019 – 1%** **2018 – 3%**	Significant impact on volumes due to Covid across both A&F and PM. Improving trend in H2.
Adjusted operating profit growth[2] Linked to our 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.	**2020 – (43%)** **2019 – 6%** **2018 – 23%**	Covid volume impact underpinned by quick and decisive action on cost base (e.g. discretionary trend).
Adjusted earnings per share growth Linked to our strategic goal 2	Annual growth in reported EPS from continuing activities, excluding exceptional and acquisition related items.	Measures the underlying progression of the returns generated for shareholders.	**2020 – (65%)** **2019 – 1%** **2018 – 21%**	Lower adjusted operating profits and higher underlying effective tax rate.
Adjusted free cash flow[4] Linked to our strategic goal 2	Cash generated from continuing activities less capital expenditure, interest, tax, dividends to minority interests and other items, and excluding exceptional and discontinued items, acquisitions, and UK pension recovery payments.	Measures the Company's underlying cash generation that is available to service shareholder dividends, pension obligations and acquisitions.	**2020 – 28** **2019 – 107** **2018 – 96** All figures are in $(m)	Lower adjusted profits mitigated by tight cost control in all areas of the business.
Return on capital employed (ROCE) Linked to our strategic goal 2 3	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.	**2020 – 22** **2019 – 42** **2018 – 43**	Lower adjusted operating profits alongside well controlled asset base.
Recordable accident rate (RAR) Linked to our strategic goal 2	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.	**2020 – 0.59** **2019 – 0.50** **2018 – 0.62** Work related injuries per 100 FTEs 2018 figure restated for delayed impact incidents	Broadly in line with previous years, however challenges were faced in H2 as a result of factories reopening and the subsequent ramping up of production in Q4.

KEY PERFORMANCE INDICATORS
CONTINUED

KPI	Definition	Why we measure this	Performance (% Year-on-year)	2020 commentary
Employee engagement score Linked to our strategic goal 2 3	Set a number global surveys using the Glint platform.	Measures the Company's performance in delivering an effective and efficient workplace culture and how proud and willing people are to work towards achieving common goals.	**2020 N/A** **2019 N/A** **2018 83%**	Whilst it remains a KPI, we moved to a 'continuous listening' model in 2019. These pulse surveys were evermore critical during 2020 given the upheaval caused by Covid.

Paying for Performance
The incentive plans used to reward the Directors and our senior managers include Performance Measures linked to our Key Performance Indicators. For more detail see the Directors' Remuneration Report on pages 79–95.

SUSTAINABILITY KEY PERFORMANCE INDICATORS

KPI	Definition	Why we measure this	Performance	2020 commentary
Water Intensity Target of 40% reduction by 2022	Litres of water used per kilo of finished production.	Water is a precious and often scarce resource.	**2020 – 78** **2019 – 83** **2018 – 83** Litres per kilo of production	We achieved a 6% reduction in 2020
Energy Intensity Target of a 7% reduction by 2022	kWh of energy used per kilo of finished production.	Energy is a significant cost to us.	**2020 – 8.9** **2019 – 9.2** **2018 – 9.2** kWh per kilo of production	We achieved a 3% reduction in 2020
Effluent quality Target is for 100% by 2022	Percentage of effluent that is compliant to ZDHC Foundational standards for effluent and sludge.	We need to make sure that water we use is returned to the environment in a good state.	**2020 – 74%** **2019 – 34%** % effluent that is compliant with standards (note that in 2018 sludge was not in the standards)	74% of our effluent was ZDHC compliant by 2020
Employment certification Target is for 80% by 2022	Percentage of employees in Coats units that have a Great Place to Work (GPTW) or equivalent certification.	Employee engagement is critical to our operations.	**2020 – 6%** **2019 – 19%** % of global employees covered by a GPTW certificate	We could not make progress in 2020, but will recover momentum in 2021.
Waste % Target is to reduce waste % by 25% by 2022	Percentage of materials used by Coats that are classified as waste at some point in our processes.	Waste generates lost value.	**2020 – 14%** **2019 – 16%** **2018 – 15%** Waste as a percentage of materials used	We have made good progress towards our 2022 target.
Sales of recycled material Target is for 100% by 2024	Percentage of premium product sales that are made with recycled material.	Recycled materials are more resource efficient.	**2020 – 13%** **2019 – 2%** **2018 – 0%** % of premium product sales made with recycled material	We are making good progress towards our 2024 target.

1. Revenue growth excludes contribution from acquisitions made during the period.

2. Adjusted operating profit growth excludes contribution from acquisitions made during the period.

STAKEHOLDER ENGAGEMENT

HOW WE CREATE VALUE FOR OUR STAKEHOLDERS

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

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

As a Company, we recognise that our responsibilities go far beyond delivering excellent returns to our shareholders. For us it is as much about confirmation that we are doing the right thing as it is about healthy profits. Our reputation as a Group is founded on always meeting the highest ethical standards.

STAKEHOLDER ENGAGEMENT
CONTINUED

Employees Our 17,000 strong workforce is at the heart of making our business a success and we recognise that listening to and engaging with our employees is essential to our continued success.	**How the Board engaged in 2020** Workforce engagement has always been a key priority for the Board and Fran Philip, Non-Executive Director, has been the Board representative for workforce engagement since March 2019. Site visits were not possible during 2020 but Fran attended our two Diversity and Inclusion Network calls, had four virtual meetings with our Cluster Managing Directors, as well as with representative groups from each of our Clusters. She presented her findings to the Board. In 2020, to close the feedback loop, we published a film internally in which Monica McKee, Chief HR Officer, interviewed Fran about her work in 2019 and plans for 2020. Feedback from employees is also heard via our pulse survey results which are shared with the Board bi-annually.
	What we learnt The themes from Fran's meetings with employees showed that they felt well taken care of during Covid because the company acted quickly and early to protect people and the business. It has been stressful for our employees to understand the new world but they are staying connected virtually both professionally and socially and want this to continue.
	What we are going to do in 2021 Fran will continue with her virtual meeting programme, with the aim of resuming face-to-face meetings in H2 if circumstances and safety allow. She will feed back to the Board in July and December.

Customers We have been helping to connect and form the fabric of daily life on our planet for over 250 years, and our global footprint provides unrivalled access to markets and customers.	**How the Board engaged in 2020** The Board does not routinely interact directly with our customers. Our primary method of understanding our customer needs is through feedback from management and the Board receives regular reporting on customer outcomes and customer related strategic initiatives throughout the year. Feedback from customers is generally obtained through our Innovation Hubs, trade shows, and customer visits. However, in response to Covid, management teams adapted communications to include a range of digital initiatives to continue to meet customer and market demands using a series of educational and informative webcasts and satisfaction surveys. The feedback from these sessions was positive.
	What we learnt During the pandemic many of our customers switched to manufacturing PPE, which we were able to support through our participation in the PPE Gerber taskforce. Looking ahead, the challenge for our customers is predicting the future of retail, including the continuing rise of e-commerce, and how supply chains post-Covid can be de-risked. We also learnt that speed and agility are key in times of uncertainty and the ability to adapt and offer solutions to support customers is a critical industry differentiator. The 'road to normal' will take some time to travel and our customers will need agile solutions to help them navigate through the storm.
	What we are going to do in 2021 We intend to continue our focus on areas of improvement that have been identified through improved education programmes and smarter use of technology.

Shareholders The Board maintains and values regular dialogue with shareholders throughout the year.	**How the Board engaged during 2020** The Chairs of the Board Committees engage with shareholders as and when appropriate and in 2020 the Chair of the Remuneration Committee liaised with investors in relation to the Remuneration Policy. You can read more about this in the Remuneration Committee Report on page 79. The traditional face-to-face methods of interacting with our shareholders were quickly made obsolete in 2020 as the Covid pandemic led to blanket limitations on travel. We quickly embraced virtual formats for all investor interactions, which included results roadshows, investor conferences as well as ad hoc group calls on specific topics (e.g. broker arranged 'fireside chats'). Whilst we do not expect the virtual format to ever fully replace face-to-face interactions, the quantum of investors we have been able to reach around the globe has increased as a result of us fully embracing the virtual format. In addition, we have been able to facilitate wider shareholder access to our Board / management through this virtual forum.
	What we have learnt Regular communication with our shareholders and prospective shareholders is even more important during turbulent times like those experienced in 2020. We released regular market updates during the peak of the pandemic and proactively engaged with our key shareholders to keep them updated on the developments in the business.
	What are we going to do in 2021 As the world begins to normalise post-Covid, and as physical travel begins to return to normal levels, we will look to return to a balance of physical meetings, whilst embracing the new virtual formats that became the norm during 2020. This will allow us to leverage the benefits from both physical interaction and the efficiency benefits of virtual interactions. Other key focus areas for 2021 will be to 1) introduce our new CFO (Jackie Callaway) and Chairman (David Gosnell) to our investor base, and 2) to continue to engage on key industry / investment case focus areas, such as ESG.

Environment Coats is working proactively with customers and suppliers to help them to improve the sustainability of their products, and to minimise the environmental impact of our industry.	**How the Board engaged in 2020** The increasing risk from climate change and the work done to assess this risk has led to a significant increase in the Board's engagement with the environment during 2020. In addition, the Board continued to engage in decisions around effluent controls and also supported the development of innovative new products designed to facilitate circular processing within the textile industry, where we have been working closely with key customers. The combined individual experiences and contacts of each Board member, outside their direct Board commitments, has also helped to inform such decisions, ensuring that the increasing interest in environmental issues from all other stakeholders is fully represented in Board discussions and in the Company strategy. We published our second Sustainability Report which detailed the progress towards our ambitious targets for 2022 and 2024 and included our first Communication on Progress (COP) as Participants of the United Nations Global Compact, and identified the environmentally-focused Sustainable Development Goals that Coats aspires to contribute to. At the start of 2021, Coats signed up to the Science Based Targets initiative under the more challenging Business Ambition for 1.5°C target and is committed to developing emissions targets that align to a low carbon future. Work already started with suppliers in 2020 to map our Scope 3 raw materials emissions and this will continue in 2021.
	What we learnt Our approach to protecting the environment is much more than just doing the right thing in the communities in which we operate. It is about enhancing our business and creating new opportunities to be more efficient and to innovate, developing better products and building stronger relationships with our customers, investors and stakeholders. We have to have long-term strategies in this area and, increasingly, look at the full life cycle impacts of our products.
	What we are going to do in 2021 The key areas of work this year will be around the development of Science Based Targets for emissions, ensuring that our use of chemicals and effluent treatment processes are delivering on our targets and ensuring that we are moving to product types that have a reduced environmental impact. A lot of these activities have to be done in concert with other organisations and we will support management to work collaboratively with external bodies. More details on the activities fully supported by the Board can be found in our Sustainability Report (refer to coats.com/sustainability).

STAKEHOLDER ENGAGEMENT
CONTINUED

Communities We operate in 50 countries across six continents and seek to understand and respect the needs of the communities in which we operate and to work together with them to our mutual benefit.	**How the Board engaged in 2020** Coats needs to work in partnership with the communities in which it operates. Our employees often come from those communities and we share the environment around ourselves and the resources it contains. The Board recognises the importance of working with communities, but does not have a lot of direct interaction with them, relying instead on information and feedback from management. Normally within Coats there are a large number of community engagement projects that happen within our businesses, but the need to restrict social interactions because of Covid has obviously severely limited these activities in 2020. After an initial focus on ensuring our employee health, safety and wellbeing, we extended our activities to our communities, providing information about the pandemic and how to combat it and also provided safety equipment and other donations to support communities. The Board discussed and was supportive of these actions.
	What we learnt Coats has longstanding and fruitful relationships with many communities in the countries where it has operations. During Covid these links have been strengthened through our supporting activities. We have seen the ability of the Company to act very rapidly to meet urgent needs – this was shown through the pandemic, but also in response to Hurricane Ida flooding in Honduras. Having had plans, pre-pandemic, to engage with a global partner to enhance our ability to deliver and measure high impact community interventions we are reviewing if this is still the most appropriate route forward for the company.
	What we are going to do in 2021 As we emerge from the pandemic we will be seeking to identify the most appropriate form of community engagement activities for the Company given that the situation facing communities around the world and consequently their needs might have been heavily impacted by the pandemic. Our strong commitment to engage proactively with communities continues. More detail on community activities can be found in our Sustainability Report and online (refer to coats.com/sustainability).

Suppliers We believe it is important that our suppliers are not only price competitive but also have a strong compliance, quality, service, sustainability and innovation ethos.	**How the Board engaged in 2020** Our long-term supplier partnerships are an important part of being able to innovate and offer trusted value to our customers. The Board maintains oversight of the management of our most important suppliers and our operating subsidiary boards regularly review and report on their performance. The Board and the operating subsidiary boards review the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approve our Modern Slavery Statement each year. One of the key pillars supporting this statement is our Supplier Code. We continue to engage with suppliers about our Supplier Code, and in particular with those identified as requiring improvement. During the pandemic we liaised continuously with suppliers to ensure that our payments were aligned to their requirements.
	What we learnt We have found that a focus on compliance-related issues is generally welcomed by our suppliers who do not see that this is an imposition, but regard it as helpful to ensure that their business is resilient. Training on our Supplier Code ensures standard processes are being followed and the refresher workshops we offer to suppliers are valued. Sustainability is an important part of any business strategy and suppliers are keen to work with us on this.
	What we are going to do in 2021 We will continue our engagement with our suppliers, providing support and guidance to ensure adherence with our Supplier Code, including running new workshops. The supplier portal will allow suppliers to measure their performance through a KPI scorecard and through our Innovation Hubs we will continue to drive supplier-led innovation. Our work on Scope 3 emissions will also extend the scope of our engagement with our suppliers.

SECTION 172 STATEMENT

As a Board, we seek to ensure that the decisions that we take in the boardroom in the interests of promoting the success of our Group are made with the appropriate consideration of our relationships with, and our impact on, our various stakeholders. The Board's intent is always to maintain high standards of business conduct and governance in all of the Company's operations, which is critical in maintaining our reputation for doing the right thing. We do not underestimate the importance of understanding our stakeholder expectations and needs to achieve our strategy and accordingly our long-term sustainable success.

On pages 18–20 we outline the ways that the Board has engaged with our six groups of stakeholders, what was learnt and how their input has shaped our decisions and what we will do as a result of this engagement. On pages 34–44 you can read about the ways we considered our stakeholders and the long-term impact of our decisions and our need to maintain high standards of business when considering our Principal and Emerging risks. Below, you can see how we ensure the correct balance of inputs into the decision making process and how the Board is able, in good faith, to make decisions that balance the factors set out in S172 (S172 Factors).

Board information

Leadership and management receive training on Directors' duties and best practice tips for writing Board papers to ensure awareness of the Board's responsibilities

Board papers identify key stakeholders and relevant information relating to them

Our Board continually engages with stakeholders. Read more on pages 18–20

Board strategic discussion

S172 Factors considered in the Board's discussions on strategy, including how they underpin long-term value creation and the risk implications for business resilience

Group's culture helps ensure that there is proper consideration of the potential impacts of decisions

Chair ensures decision making is sufficiently informed by S172 Factors and appropriately balances the interests of the various stakeholders

The Board reviews and probes the information presented and receives assurance where appropriate

Board decision

Outcomes of decisions assessed and further engagement and dialogue with stakeholders

Actions taken as a result of Board engagement

SECTION 172 STATEMENT CONTINUED

Case studies

Key strategic matter	Board information	Board strategic discussion	Board decision
Covid response	In March 2020, a meeting was convened to specifically discuss the impact of Covid and this was a Board topic for the remainder of the year. Detailed pre-read covering stakeholders and scenario planning was circulated in advance.	• Overview of key areas of pre-read • Review of supply and customer insights in Performance Materials and Apparel & Footwear segments • Review of financial impact scenarios and consideration of how these would impact the Group and key stakeholders in both the long and short term. The discussion also considered how to appropriately address the needs of the wider communities in which we operate	The Board agreed a set of key Group priorities focusing on continuing to ensure the health and safety of employees and contractors, supporting customers, maintaining critical aspects of our supply chain and providing supplies and training to our employees and the communities in which we operate.
Review of Group purpose	Detailed proposals presented at separate Board meetings that included key stakeholder feedback on Coats' core reason for being.	• Review of long-term fit with strategic aims, our reputation and business plan • Consideration of views of stakeholders including the importance of sustainability to community and the environment	The Board agreed the revised Group purpose 'to connect talent, textiles and technology to make a better and more sustainable world' focusing on the connections between our employees, customers and suppliers and our long-term value creation aims for our shareholders.

The Board has had regard to S172 Factors in all of its key decisions and you can read more about these as set out below:

S172 factor	Page	More information	S172 factor	Page	More information
The likely consequences of any decision in the long term	6 8 10 12 14 15 34	Market trends Business model Investment case Group Chief Executive's statement Our strategic goals Key performance indicators Principal risks and uncertainties	The impact of the Company's operations on the community and the environment	8 15 17 23 28 34	Business model Key performance indicators Stakeholder engagement Working responsibly Sustainability Report (refer to coats.com/ sustainability) Principal risks and uncertainties
The interests of the company's employees	8 15 17 23 28 34 52 79	Business model Key performance indicators Stakeholder engagement Working responsibly Sustainability Report (refer to coats.com/ sustainability) Principal risks and uncertainties Corporate Governance Report Remuneration Committee Report	The desirability of the Company maintaining a reputation for high standards of business conduct	8 14 15 17 23 28 34 66	Business model Our strategic goals Key performance indicators Stakeholder engagement Working responsibly Sustainability Report (refer to coats.com/ sustainability) Principal risks and uncertainties Audit and Risk Committee Report
The need to foster the Company's business relationships with suppliers, customers and others	6 8 10 14 34 45	Market trends Business model Investment case Our strategic goals Principal risks and uncertainties Operating review	The need to act fairly as between members of the Company	8 10 15 17	Business model Investment case Key performance indicators Stakeholder engagement

WORKING RESPONSIBLY

Highlights of 2020

- We deployed a structured response two weeks before the pandemic was declared
- Acting early to control the entry of Covid into our facilities and stopping the spread of the virus
- Widening our focus on health and safety into the communities in which we operate
- Rolling out new technology to further embed our health and safety culture by predicting potential incidents so we can stop them from occurring
- Using our new employee survey tool to pulse our employees on how they are during Covid
- Moving all of our learning and development into a virtual environment

Priorities for 2021

- Build manager capabilities, commercial and manufacturing excellence
- Roll out career mapping to help our employees own their career development
- Roll out Coats Link, our employee mobile app, to all employees for communication and access to our self-service tools
- Continue to develop and evolve health, safety and wellbeing plans for each Cluster
- Deploy our Living Wage action plan

PEOPLE

IN 2020, FOLLOWING THE RAPID SPREAD OF COVID AROUND THE WORLD, WE HAD TO QUICKLY ADJUST OUR PEOPLE PRIORITIES TO FOCUS ON OUR NUMBER ONE PRIORITY – HEALTH AND SAFETY

Health, safety and wellbeing

Health and safety has always been our number one priority and this has stood us in good stead as we rose to the challenges presented to us by Covid.

Our strong health and safety culture meant that we were quickly able to deploy a structured response to Covid – Preparedness, Prevention, Response, Recovery (PPRR) – and we did this two weeks before the pandemic was declared. Our cautious and proactive approach to keeping our employees safe continued throughout the year. Actions included:

- Rolling out artificial intelligence technology to our existing health and safety cameras to identify potential at-risk conditions and situations
- Encouraging employees to wear face masks and demonstrate their creativity through a Face Mask Fashion Show competition
- Closing all standalone offices to allow us to focus on the safety of our manufacturing employees
- Identifying and implementing social distancing best practice in all of our sites
- A global approach to re-opening manufacturing sites as lockdowns lifted including policies and guidelines about social distancing, hand sanitising, temperature screening, disinfecting, and re-setting factory layouts to include one-way systems and to allow for social distancing
- Restrictions on travel and visitors to our sites
- Using an internally developed mobile app to track and trace cases, enabling us to support any employees who contracted the virus, identify any employees at risk of catching it and prevent it spreading
- Introducing risk assessments for sales and customer visits
- Distributing over 29,000 health and safety kits to all employees, contractors and temporary workers with items to help keep them safe from the virus
- Regular awareness training and education sessions to help keep employees safe
- Creating a recovery matrix to carefully remove controls as the pandemic eases

It should be noted that the standardised risk prevention controls we had in place proved highly effective in minimising employee exposure inside the workplace, but despite these efforts, 14 employees contracted Covid outside the workplace and sadly died.

WORKING RESPONSIBLY
CONTINUED

3,000+
Employees accessed online training

40%
Increased training hours in Minerva (our digital learning library)

189
Learning Zones virtual training sessions

23
Learning Zones virtual training topics

Our health and safety efforts did not stop with our employees, we also extended them into the community, for example, by providing health and safety kits for our local communities, delivered 22 sessions in multiple languages offering information and support about Covid and, in India, provided hand wash stations to primary schools and police stations, Covid testing booths and sanitary gloves to health care professionals.

In addition to our Covid-specific actions, we also rolled out artificial intelligence technology to our existing health and safety cameras to identify potential at-risk conditions and situations. The technology supplements our existing hazard identification processes in categories such as slips, trips and falls, forklift movements or walkway obstructions; and can also help to protect our employees from Covid by checking that face masks are always used and social distancing is adhered to.

One effect of focusing all resources on managing the pandemic was that our programme of normal activities under our Journey to Zero strategy was interrupted early in the year, and as a result we saw an increase in incidents in our plants, with a consequent rise in the recordable incident rate. However, we have the processes and resources in place to understand where the issues are and in 2021, as well as continuing our fight against Covid, we will refocus our efforts on our Journey to Zero strategy, which was seeing encouraging results on our leading and lagging indicators before Covid struck.

Learning and Development
During Covid we took the decision to move all our training online. In 2020 our training portfolio consisted of continuing our most successful long-term programmes, introducing new courses to supplement those and specific Covid-related courses.

In 2020, our employees increased their training hours in Minerva, our digital learning library, by nearly 40%. More than 3,000 employees accessed 1,700 online courses across 13 topics including growth mindset, conflict management, improving performance and change management. Our Management Capability Development programme has also continued with two cohorts in EMEA and the US taking part in the blended learning programme consisting of eLearning, webinars, psychometric assessments and coaching. In 2020 Our Supervisory Skills training remained in place with short webcasts on 12 topics from ‘Building the Team’ to ‘Relating to Others’.

MORE THAN 3,000 EMPLOYEES ACCESSED 1,700 ONLINE COURSES ACROSS 13 TOPICS

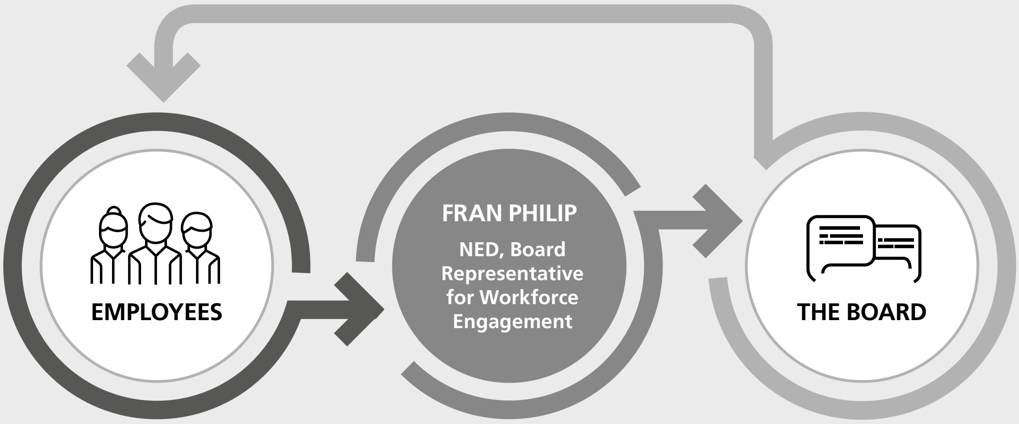
We have built on our Learning Zones concept that launched in 2019 and delivered 280 training hours in seven languages in 2020 via this very successful format. As well as general topics such as Emotional Intelligence and Collaborative Negotiations we offered Covid-specific courses such as Productive Remote Learning. Significantly, for the first time, we extended one of our courses ‘Wellbeing for Coats Families’ to family members of our employees to support them during the Covid pandemic.

New for this year has been Subject Matter Expert training which is a series of peer-to-peer sessions led by internal experts. We ran 14 sessions for more than 300 participants across topics such as Project Management and Data Analytics.

BOARD ENGAGEMENT WITH THE WORKFORCE

Introduction

Fran Philip was appointed Board Representative for Workforce Engagement in March 2019. In that year she was able to meet with a number of employee groups face to face. In 2020, due to the Covid pandemic, Fran shifted nearly all of her meetings online and took the opportunity to talk to even more employees about their experience of working at Coats and what matters to them.



The process

- Due to uncertainty of the Covid pandemic, most meetings were postponed to H2
- Fran had a face-to-face meeting in February with employees in the UK about Coats' culture
- Fran had four virtual meetings with our Cluster MDs
- Fran hosted 20 virtual sessions with more than 250 employees in 21 countries, 35 locations
- Fran also attended our two Diversity and Inclusion Network calls in the year which were each attended by a global group of around 200 employees
- Fran summarised her findings to the Board in July and December 2020

Focus during the period

The focus of the employee engagement sessions naturally related to Covid. The topics of discussion can be grouped into four key areas with health and safety as an overarching theme.

- Coats response to the pandemic – employees were impressed with the speed and decisiveness of our response, they felt a sense of clarity, saw the advantages of Coats being a global organisation and were positive about communication
- Support – employees felt cared for during the pandemic. In particular, they were impressed that there were no job losses, that training was more accessible than ever, that Coats distributed health and safety kits to all employees and that the care did not stop at employees but was extended to employee families and the community
- Need for connectivity – employees spoke about the importance of connectivity not just at work but also in their personal lives, virtual coffee hours received positive feedback as a way for people to catch up with each other and socialise. There was also recognition that all the investments that Coats had made in technology in previous years gave the Company a huge advantage
- High stress – employees spoke about the difficult and challenging circumstances that came with Covid and the ever-changing rules and protocols, the fear they felt, and the different types of stress that were present whether they were working from home or on site, furloughed or continued working throughout

Actions in response

Looking forward to 2021, in response to feedback in the employee engagement sessions, we will look to build on the following areas:

- Technology and working from home support
- Recognition
- Communication
- Virtual learning
- Sharing of ideas

In H1 2021, Fran will continue with her virtual meeting programme with the aim of resuming face-to-face meetings in H2 if circumstances and safety allow. She will feed back to the Board in July and December.

WORKING RESPONSIBLY CONTINUED

91%
Employees agreed / strongly agreed that they understand the Company's priorities, tactics and actions

89%
Employees agreed they are confident in the future of Coats

14
Office reopening surveys conducted around the world

65%
Expected number of employees to be working in a hybrid approach

Communication
Our well embedded internal communications strategy meant that the foundations were in place to adapt to the new and fast-changing circumstances presented to us by the Covid pandemic. The communications strategy needed to support Covid required a dramatic reduction in the usual timescale of communications development and production to ensure messaging was available as soon as it was agreed. While making use of our long standing and successful communications channels we also introduced new channels and platforms and creativity to enable agile communications delivery while achieving our objective of developing timely, relevant, informative and engaging messages for everyone.

For the first time in 2020, using new technology, we widened our existing regular leadership team conference calls to all wired employees to help align everyone with our Group-wide priorities and share progress against them. We also used these calls as an opportunity to remind people how to stay safe during Covid.

In addition to these wider conference calls we introduced a new eNewsletter called Navigating the Storm: Winning the Recovery to provide regular updates to our people on each of our priorities. This was accompanied by a briefing pack to support leaders to share the updates with our front line employees.

Also in 2020 we piloted a new employee mobile app. Forming part of our wider employee experience strategy, the app has the potential to allow us to directly communicate two way with all our employees in their own language. In the app we are able to share both global news and locally targeted content as well as increasing engagement through interaction on our virtual community wall and providing access to our self-service HR tools such as annual leave booking.

Listening to our people
In 2020 we had planned to run a full Employee Engagement Survey as well as move to a model of 'continuous listening' via a series of pulse surveys. Unfortunately, due to Covid we had to postpone the full engagement survey to protect the safety of our frontline employees who do not have access to their own computers. However, we ran a series of pulse surveys with our wired employees. In the early months of the pandemic we asked them about our response to Covid, our communication, whether they have the resources they need and about their wellbeing. Results across the board were positive as they were in the other surveys that we ran – one to test understanding of, and alignment with, our Company's priorities, and for some of our locations we also ran surveys to find out how people feel about returning to the office.

Thanks to our investment in technology over the last few years we were well placed to make the change to flexible working at the beginning of 2020. During the year we also formalised our approach to this by publishing our Global Flexible Working Guidelines. Based on the feedback we received in the pulse surveys we expect around 65% of our office-based employees to be working in a hybrid approach and splitting their time between working in the office and remotely.

45

In the recent Hampton-Alexander Review, Coats is now ranked 45 in the FTSE 250 category, with 40% women on the Board, in addition to 34.2% combined Executive Committee and direct reports

Diversity and Inclusion

Our aim is to promote a workplace environment that is inclusive, respectful and diverse. We believe that diversity of all sorts in the workplace should be encouraged and supported, and as such, we remain committed to increasing the diversity of our workforce and despite the Covid pandemic, continued to take action in this area.

Inclusion has been evermore important during Covid and our approach drove even greater inclusion by inviting more people to participate in calls and meetings using Teams and reaching out to families of employees and the communities in which they live. With so many people working from home it was important that people remained connected and we were able to support this through our communications as well as through our Learning Zone sessions and encouraging line managers to keep in touch with their teams regularly. Throughout all of the training courses we ran in 2020 we ensured that there was a good representation of both men and women. In addition, we continued to run our Diversity and Inclusion Network calls and held two in the second half of the year. These were well attended and covered subjects such as our response to the Black Lives Matter movement and how we were supporting inclusion. Fran Philip, our Non-Executive Director who is the Board Representative for Workforce Engagement attended both these calls as well as meeting virtually with our Managing Directors and holding more than 20 virtual sessions with representative groups from all our clusters.

Highlighting our commitment to diversity, we were delighted that in 2020 our Brazil team was recognised as a great place to work for women. We are also proud of our progress on gender diversity. The recently published Hampton-Alexander Review of FTSE Women Leaders has ranked Coats at number 45 in the FTSE 250 category.

OUR AIM IS TO PROMOTE A WORKPLACE ENVIRONMENT THAT IS INCLUSIVE, RESPECTFUL AND DIVERSE

Looking forward to 2021

As we look forward to 2021, as well as continuing our laser-like focus on health and safety we will aim to roll out some of the wider employee experience initiatives that we needed to postpone while we navigate the Covid storm and resulting economic shock. These will include career mapping to support employees to own their career development; embedding flexible working; rolling out our employee mobile app to support wider two-way communication and access to self-service HR tools; continued development of our pulse and engagement surveys for all employees; expanding our community engagement activities; and continuing our online learning offer as well as bringing a renewed focus to building manager capability. We expect all these actions to culminate in Great Place to Work (GPTW) certification and awards. Our target is to have over 80% of our employees working in GPTW certified locations by 2022. In 2020, because of Covid restrictions, we achieved 6%.

WORKING RESPONSIBLY
CONTINUED

Highlights for 2020
- Developing our first products to promote circularity
- Committing to developing Science Based Targets
- Strong absolute and relative progress in FTSE4Good Index

Priorities for 2021
- Develop and get approval for Science Based Targets
- Accelerate progress towards targets post-Covid impacts
- Develop full circular economy strategy
- Prepare for external verification of data

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

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

SUSTAINABILITY

Sustainability Strategy
We launched our five pillar sustainability strategy; Pioneering a Sustainable Future, in 2019, through our Annual Report, our first standalone Sustainability Report and on our website. We have now completed two years of that ambitious four year strategy, and are documenting here, in our third Sustainability Report and on our website our progress towards our targets while also reviewing the strategy itself. Our strategy was originally based on our 2017 materiality assessment.

We do these assessments biennially and in 2019 we completed a new review and found that, while there had been some significant changes in the materiality of some issues, the strategy still reflected well the material issues for our business and our stakeholders. Normally we would not anticipate doing another assessment till late in 2021 but, because of the significance of global and industry events in 2020, we have brought the next review forward to early 2021, especially so that we can factor in the emerging longer term impacts such as those of the Covid pandemic and growing climate change awareness into the assessment at an early stage. It was already noticeable that in our 2019 assessment both employee and community related issues gained in importance, as did climate change, and we have already been reinforcing actions in these areas as a result. We expect the events of the last year to lead to a further strengthening of these trends. The new assessment will follow the same process as the 2019 one, developing a list of issues, assessing them for relevance to our commercial goals (Profitable Sales Growth, Strengthening the Core and Value Creation) and for importance to each of our key stakeholder groups (Employees, Customers, Shareholders, the Environment, Communities and Suppliers). The mapping of our top 10 issues, as identified in our 2019 assessment, to our sustainability strategic pillars is shown below.

Our Priority Areas

WATER	ENERGY	EFFLUENT & EMISSIONS	SOCIAL	LIVING SUSTAINABLY
Managing a precious resource wisely	Renewables for a sustainable future	Working for a cleaner world	Safe and sustainable workplaces and communities	Protecting our planet

2019 Materiality Assessment top ten issues

Water consumption	Energy consumption	Environmental compliance, Environmental footprint	Talent attraction, Business ethics, Employee engagement	Materials, Waste, Brand management

Water usage
(litres per kg of production)

* 2018 and 2019 restated to exclude NA Crafts and include HP Pharr (acquired on 10 February 2020).

Energy use
(Kwh per kg of production)

* 2018 and 2019 restated to exclude NA Crafts and include HP Pharr (acquired on 10 February 2020).

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

+ Based on supplier information, partially certified.

* 2018 restated to exclude NA Crafts and include HP Pharr (acquired on 10 February 2020). Prior years not restated.

Emissions intensity
(tonnes CO_2e/$m sales)

* 2019 and 2018 data has been restated to exclude NA Crafts (sold on 20 February 2019 and to include HP Pharr (acquired on 10 February 2020). 2017 has not been restated.

In 2019 we joined the United Nations Global Compact (UNGC) as a Participant, after our Board confirmed their full commitment to the Ten Principles of the UNGC, and to promoting action to deliver the United Nations Sustainable Development Goals (SDGs). This year the Board has reconfirmed their commitment to the UNGC Principles and the SDGs and the Company has renewed its Participant membership. During the year the Company actively participated in a wide range of activities organised by the UNGC Network UK, and is a member of a number of working groups within the Network.

Our 2019 Sustainability Report was our first formal Communication on Progress (COP) as UNGC Participants, and our 2020 Sustainability Report is our second COP, formally renewing our commitment and reporting on our actions and outcomes in support of the Principles, covering human rights, labour, the environment and anti-corruption and on the seven SDGs that we believe we can materially impact: 3 Good health and wellbeing, 5 Gender equality, 6 Clean water and sanitation, 7 Affordable and clean energy, 8 Decent work and economic growth, 12 Responsible consumption and production and 13 Climate action.

Water

We use water mainly for dyeing our products. It is used both as a medium for applying dyes, rinses and washes to our threads, but also, as steam, for heating these same processes. Elsewhere in our processes we use it for humidification, chilling and curing processes. We believe that in the long term much of the water use in dyeing can become unnecessary through the development of new, waterless dyeing technologies and our investment in Twine in 2018 was partly aimed at helping them to develop digital dyeing technology, which is one promising waterless technology. We now have one Twine dyeing machine in our Turkish Innovation Centre which is being used to do joint development work with Twine, leading towards the industrial integration of their technology into our industry.

Alongside supporting these new technologies, our goal is to continue to reduce our use of water in order to safeguard this vital resource. Our ambitious goal is to reduce our water use intensity (litres per kilo of production) by 40% by 2022 against our 2018 baseline. We are aiming to do this by identifying areas where water use is excessive or unnecessary and by modifying processes to reduce their reliance on water. Our goal was always challenging, requiring an acceleration of progress compared to the 28% water use reduction we achieved in the period from 2013 to 2018. We are pleased that we have managed to maintain progress notwithstanding the pandemic disruption to our business in 2020, but we recognise that we were not able to complete all the projects that we had planned and hence make as much progress as we had anticipated. We have continued to refine and improve our water balance analyses of water consumption enabling us to identify savings opportunities at unit level and to share good practices between units. By 2020 our water usage dropped by 6% against 2018. Because many of our plants were operating at reduced rates during the pandemic, water use efficiency was negatively impacted and this figure consequently understates the actual progress made.

Energy

Our energy use is split fairly evenly between electrical energy (mainly used for powering process motors) and fuels that we burn to generate heat for use, mainly, in dyeing. Spinning and twisting uses the bulk of our electrical energy to power the large motors used in those processes. Dyeing, which requires high processing temperatures, and uses large pumps for water circulation and also a lot of energy for drying, is our most energy intensive process overall, as it consumes most of our fuel energy plus a substantial part of the electrical energy. Finishing winding and yarn coating processes and ancillary activities such as warehouses and offices make up the remainder.

WORKING RESPONSIBLY
CONTINUED

Many of the energy saving projects that we planned to do during 2020 were completed notwithstanding the pandemic disruptions, but some important projects did have to be suspended and will be actioned in 2021. Against our target of a 7% reduction in energy use (kWh per kilo produced) by 2022 compared to 2018 (which compares to a 22% reduction in the six years to 2018) we registered a 3% improvement in 2020. However, this result slightly overstates the underlying progress. Because of the production imbalance during the year, we were obliged to compensate for the reduction in our own spinning output by additional external sourcing of semi-finished products, so some energy consumption that we would normally register in-house has transferred to our suppliers. This is already correcting itself as our production balance recovers and will see a small part of the apparent energy progress made in 2020 reverse during 2021. Nevertheless, we are confident that the work already done and our plans will enable us to achieve our target.

Also within our energy pillar there is a target to shift as much as possible of our sources of energy to certified renewables. All our energy contract renegotiations are now used as an opportunity to switch to renewables, and we are making progress. During 2020 we negotiated a contract for supply of all of our Mexican electricity needs (about 7% of our global demand in a normal year) from certified renewable sources from mid 2021, and we have also signed agreements in Romania for certified renewable electricity and in Colombia where the supplier has committed to provide us with certificates when they are available, (the energy we use there is from hydro plants and most are not yet certified renewable). As the situation in each country is different we have to assess the appropriate approach to take country by country.

Effluent and Emissions
As a significant user of energy, Greenhouse Gas (GHG) emissions are a key and growing concern for us. Our approach to managing the risks around climate change are described in the risk section of this report. To ensure that we are doing our bit to avoid damaging climate change we have committed to the Science Based Targets initiative (SBTi) under the more challenging Business Ambition for 1.5°C target and will be working to develop our absolute emissions targets under this commitment during 2021. This will ensure that we have targets that are in line with the higher ambition Paris COP 21 targets of a 1.5°C temperature increase. The shift of our energy to renewable sources will undoubtedly be at the core of our roadmap to achieving these targets. In 2020 we achieved a reduction of 3% in GHG emissions intensity and a reduction of 20% in absolute GHG emissions compared to 2018. Because of the reduction of production in 2020 caused by the pandemic the absolute emissions reduction is not representative of the improvement, while the emissions intensity is also impacted marginally by the production imbalance noted above in the energy section.

While our long-term vision is to cease to use water for dyeing, as long as we continue to use water-based technology we will need to carefully manage our effluent to avoid detrimental impacts on the environment and to ensure that the water we discharge can be used by others where necessary. Since 2011 all of our units have been working to a stringent, internal set of effluent standards. We have now, since 2019, replaced these with the Zero Discharge of Hazardous Chemicals (ZDHC) standards. We joined ZDHC in 2016 as we recognised that this association was gathering momentum across the textile industry offering, for the first time, the goal of creating common standards that would be applicable across the whole industry. Our target is to have all units meeting the ZDHC standards by 2022, and thanks to the work already done over 75% of our effluent was compliant by the end of 2020 (60% in 2019). Late in 2019 the ZDHC standard was updated to include sludge test results as well as effluent. Parts of standard effluent treatment processes are aimed at precipitating out from the effluent those chemicals that cannot be eliminated. These then end up in the sludge, so sludge results can be less compliant than effluent. Nevertheless, in 2020 92% of our sludge was compliant with ZDHC targets, giving us an overall compliance rate of 74%. While there is a continued investment programme in our effluent plants, continuing to address the sludge is as much about finding ways to avoid putting the chemicals in the water in the first place and we have a programme underway with our main dye and chemical suppliers to explore new processes that achieve this. Ensuring that all our units are capable of meeting the required limits is important, but it is equally important to ensure that effluent treatment plants are working consistently and to ensure this we installed, during 2018, automated measurement systems in all of our key units. These take measurements of core parameters every 30 seconds and issue automated warnings if the systems begin to approach control levels. We also piloted, in 2019, a system that automatically shuts off discharge if a standards breach is likely and plan to install this across other units in 2021.

Social
Due to Covid, we increased the focus placed on the health and safety of our employees and the communities in which they live, and as a result have extensively reported on our social activities under the Working Responsibly – People section. Refer to pages 23–27.

Living Sustainably
We have two core targets here. The first is to convert all of our premium polyester products to using recycled raw materials by 2024. Notwithstanding significant supply and demand disruptions caused by the pandemic in 2020 we were able to continue to make strong progress, and achieve a level of 13% compared to 2% in 2019. This has been achieved mainly by using high quality recycled material from drinks bottles. We still have a long way to go to reach our target and to get there we will almost certainly need to start

using waste from other sources, our goal being to use textile waste and hence work in a circular economy. We are already working on projects in this area, but there are still many significant hurdles to overcome.

Waste reduction is our other target, with a goal of reducing by 25% in 2022 from our 2018 baseline. The completion of the introduction of a new and comprehensive waste reporting catalogue in 2020 has caused us to restate our baseline including a number of non-product or process related wastes that were not captured previously. During 2020 we have reduced our waste percentage against this revised baseline by 8%.

Sustainability management
Sustainability at Coats is led by the Board and is championed by the Group Chief Executive and the whole Group Executive Team (GET). Delivery of the strategy is managed by the Sustainability Delivery Team (SDT). This is led by 3 members of the GET, the Chief Legal & Risk Officer and Group Company Secretary, the President, Business Operations and the President, Apparel & Footwear. The Head of Sustainability manages the SDT which comprises around 25 other members from a range of functional areas working in four subteams. Each of these has a designated area of responsibility for delivery of SDT workstreams or representation for stakeholders in the SDT. There are then a large number of people in the organisation associated to the SDT via their participation in projects related to sustainability. We are clear that delivery of our Sustainability Strategy requires the participation and support of the whole organisation. The SDT meets monthly, and there are a number of subteam meetings as per the needs of their workplans. Underpinning all of our sustainability efforts is a deep commitment to running our business in an ethical, responsible and transparent way. We expect our employees and our suppliers to behave ethically in all their dealings relating to our business. All our senior employees and those with customer or supplier facing roles receive regular training in ethics and compliance, including on modern slavery. These training programmes, available in 12 languages, form part of the induction for new starters and are done biennially for all relevant employees. This training was repeated in 2020, and was delivered to over 4,200 employees during the year. We support the United Nations Guiding Principles on Business and Human Rights in all our operations. Underpinned by our global policies, we uphold the requirements of the United Nations Declaration of Human Rights and the Convention on the Rights of the Child, the core International Labour Organisation Conventions and The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises. We uphold the aims of the California Transparency in Supply Chains Act of 2010 and the UK Modern Slavery Act 2015 and publish on our website a statement on our actions to prevent modern slavery in our operations and in our supply chain.

Reporting
Our goal is to make our sustainability reporting as clear and transparent as possible, and we fully support the aims of the Taskforce on Climate-related Financial Disclosures (TCFD) and are progressively including their recommendations into our reporting. During 2020 we have been developing Board and management governance structures and these will be completed during 2021 as we deepen our focus in this area. Having done a first iteration of scenario risk analysis the initial impact of this on our strategy is apparent through our commitment to Science Based Targets, but the full integration will happen on the back of the deeper financial analysis we will do in 2021. Our adoption of scenario-based risk analysis at a qualitative level during 2020 has shown that our risk management process is robust and the second iteration with a more financial focus will embed this into our processes further. Finally, we are already committed to developing full emissions disclosure and targets during 2021 and the financial analysis in the risk review will determine if there are other metrics apart from emissions that we need to be tracking. With the above actions underway we are confident that we will be able to make full TCFD disclosures in 2021.

We want to make it as easy as possible for all of our stakeholders to understand the sustainability profile of our business. Each year we are broadening the scope of our reporting and making it easier for interested parties to find the information that they need. A full data pack that contains all our published sustainability data is available to download on the sustainability section of our website. We have used the Global Reporting Initiative (GRI) reporting guidelines since 2011 and this year again we report against the latest version, the GRI Standard. A full mapping of our report against the GRI Standard is available on our website, and we have also developed and made available again this year a mapping of our data against common Environmental, Social and Governance (ESG) criteria.

WORKING RESPONSIBLY
CONTINUED

Non-Financial Information Statement

	Policy	Description
People principles	Health and Safety Policy	This policy outlines our commitment and actions for the prevention of injury and ill health, and ensuring health and safety excellence across our business.
	Ethics Code	The purpose of the Ethics Code is to ensure that employees across Coats have a clear understanding of the principles and ethical values that the Company wants to uphold. It applies to all employees in all Coats Group companies globally.
	Whistleblowing Policy	The policy outlines the reasons for maintaining high standards of ethical and legal business conduct and describes the procedures for reporting acts which are thought to contravene these standards. Also outlined are the actions to be taken by the Company.
	Employment Standards	As a global employer, Coats strives to follow ethical employment standards and believes the human rights of its employees at work are an absolute and universal requirement. Coats subscribes to the United Nations Universal Declaration of Human Rights and the Convention of the Rights of the Child.
	Equal Opportunities Statement	The Company supports equal opportunities in employment and considers it to be an integral part of our employee relations policy.
	Modern Slavery statement (including a statement on transparency in supply chains)	This statement has been prepared for the year ending 31 December 2020 and is in accordance with the requirements of the UK Modern Slavery Act 2015 and the California Transparency in Supply Chains Act of 2010. Furthermore, we support the United Nations Guiding Principles on Business and Human Rights throughout all our operations.
	Living Wage Policy	The Committee also reviewed and approved the adoption of a policy to establish a minimum Living Wage, as an enhancement to any local legally mandated requirements, across all of our locations and based on sourcing data from independent organisations.
Governance	Anti-bribery and Anti-corruption Policy	This policy outlines the control of actual and suspected corruption and bribery within Coats, and the processes to be followed in the event of actual or suspected instances of corruption or bribery being discovered.
	Gifts and Entertainment Policy	This policy sets forth the rules related to employees accepting and offering gifts, entertainment, hospitality and meals from and to current customers, suppliers, joint venture partners, brand representatives and others conducting (or proposing to conduct) business, directly or indirectly, with Coats.
	Competition Law Policy	This policy supports Coats' commitment to observing and complying with all applicable competition laws, rules and regulations wherever it operates around the world while acting with the highest ethical standards, in an open and honest way.
Suppliers	Supplier Code	The Supplier Code outlines our expectations required of suppliers and covers labour practices, environmental management, responsible sourcing of materials and products, and business conduct.
	Restricted Substances List	As part of Coats Product Safety programme, we require that all Coats' suppliers of raw materials, dyes, chemicals and packaging materials meet the highest standards appropriate for their end use. A comprehensive list of restricted chemicals is revised and reissued to all of our material suppliers every year.
	Conflict Minerals Policy	Coats is committed to the responsible sourcing of all raw materials and purchased goods and we continually review our approach to ethical and sustainable supply chain management. This policy refers specifically to our approach to avoiding 'Conflict Minerals' entering our supply chain and supplements our wider supply chain management standards.

	Policy	Description
Environment	Environmental Policy	We take our responsibility to the environment very seriously and this policy lays out our approach. Coats senior management has defined objectives and targets to ensure that we deliver on this policy and additional details on progress can be found in our Sustainability Report.
	Animal Welfare Policy	Materials sourced from animals are present in a tiny proportion of our products (less than 0.01% of sales). Nevertheless, the policy covers all the materials and products we buy, and special attention is given to Angora and Merino wool, as they can raise specific ethical concerns.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Overview

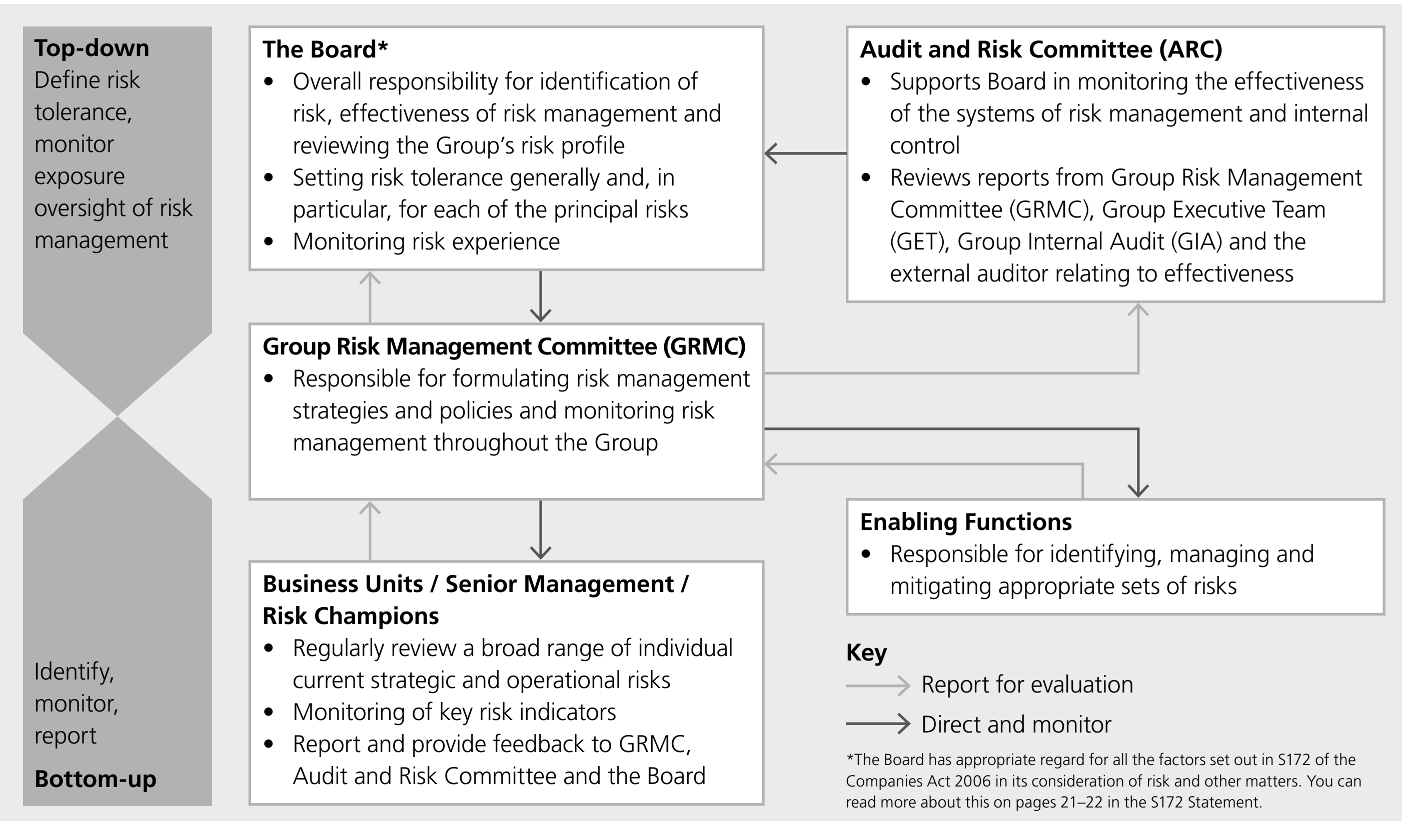
Risk is inherent in all business activities and as a global industrial manufacturer, we maintain a comprehensive risk management framework that serves to identify, assess and respond to such risks.

Our approach is focused on the timely identification of risks and related opportunities, combined with their appropriate mitigation and escalation. We have embedded throughout the Group the structural means to identify, prioritise and manage the risks involved in all of our activities, including through consideration of those risks on a combined basis (as was clearly the case when considering and managing the various potential impacts of Covid).

This enables us to run our business effectively and deliver our strategy in the knowledge that the likelihood and / or impact associated with such risks is understood and managed within our risk tolerance.

Governance structure

The Group is constantly alert to new and emerging 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. The current unpredictable environment presents us with heightened levels of risk. In order to address that as swiftly and efficiently as possible the membership of the Group Risk Management Committee has been extended to include the Managing Directors of the seven geographical clusters within the Group (which will further enhance the joining up of the top-down and bottom-up approach set out in the chart below). Additional relevant subject matter experts are invited to contribute to discussions on specific issues such as cyber security, effluent treatment, specific people-related issues etc.



*The Board has appropriate regard for all the factors set out in S172 of the Companies Act 2006 in its consideration of risk and other matters. You can read more about this on pages 21–22 in the S172 Statement.

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 2020, 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 'Doing the Right Thing' at both Group and local levels. Ethics and integrity, along with health and 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.

Ethics training has continued throughout 2020 and we have been even more inclusive. As we moved to a remote working environment, we took advantage of the technology we have and we leveraged the opportunities of remote working. We increased the number of people attending our training sessions and since there was no necessity to travel, we extended training to more people across the business. Our programme of 'Doing the Right Thing' continued with the use of different forms of technology. We used tools such as Teams and Yammer to communicate with our workforce which drove greater understanding, engagement and transparency amongst employees across the Group.

Risk tolerance structure

Our well established and embedded risk tolerance structure 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
- High Degree of Risk Tolerance: where we are willing to take significant financial risk to achieve our objectives. Mitigation involves an active management of risk-return trade-offs

Identification and management of risk

Understanding the risks that our business is exposed to, and deploying strategies that ensure residual exposures remain within acceptable parameters, is key to managing our business well. Our risk framework is based around four categories of principal risks (strategic, external, operational and legacy), as well as key and emerging risks which are used to build the Group Risk Register which is managed by our GRMC. Minutes from this Committee are reviewed by the Audit and Risk Committee (ARC). We also ensure that, beyond specific risk deep dives, risks are appropriately considered in the decisions that are made at Boardroom level – see S.172 on pages 21–22.

During 2020, the ARC and the Board received a number of presentations from senior executives on a number of risks including the principal risks, and gave input on the steps planned to mitigate these risks. The risks are considered not only in isolation but also the correlation between risks and the likelihood of one risk occurring at the same time as another or even triggering it, and the potential combined impact of that and any further mitigating actions that can be taken. In 2020, the Board reviewed the effectiveness of the Company's risk management and internal controls. A significant amount of recurring reviews over the Group's key internal controls and mitigating actions, including their linkage to managing the Group's principal risks appropriately took place. Examples include: standing and regular updates from the CEO / Group Executive Team to the Board on H&S, People, Performance, M&A and legal matters. There are also regular Board deep dives into specific risks, e.g. Cyber Security in July; Economic Risk in September; and Climate Change in October. The identified principal risks for the Group form a key part of the work performed in the above reviews to ensure that the most pertinent risks are being regularly monitored on a day-to-day basis, with findings on this reported to the ARC and Board for review, input and direction. Based on the principal and key risks of the organisation, our Group Internal Audit (GIA) team updates and embeds the relevant Group risks in its audit process, for instance, compliance with anti-bribery and corruption requirements as well as health and safety requirements.

Every quarter, GIA reviews the Group Risk Register and local Risk Registers from the cluster management committees. This review includes an assessment of the risk management practices of the business units / clusters in areas such as the frequency and adequacy of the cluster risk management committee meetings, minutes of the meetings and following through on actions contained in the local risk register. This provides an assurance that the risk management exercise is carried out regularly throughout the Group and that the risks are reviewed and kept up to date by the respective stakeholders. These updates / key highlights are then presented and discussed in the GRMC meetings. Taking the insights from these GIA and business unit / cluster risk management activities and focusing on the risks that may impact the strategic objectives of Coats, the Board has defined 11 principal risks, as well as a number of key and emerging risks within that Group Risk Register.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

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

PROMOTED	Climate change risk has moved from being categorised as an emerging risk to a principal risk to better reflect its primary importance for the Group and its various stakeholders.
PROMOTED	Risk of ever-increasing customer expectations has moved from being categorised as a key risk to a principal risk to reflect its important role in the Group's strategic growth ambitions.
PROMOTED	M&A scale ambition risk has moved from being categorised as a key risk to a principal risk to reflect its important role in the Group's strategic growth ambitions.
FROM DECREASING TO INCREASING	The risk trend for health and safety has increased from decreasing to increasing in light of Covid.
DEMOTED	Risk of supplier non-performance and / or unavailability and / or price increases of raw materials has been demoted in light of the manner in which the executive team managed and mitigated this risk.

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 constantly changing broader risk environment, under ongoing review.

Principal risk	Risk trend	Action / mitigation
1. Strategic		
Mergers and Acquisitions (M&A) scale ambition risk in light of the Group's increasing ambition in scale of its acquisition programme and its ability to source and satisfactorily acquire suitable targets.	Increasing	All M&A projects are overseen and closely monitored by the Board and by senior executive management. The Board has approved a set of criteria to evaluate acquisition opportunities against, which include both financial and non-financial parameters. Clear M&A processes have been developed and include identification and evaluation of opportunities, specified roles and responsibilities for all aspects of M&A projects along with focused project management resources during both execution and integration phases. In addition to internal resources, use is made of external advisors in specialist areas such as negotiation, financing and due diligence. Post-completion / integration reviews are conducted to ensure that learnings are identified and built into subsequent projects as part of a continuous improvement process.

Principal risk	Risk trend	Action / mitigation
Risk of ever-increasing customer expectations and the Group's continuing ability to meet and exceed those expectations as part of its strategic growth ambitions.	Increasing	In this fast-changing world, the Group has continued to invest in understanding and exceeding our customer expectations. In order to fully understand what our customers expect in terms of product, service, price and experience, we carry out hundreds of customer engagements each day. In 2020, these engagements ranged from senior leader face-to-face meetings; attending brand and retailer supplier summits; joining virtual customer and innovation forums; communicating with industry associations; working with external consultancies; and sharing industry-specific studies. We also conduct regular customer surveys and we track complaints on an ongoing basis. We take these learnings and build differentiation for our customers as a value-adding partner focusing on specific drivers to deliver for our customers. With the ever-increasing demand for speed, we developed the new Speedline capability in South-East Asia, and throughout the pandemic we enhanced material supply management and software solutions for more rapid production planning. We have focused on personalisation as we continue to lead the market in the agile supply of complex product and colour palettes to meet the increasing consumer and retail trend for personalised offerings. Our innovation ecosystem gives us dedicated capacity to develop new product solutions as well as products in collaboration with customers. In 2020, we launched 22 new products across multiple industry segments (from personal protection to oil and gas to sports and athleisure). Our leading Technical Services teams helped our customers to improve productivity and optimise product costs through significant customer engagements, pivoting quickly to virtual support. We launched a lattice composite solution which allows customers to adopt lightweight technologies at more affordable prices by virtually eliminating material waste. We developed digital tools like our Synthesizer App which reduces customer development costs by simulating high performance yarn properties for flame retardant and cut resistant fabrics. We also provide bespoke production lines and manufacturing solutions for highly engineered products as diverse as those used in energy markets, to those used in feminine hygiene markets. Coats is known for the quality of its products and services, and we continued to help customers to improve seam quality and garment performance resulting in lower returns through our technical services offering and high-quality products. We work responsibly as a business, supporting brands and retailers with supply chain transparency, both with our trusted product supply and our Coats Digital software solutions portfolio. A key part of our Company purpose is to make a better and more sustainable world and we have continued to invest in helping our customers meet their sustainability goals, both as a trusted and responsible industry leader in ESG, and with our product portfolio of recycled threads and zips, Cradle to Cradle and circular economy R&D.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risk	Risk trend	Action / mitigation
Appropriate talent and capability development risk Risk of failure to attract and retain talent and capability given business changes and growth in new areas.	Stable	This year the Board and senior management teams heightened their focus on talent development and wellbeing during the Covid crisis. We pivoted all of our in-house learning to 100% virtual learning which included our Manager Capability Development and Supervisory Skills Programme with sessions still being held globally in various clusters. To provide and enhance critical targeted capability development, we created Learning Zone sessions which promoted topics on improving productivity whilst remote working; balancing work life and family life; and sessions were also available on promoting mental wellbeing for employees and their families. These were provided in local languages in all of our clusters. For the first time we conducted surveys using the Glint platform. We initiated two lifecycle surveys on onboarding and exits. We conducted a series of pulse surveys on: Covid and wellbeing; our five Coats Priorities; and cluster office re-openings to gauge and action the views of our employees on these topics. Our annual employee engagement survey has been delayed to 2021 to ensure that we have the best process for ensuring safety in our manufacturing sites to deploy the survey. Additionally, we have launched a new subject matter expert programme. These are peer-to-peer webinars led by our employees who have specialist skills in specific areas throughout the business. These webinars will become a valuable source of technical expertise and enable us to build a resource library accessible for all of our workforce.

2. External

Principal risk	Risk trend	Action / mitigation
Economic and geopolitical risk arising from political and demand uncertainty – across both key Asian and developed markets – including risks to free trade conventions.	Increasing	The Covid pandemic has had a significant impact on GDP in our markets and demand for our products in 2020. Whilst demand has subsequently recovered, albeit not to 2019 levels, increased uncertainty over the global economic environment remains. To the extent that the pandemic has a longer and more prolonged impact on the global economic environment, there may be a further negative impact on consumer spending and further potential disruption to our operations and supply chain. In the longer term there are also implications for regional supply chains. In addition, risks to free trade, from ongoing US / China trade discussions, and the potential consequences for economic growth, add to this uncertainty. The Group continues to monitor the Covid pandemic and its impact on the global economic environment as well as other aspects of economic risk, and any direct or indirect influence on our business. The Group closely monitors the impact of the Covid pandemic on demand as well as monitoring the implications of other areas of economic risk on the Group. Our global reach and local knowledge give us the agility and insights needed to operate and develop our business prudently and successfully during periods of economic volatility. Additionally, the Group's global footprint allows us to quickly respond to any changes in regional supply chains that may arise as a result of the pandemic. 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 will be limited direct adverse impacts on the Group from the UK leaving the European Union (Brexit). Both the UK and the European Union, however, are significant markets for both Apparel & Footwear and Performance Materials. Therefore, any impact on sales and future growth expectations for these markets could have an indirect consequence for our business. Many years of exposure to emerging markets have given us experience of operating and developing our business successfully during periods of economic and political volatility. We continually monitor and analyse economic and demand indicators to ensure that our supply chain remains flexible and our product portfolio remains relevant. This analysis provides a key input to our product development, business planning and pricing strategies. The Group's international footprint and comprehensive portfolio also provide a mitigating balance in our exposure to both European Union and non-European Union markets.

Principal risk	Risk trend	Action / mitigation
Cyber risk Risk of cyber incidents leading to corruption of applications, critical IT infrastructure, compromised networks, operational technology and / or loss of data.	Stable	In 2020, Coats, like many other global organisations, saw a dramatic shift in where our employees worked from, due to the Covid pandemic. This required us to make changes to some of our procedural and technical controls to address the changing risk landscape. Part of our adjustments included refining our policies and procedures, such as updates to our Acceptable Use Policy and updated Work From Home guidance. We educated our workforce on how their diligence and adherence to processes was even more important than previously as employees were outside the traditional perimeter protections. This awareness training was not just a single mandatory annual training but rather a more comprehensive set of awareness engagements that included live calls, videos, weekly and monthly newsletters, as well as computer-based training delivered through our Learning Management System (LMS). Our phishing simulations were already an established process and we continued these along with targeted follow-up to those who failed to properly identify the simulated phishing messages to further educate them on how to identify and handle phishing messages. Coats was able to identify two main attack vectors which, though not new, saw dramatic increases in exploitation attempts: phishing and brute-force login attempts. In our 2019 report, we reported enabling of multifactor authentication (MFA) which proved to be an effective control against the brute-force attempts. For 2020, we added additional controls to enhance our security posture, in addition to raising awareness through the above programmes. An example control was additional conditional access controls to block login attempts from high-risk countries or countries where we have no physical presence. Additionally, in early Q2 we applied two pre-planned technical controls to further protect corporate data. This enabled more comprehensive blocking of access to public cloud storage sites as well as implementing further controls to restrict data being copied to USB storage devices. What this allowed us to do was better maintain control of our data from a global perspective without allowing it to be copied to unmanaged locations where we could lose visibility and / or manageability. As reported in the 2019 report, Coats has employed a managed Security Operations Center (SOC). We have continued to work with our managed SOC provider to verify that the organisation is protected and properly monitored. We are pleased with the partnership and plan to continue the relationship in 2021 with potential enhancements to make certain that Coats is able to continue to detect and properly respond to the new threats while still managing current protection levels.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk trend	Action / mitigation
Climate change risk arising from either 1. the impact of failing to sufficiently address the need to decarbonise the company's operations and reduce emissions, leading principally to commercial and reputational risks (potentially causing loss of sales and share price pressure) and the financial risk of emissions taxes or other legislative changes, or 2. the physical impact of climate change on the company's operations and business model and that of its customers in the textile supply chain.	Increasing	During 2020 we undertook our first in-depth risk analysis on climate change. After reviewing the analysis and in recognition of the risk's primary importance for the Group and its various stakeholders, the Board agreed that this is a principal risk that will be subject to ongoing Board review. The analysis has been carried out using the Taskforce on Climate-related Financial Disclosures (TCFD) methodology, published as a technical supplement to their 2017 report. We developed three scenarios for our business based on publicly available data prepared for the next Intergovernmental Panel on Climate Change (IPCC). The first one is a low carbon scenario with significant short term decarbonisation and achievement of net-zero emissions by mid-century, alongside good global collaboration and continued economic growth and reduced regional inequalities. The second is a high carbon but low growth scenario, with increasing regional inequalities and low levels of global cooperation. The third is a fossil-fueled, high growth scenario with consequent very high emissions levels. For this first iteration, the analysis has been qualitative and we are planning to continue the work done in 2020 by developing quantitative financial analysis which will allow us to report fully in line with TCFD recommendations in our next assessment in 2021. The primary short-term risks revolve around the commercial and reputational risks of not taking concerted action to reduce climate change, together with the risk of increasing emissions taxes. If not adequately mitigated, these risks could lead, respectively, to loss of customer specifications and hence loss of sales, share sales by investors and hence downward pressure on share price, and increased operational costs, and hence lower margins. Physical risks to our plants and supply chains, and potentially significant geographic shifts in our customer footprint, caused by wider industry reorganisation and withdrawal from areas most impacted by climate change, are longer term, and likely to impact on us from 2030 onwards in the high carbon scenarios. The main opportunities are the commercial and reputational opportunities from being a leader in moving to a low emissions model and some growing product areas, especially around light-weighting. We have analysed a broad range of mitigating actions and have identified those that have the most important impact on the identified risks. Many of these, such as having proactive and ethical communications, a low carbon product strategy, developing products for circular business models and investing in new technologies, are currently underway within Coats, and only need to be dialled up to be more focused on the climate change risks. The one very significant new action that needs to be taken is to develop achievable emissions reduction targets that are in line with the 2015 Paris COP 21 low carbon targets. In order to address this, Coats has committed to the SBTi, at the more challenging Business Ambition for 1.5°C level. We have also committed to developing a long-term target to reach net-zero emissions by 2050, the highest level of ambition on climate under the SBTi. This initiative is supported by the United Nations Global Compact, the World Resources Institute, CDP (formerly Carbon Disclosure Project) and WWF (formerly World Wide Fund for Nature). SBTi is the low emissions programme that has received most support within the textile industry, and hence is the appropriate programme for Coats to join. Having made this commitment we now have two years to develop and have approved plans to reduce our absolute emissions in line with the COP 21 target.

Principal risk	Risk trend	Action / mitigation
Environmental non-performance risk given changing standards and increased scrutiny resulting in disruption of existing business, fines and / or reputational damage.	Stable	Our Sustainability Strategy, launched in 2019, is fundamental to our mitigation plan for this risk as many of the actions required are part of that strategy implementation. As for the last two years, the progress on delivery of our strategy is detailed in our 2020 Sustainability Report that is published simultaneously with our Annual Report. Covid did impact our progress with actions during the year because of plant closure and other disruptions, and also because we had to halt any activities that required internal or external visitors on our sites. This impacted plant audits and effluent testing routines. During Q4 we were able to resume normal activities in some locations, but there are ongoing disruptions in some sites and these are likely to continue in early 2021. Detailed below are the principal actions taken during 2020 that impact on this risk. We are implementing a harmonised global system to effectively manage our energy and environmental impacts in a documented, systematic way. This includes an environmental management system (EMS) aligned to ISO 14001 and an energy management system aligned to ISO 50001 with many elements of the EMS now digitised. We improved our monitoring and measurement platform for sustainability reporting to incorporate a digital analytical tool that assists us to perform deep dives on sustainability metrics down to manufacturing site level. This allows us to target underperforming sites whilst using best practice from those sites consistently meeting interim targets. Together with the sustainability projects tracking application, these tools will help us meet our 2022 sustainability targets for water, energy and waste. We completed Environmental Health and Safety (EHS) legal compliance audits and raised findings and compliance actions for all of our global manufacturing units using our compliance tracking application thereby improving our compliance to EHS legal requirements. We also manage all environmental permits and licences we hold in each country we operate in on the permits management application. Our environmental incident application ensures that we have a consistent and transparent way of managing environmental incidents that occur and implementing corrective and preventative actions to prevent reoccurrence through a risk-based approach. Online analytical monitoring equipment provides real-time data for our effluent treatment plants that discharge direct to natural waterways to ensure we meet local permit conditions and Zero Discharge of Hazardous Chemicals (ZDHC) limits and to meet our 2022 effluent treatment plant targets. We already had robust business continuity plans (BCPs) in place before the pandemic. These were tested and stood up well during Covid in what was clearly a live stress test. But in the spirit of continuous improvement, we identified and collated all the lessons learned from Covid and used these to refresh the BCPs to make them even more robust. Our global Business Continuity Plan includes environmental emergency preparedness and response plans and we have added an environmental aspects and impacts application to our digitised, global environmental management system. The environmental aspects and impacts register is essentially a global environmental risk register for the business. These environmental and governance measures have contributed to us making further upward progress in the FTSE4Good Index.

PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

Principal risk	Risk trend	Action / mitigation
3. Operational		
Health and Safety risk The risk of (i) safety incident(s) leading to injury or fatality involving our employees or other interested parties such as contractors, visitors, onsite suppliers, etc. along with potential resulting prosecution, financial costs, business disruption and / or reputational damage; and / or (ii) physical and mental health issues, including as a result of the Covid pandemic, impacting wellbeing, engagement, productivity and talent retention.	Increasing	The Board has continued to receive and discuss with management – as a priority at each Board meeting – detailed reviews of health and safety performance and monitoring of progress against established annual health and safety targets and objectives. Senior management and employees throughout the Group likewise remain intently focused on creating an injury-free work environment. Following the great safety successes of our Journey to Zero strategy launched in 2019, the deeply embedded health and safety culture served as a solid foundation and it continued with nearly 40,000 preventive actions completed, and 518,000 H&S training hours in 2020. It also enabled a rapid and effective response to the Covid pandemic. The widespread Covid pandemic posed significant health risk to the Coats workforce throughout the year. These risks were quickly mitigated through world-wide implementation of a pandemic response plan based on the international emergency management principles of Preparedness, Prevention, Response and Recovery (PPRR). The PPRR plan was implemented and deployed two weeks before the pandemic was declared and included comprehensive case tracing. All health and safety efforts were focused on two main fronts, (1) prevention of virus spread within the workplace, and (2) prevention of transmission to employees from outside of the workplace. The early action we took to change working practices, introduce safety measures and track contacts to four levels meant that we did not have a single confirmed case of infection transmission happening in our operations, and a small handful of infections where the source is unconfirmed and could have occurred on site. The results of our prevention efforts within the workplace were widely successful and will continue into 2021. Despite these efforts, 14 of our employees contracted Covid outside of the workplace and sadly died. In 2021, continuing our effective pandemic response and recovery will be our primary focus. Additionally, the Group has set specific targets and objectives to reduce other health and safety risks as well. The Journey to Zero campaign will continue and the Group will continue to refine this approach to identify and mitigate key health and safety risks and to further increase the Group's focus on creating an injury-free environment. See pages 23–27 for more information.
Bribery and anti-competitive behaviour risk The risk of breach of anti-corruption law or competition law resulting in material fine and / or reputational damage.	Stable	The Group continues to maintain clear and well publicised policies and processes, spanning bribery and anti-competitive behaviour along with a number of other ethics issues, including in relation to partners, contractors and suppliers. These are reinforced through a comprehensive Supplier Code (covering initial due diligence processes, onboarding, 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 culture champions network. During the pandemic, the ethical culture champions were asked to emphasise key ethical messages in light of the potential heightened risk of corruption during these uncertain times. A sub-committee of the GRMC comprising key business and functional leaders meets quarterly to consider a range of ethics risks (including key risk indicators for those risks), legislative and regulatory developments and mitigation plans. The Group actively maintains a whistleblower system, enabling employees and others who are aware of, or suspect, unethical behaviour to report it confidentially. Awareness of the system, together with the risks and the policies, has been increased through an ongoing Ethical Culture Campaign which operates at a Group and local level. See pages 23–27 for more details. Raising awareness of this risk is a priority for the Group and it was encouraging that the Group Communications team won the Gold award for Best Use of Social Media at Communicate Magazine's Internal Communications and Engagement Awards for Global Ethics Day 2020, demonstrating that the Group is at the forefront of proactive engagement in its ethical business training for employees across the business.

Principal risk	Risk trend	Action / mitigation
4. Legacy risks		
Pension scheme deficit funding risk Risk of potential volatility in UK pension gross liabilities and total assets leading to increased annual cost of repair plan to fund deficit (which could impact one or more of free cash flow and dividend payments).	Stable	The funded UK pension scheme is overseen by its Trustee Board, which is required to have the appropriate knowledge and understanding in this area. Independent professional Trustee Directors are appointed to the Trustee Board to provide additional expertise. In particular, professional investment advice is taken as necessary; investment strategy aligns with funding objectives; and scheme assets are diversified accordingly. The Group has agreed ongoing annual deficit recovery payments effective from 1 April 2019 and these are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021. The impact of Covid has been largely mitigated through diversification, risk management and interest rate hedging. The Coats UK Pension Scheme is currently over 85% (2019: 80%) hedged against interest rate and inflation movements by reference to the Technical Provisions liability. The Group and the Trustee Board routinely review de-risking of the scheme through liability management and investment strategies. The de-risking framework in place also enables the pension scheme to take advantage of any out-performance. See note 10 on pages 134–143 for more details.
Lower Passaic River legacy environmental matter risk Detail of the Lower Passaic River legacy environmental matter can be found in note 28 on pages 158–159.	Stable	The Board continues to monitor developments very closely and oversees the strategy in relation to the Lower Passaic River proceedings.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

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

An example of such a key risk is the risk of disruption to our business operations as a result of events such as pandemics, fire or water shortages, or natural catastrophes (flood, hurricane, monsoon, earthquake, etc.). Discussions on this risk, and the steps taken to mitigate it, include regularly stress testing the business continuity plans prepared by units and functions across the Group to ensure we are able to respond quickly and effectively to any such event.

The recent outbreak of Covid resulted in these business continuity plans being activated, including the immediate implementation of procedures to protect our employees and anyone entering our premises, and actions to limit the financial impact on the business and proactively leverage our global footprint and supply chain to provide the best possible service to our customers.

The list of key risks also includes a number of potential disruptive risks arising from, for example, new competitors and new technology. The GET, GRMC and Board, as appropriate, continue to monitor these potential disruptive risks and also the opportunities that these may present. See page 44 for more information.

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

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

Long Term Viability Statement
In accordance with provision 31 of the revision of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term viability of the Group over the period to December 2023.

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, have maturities which range from approximately 21 months to over five years.

The Group's strategic objectives and associated principal risks are underpinned by an annual budget and Medium Term Plan process, which comprise financial projections for the next three years (2021–2023). The Medium Term Plan represents a common process with standard outputs and requirements at the Group level. The Board reviews the Medium Term Plan annually. Although this period provides less certainty of outcome, the underlying methodology is considered to provide a robust planning tool against which strategic decisions can be made.

The Directors have taken into account the Group's current position and the potential impact of the principal risks as set out on pages 36–43 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 38 in the principal risks table, did not include that element within the set of risks specifically modelled in preparing this statement.

After assessing the potential impact of the principal risks, a severe but plausible scenario relating to the global economic environment was modelled. The Directors have also taken into account a number of assumptions that they consider reasonable within these assessments including:

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

	2020	2019	Inc/(dec)	2019 CER[1]	CER[1] inc/(dec)	Organic[1] inc/(dec)
	$m	$m	%	$m	%	%
Revenue[2]						
By segment						
Apparel and Footwear	823	1,063	(23)%	1,038	(21)%	(21)%
Performance Materials	341	326	5%	318	7%	(14)%
Total	**1,163**	**1,389**	**(16)%**	**1,356**	**(14)%**	**(19)%**
By region						
Asia	629	800	(21)%	790	(20)%	(20)%
Americas	315	323	(3)%	306	3%	(19)%
EMEA	219	266	(17)%	259	(15)%	(15)%
Total	**1,163**	**1,389**	**(16)%**	**1,356**	**(14)%**	**(19)%**
Adjusted operating profit[2,3]						
By segment						
Apparel and Footwear	96	156	(39)%	155	(38)%	(38)%
Performance Materials	15	42	(64)%	41	(63)%	(61)%
Total adjusted operating profit	**111**	**198**	**(44)%**	**195**	**(43)%**	**(43)%**
Exceptional and acquisition related items	(7)	(7)				
Operating profit[5]	**103**	**191**	**(46)%**		**(45)%**	**(44)%**
Adjusted operating margin[2,3,4]						
By segment						
Apparel and Footwear	11.60%	14.70%	(310)bps	14.90%	(330)bps	(330)bps
Performance Materials	4.40%	12.80%	(840)bps	12.80%	(830)bps	(700)bps
Total	**9.50%**	**14.30%**	**(470)bps**	**14.40%**	**(490)bps**	**(420)bps**

1 2019 figures at 2020 exchange rates. Organic on a CER basis excluding contributions from bolt-on acquisitions (Pharr HP and ThreadSol).

2 Includes contribution from bolt-on acquisitions made during the period.

3 On an adjusted basis which excludes exceptional and acquisition-related items.

4 Organic adjusted operating margin: Group 10.2%, Performance Materials 5.8%.

5 Reported operating profit margin 8.9%

2020 Results overview

Group revenues decreased 16% on a reported basis, as all markets were impacted adversely by the Covid pandemic. On a CER basis, Group revenues reduced 14%, which was 2% better than the reported rate of decrease as a result of year-on-year currency translation headwinds (notably Brazilian Real, and Turkish Lira). On an organic CER basis, revenues declined 19% as a result of the 5% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was completed in February. In the second half of the year we saw a continued improving trend in demand with organic revenues down 12%, including most recently an exit rate in November/December of 5% down year-on-year on an organic basis.

Group adjusted operating profit decreased 43% to $111 million on a CER basis (2019: $195 million on a CER basis). Adjusted operating margins were down 490bps to 9.5% (2019: 14.4% on a CER basis) and included an improving trend in the second half (H2 12.2%).

Group organic adjusted operating profit also declined 43%, in line with the CER decline due to the small loss made by Pharr HP in the period since ownership, as the volume impacts seen at a Group level also impacted Pharr HP.

Excluding the expected dilutive effect on overall Group margins from Pharr HP (4% operating margin business pre-acquisition), Group organic operating margins decreased by 420bps to 10.2% (vs a 490 bps reduction to 9.5% on a CER basis).

Adjusted earnings per share (EPS) for the year decreased to 2.4 cents (2019: 7.0 cents). This reduction was due to the significant decline in adjusted profit before tax (down 50% year-on-year), and the increase in the effective tax rate to 39% (2019: 29%).

OPERATING REVIEW
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Apparel & Footwear (A&F)

A&F segment overview

Our Apparel & Footwear business demonstrated market leading resilience and agility as the industry suffered the significant impact of Covid which saw large scale order cancellations from retailers, manufacturing slowdowns and accelerated high street bankruptcies. We pivoted quickly to supporting our customers, to cash management and to ensuring a safe operational environment for our employees and then, as conditions improved, to customer engagement and service leadership. Revenues were 21% below 2019 but in spite of this we broadly maintained price, realised customer wins and made progress in the China domestic market. As the year progressed, sales started to improve, with the exit rate down 7% (on a CER basis) for November and December vs down 29% in H1 2020 and down 15% in the four months to October 2020. Our relationships with key customers, retail segments and geographies position us strongly to win the recovery.

During the course of 2020 several recent market trends accelerated. These include the polarisation of demand (for example due to casualisation and digital online adoption), demand shift from West to East with the domestic China Apparel & Footwear market expected to outgrow both Western Europe and North America by 2024, continued supplier consolidation, an enhanced sustainability focus with recyclable fibres and threads to become part of 'standard' demand, nearshoring, changing customer needs ('speed') and aggressive digitisation of the supply chain.

Customers need to build greater resilience in their sourcing networks, to rebalance their supply chains geographically, to fast-track digital investments and to increase their commitment on sustainability. Coats, as the global leader and trusted partner of the industry's biggest names, is uniquely positioned to benefit from these accelerated trends. They align to our existing strengths and further confirm our operating model as we leverage our global footprint, flexibility, innovation and sustainability credentials and digital tools to deliver exceptional customer service.

A&F revenue

Revenues in our A&F business were down 21% (down 23% reported) as a result of the impacts of Covid seen firstly during H1 as wider global lockdown measures took hold. As the pandemic spread around the globe, we saw large scale order cancellations / deferrals from brands and retailers which had a significant impact on demand from late March and throughout Q2. In April and May the business was also significantly impacted by lockdown measures in some of our key markets including India and Bangladesh. However, as global lockdown measures eased, we saw an encouraging and consistent improvement in demand throughout the second half as production restarted at manufacturers and confidence gradually returned. Demand through our second half peak season was encouraging, and most recently we saw a further improvement in the November / December exit rate of 7% down year-on-year.

Despite the very difficult market conditions we faced from Covid, we took a customer focused approach throughout the year in order to support our partners and provide reliable sourcing. Our long standing and deep customer relationships with retailers and brands and the 'peace of mind' we provide as a supplier is even more important at times such as this, as supply decisions increasingly factor in quality, reliability, reputation and sustainability credentials. A number of our existing key competitive differentiators have come even more to the forefront, such as our speed of supply, both through geographical proximity of our sites to our customers (Coats has the largest manufacturing footprint globally with c.40 A&F sites) and our digital tools (e.g. the Coats digital sampling tool and online ordering platform) which take human touch points out of the supply process.

Our global footprint also proved advantageous as country-wide lockdowns meant even more accelerated shifts in country sourcing patterns and this was seen throughout the year, such as during the initial Q1 shutdowns in China, which saw accelerated shifts in volumes to Vietnam. Furthermore, our in-house technical expertise provided significant support to our customers, and our industry reputation for reliability (including compliance and sustainability) meant we became even more of a trusted partner during this difficult period. Whilst revenues were significantly impacted, our approach yielded a number of customer share gains.

By sub-segment, we saw a broadly consistent impact across our portfolio. A&F thread revenues (c.85% of segment revenue) were down 21% year-on-year, and Zips and Trims revenues (c.10% of segment revenues) were down 22%, both in line with the wider segment sales decline. Latin America Crafts (4% of A&F sales) performed resiliently, with revenues down 10% year-on-year, and with growth in the second half of the year. Our Coats Digital business (1% of A&F revenue) was down 30% year-on-year, primarily due to the impact of Covid, but current booking levels are showing an encouraging improving trend.

A&F profit and margin

Adjusted operating profit for A&F declined 38%, compared to the Group decline of 43% and organic adjusted operating margin was down 330bps to 11.6% compared to the Group decline of 420bps to 10.2%.

A&F margins were less impacted in the year despite higher volume declines as a result of Covid, due to the relative larger scale of the A&F business and the ability to greater flex the manufacturing footprints of these sites accordingly to limit the downside volume impact. This led to significant margin normalisation within A&F in the second half (H2 operating margin: 15.2%), albeit included some benefit from non-recurring items in relation to discretionary cost saving actions.

Performance Materials (PM)

PM segment overview

Our PM business operates in five key market segments; Telecoms and Energy (15% of segment sales), Personal Protection (40%), Transportation (10%), Household and Recreation (20%), and Other Industrial Applications (15%). Revenues were heavily impacted by Covid during the year, albeit to a lesser extent than in Apparel & Footwear, due to the portfolio of end uses that the business is exposed to.

PM organic growth since 2013 of mid-high single digits (excluding 2020 which was impacted by Covid) has been driven by strong growth in Personal Protection and Telecoms and Energy. In February 2020 we acquired Pharr HP, which is exposed to a number of cyclical end uses. The Personal Protection segment is a naturally volatile component of the business due to its end-uses, but it remains a structural medium-term growth driver for PM, underpinned by attractive industry fundamentals such as increased worker protection, industry regulation as well as the need for comfort with multi-hazard protection. The cyclicality in Personal Protection has been exacerbated by Covid disruption which has led to a slowdown in spending on flame-retardant protective garments for military and firefighters as capital is redeployed to address the pandemic.

Other end uses such as Telecoms and Energy, Transportation and Household and Recreation performed resiliently, returning to strong growth in the latter part of the year. Our customer focused approach continued to yield benefits with a number of notable customer wins, for example in the Transportation sector with customers such as a major European Tier 1 automotive supplier as part of a new platform for a well-known German OEM, where we won the thread contract for a new front-wheel drive platform vehicle programme which we expect to last c.10 years.

In 2021, we will continue to lead with innovation, developing highly-engineered products to create solutions for our customers in both existing and new markets. We expect that the recovery in PM will be driven by trends such as the 4G and 5G roll out (Telecoms and Energy) and increasing demand for light-weighting and electrification from automotive customers (Transportation). This will be offset somewhat by a slower recovery in Personal Protection, as this is partly dependent upon the recovery of both military and firefighter spend.

PM revenue

PM revenues grew 7% on a CER basis (5% reported), consisting of an organic decline of 14% and a 21% contribution from the acquisition of Pharr HP which was acquired in February. As with A&F, PM was significantly impacted throughout the year by the demand and supply disruption from Covid but has also seen an encouraging and improving trend with year-on-year organic sales exit rate down only 2% in November / December.

Organic sales growth performance in the year was underpinned by relatively robust performance in Household and Recreation as demand for home-based products remained resilient during the year (e.g. bedding). Transportation revenue showed an encouraging improving trend, returning to growth in the second half of the year, as the industry saw some restocking alongside the impact of new customer wins. In addition, the Other Industrial Applications end-use sub-segment performed well as demand for products used in a number of these niche areas remained robust (e.g. feminine hygiene). Telecoms and Energy, having had a slower Q3 returned to growth in Q4 as demand returned quickly to the sector. Sales in Personal Protection were slower in the second half as set out above.

PM profit and margin

Organic adjusted operating profit declined 61%, compared to the Group decline of 43% and at an organic adjusted operating margin level, PM margins were down 700bp to 5.8%, compared to the Group decline of 420bps to 10.2%.

PM organic margins (down 700bps to 5.8%) were affected by significant volume impacts from Covid, the relatively lower scale compared to A&F, some negative customer/product mix, as well as industry labour availability issues in the US in H2. Furthermore, the dilutive effect of Pharr HP (140bps on segment margins and 70bps on Group margins) resulted in PM margins being 840bps down year-on-year to 4.4%. Whilst some recovery in 2021 is expected, margins will continue to be impacted by the relatively lower scale compared to A&F, industry labour availability issues in the US, and the Pharr HP margin dilution. As a result, it is anticipated that 2021 operating margins in PM will be in the mid to high single digits range.

Geographical performance

By geography, we saw broadly similar organic declines across all territories due to the Covid impact. Alongside the direct demand impact on our end-markets, we also saw significant supply disruption during Q2, with 18 of our c.50 manufacturing facilities being subject to enforced government closure at the peak of the global lockdowns in April. Since early May the vast majority of sites were open for the remainder of the year.

In Asia, which is predominantly an A&F business, we saw revenue decline by 20%, driven by key Apparel & Footwear markets, although performance varied quite widely country by country. For example, in India, there was a period of around six weeks where all six of our manufacturing facilities were subject to enforced closure, and demand was still being heavily impacted during Q2 and Q3; however, we saw an encouraging improvement in demand later in the year. Our China operations were significantly affected in Q1 as the initial Covid impact occurred, and continued to see some impact throughout Q2, but saw a relatively stronger recovery in H2 as the country started to recover out of the pandemic. Conversely, our Vietnam operations performed relatively well throughout 2020 as a result of being less impacted by the pandemic and being a reliable

OPERATING REVIEW CONTINUED

and attractive alternative sourcing solution to other key Asia A&F markets during the most significant disruption from the pandemic. Our Bangladesh operations were significantly impacted by the lockdowns in the European retail markets which they are reliant upon as well as rolling local lockdowns for a significant part of the year but showed encouraging signs of a recovery in H2.

Our America business showed organic declines of 19% in the year, which was initially driven by weak A&F sales in Latin America (in particular Mexico and Brazil), however in the second half of the year we saw a strong improvement particularly in the Crafting business which returned to year-on-year growth, as well as in Brazil and Mexico. Having performed relatively robustly in the first half, PM revenues were slower in the second half of the year mainly due to demand in the Personal Protection business (primarily a North America business), as referred to earlier.

In EMEA, revenue declined by 15%, driven by PM which performed slightly better than A&F, as well as near-shoring in A&F as customers sought to bring their supply chains closer to home. Certain markets were hit hard by the pandemic such as our Italian and German zips businesses. We saw encouraging signs of recovery in a number of markets in the second half, in particular within Telecoms and E nergy and in Transportation, and in markets such as Turkey, Spain, Hungary and Poland.

FINANCIAL REVIEW

Revenues

Group revenues decreased 16% on a reported basis, as all markets were impacted adversely by the Covid pandemic. On a CER basis, Group revenues reduced 14%, which was 2% better than the reported rate of decrease as a result of year-on-year currency translation headwinds (notably Brazilian Real, and Turkish Lira). On an organic CER basis, revenues declined 19% as a result of the 5% contribution from the acquisition of Pharr High Performance Yarns (Pharr HP) which was completed in February. All commentary below is on a CER basis unless otherwise mentioned.

As previously reported, Group H1 organic revenues were down 26%, which was primarily driven by the impact of Covid in Q2 where revenues at a Group level were down 45% on an organic basis, as we faced severe demand and supply impacts. In the second half of the year we saw a continued improving trend in demand with organic revenues down 12%, including most recently an exit rate in November / December of 5% down year-on-year on an organic basis.

Operating profit

At a Group level, adjusted operating profit decreased 43% to $111 million on a CER basis (2019: $198 million on a reported basis) and adjusted operating margins were down 490bps to 9.5% (2019: 14.3% on a reported basis). The table below sets out the movement in adjusted operating profit during the year:

	$m	Margin %
2019 adjusted operating profit	**198**	**14.3%**
Volumes impact (direct and indirect)	(144)	
Pricing / Mix	(7)	
Raw material deflation	15	
Other inflation	(13)	
Productivity benefits (manufacturing and sourcing)	16	
Lower SD&A	47	
2020 adjusted operating profit (organic)	**112**	**10.2%**
Impact of Pharr HP dilution	(1)	
2020 adjusted operating profit	**111**	**9.5%**
Exceptional and acquisition related items	(7)	
2020 reported operating profit	**103**	**8.9%**

The direct and indirect volume impact of the Covid disruption, particularly in H1, was a significant headwind on margins in the year, as lower utilisation of factories led to an under recovery of manufacturing overheads. Management took quick and decisive actions over the manufacturing cost base to minimise the impact of these volume headwinds, and as activity increased in the second half this significantly reversed the H1 negative leverage impact on our operations, particularly in A&F. These actions included temporarily flexing our manufacturing footprint to ensure the lower volume levels were most efficiently run through the site network (including flexing opening days and numbers of shifts).

We experienced negative mix in the period, in particular in PM, alongside broadly maintaining price despite raw material deflationary benefits from the lower oil price. Other structural inflationary pressures continued (e.g. wages and energy), which were again more than offset by productivity benefits across manufacturing and sourcing. In 2021, as a result of increasing oil prices in the latter part of 2020 we now expect to incur some year-on-year inflationary headwinds on raw material costs, in addition to the ongoing structural inflationary pressures we face. As in previous years we will look to offset these inflationary pressures with productivity benefits and pricing, although we also expect to see some pressure on freight costs as a result of container availability which may be more difficult to offset.

The above impacts, albeit predominantly the negative volume impact, severely impacted gross margins in the period which were down 300bps on an organic basis (480bps down on a CER basis including the anticipated initial dilutive effect of the Pharr HP acquisition). In addition to gross margin actions, we also moved decisively to underpin our SD&A cost base by minimising discretionary spend (for example travel, staff bonuses, Long Term Incentive Plans and consulting costs) and variable costs of selling, although we expect most of these savings to reverse in 2021.

Despite these significant actions, and largely as a result of the large volume decline in Q2, the Group's operating margins were significantly impacted in H1 (H1 6.4%). However, as volumes returned to the business, we saw a significant increase in profitability with $76 million of adjusted operating profit delivered in H2 (at an operating margin of 12.2%).

Group organic adjusted operating profit declined 43% in the year, in line with the CER decline due to the small loss made by Pharr HP in the period since ownership, as the volume impacts seen at a Group level also impacted Pharr HP. Including the expected dilutive effect on overall Group margins from Pharr HP (4% operating margin business pre-acquisition), Group operating margins decreased by 490 bps to 9.5% on a CER basis (vs a 420bps reduction to 10.2% on an organic basis).

On a reported basis, Group operating profit (including exceptional and acquisition-related items) decreased 46% to $103 million (2019: $191 million). See below for a breakdown of these exceptional items, which primarily relate to non-cash impairment items. Exceptional and acquisition-related items are not allocated to segments, and as such the segmental profitability referred to above is on an adjusted basis only.

Foreign exchange

The Income Statement on a reported basis was impacted by the relative strength of the US Dollar compared to 2019. 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. This resulted in a decline of 16% in reported revenues year-on-year, which is a 2% translation headwind when compared to the 14% revenue decline on a CER basis. At an adjusted operating profit level, the translation impact was less where the reported decline of 44% compared to a 43% decline on a CER basis. The main currency impact on adjusted operating profit was the strengthening US Dollar against the Indian Rupee and Turkish Lira. At current exchange rates (31 December 2020) we expect a small translation tailwind on revenues for the Full Year 2021.

Free cash flow

The Group delivered an adjusted free cash flow of $28 million in the year (2019: $107 million) which despite being significantly down year-on-year was a robust performance in a period of significant operational disruption and reduced operating profits. Underpinning measures were quickly put in place, including reduced capital expenditure ($15 million in the year; 2019: $44 million), and a heightened focus on controlling working capital.

Acquisition of Pharr High Performance Yarns (Pharr HP)

On 10 February 2020, the Group completed the acquisition of the business and assets of Pharr HP, a market-leading manufacturer of high-performance engineered yarns based in North Carolina, US, and as such the results for this year include around ten months of Pharr HP results ($67 million revenue).

Whilst revenues for Pharr HP in the period were severely impacted by Covid due to overall demand in the US Personal Protection sector, we remain confident in the opportunity this acquisition presents us to continue to build a leadership position and scale in this sector which over the medium term is expected to deliver attractive growth (as noted earlier). Despite the impact of Covid we have progressed our integration plans with the wider PM business and Group, including implementing SAP into the business from 1 January 2021.

Non-operating results

Adjusted earnings per share ('EPS') for the year decreased to 2.4 cents (2019: 7.0 cents). This reduction was due to the significant decline in adjusted profit before tax (down 50% year-on-year), and the increase in the effective tax rate to 39% (2019: 29%). The 50% decline in adjusted profit before tax was due to the decline in adjusted operating profit (44% at reported rates), and a net interest charge which was $3 million lower year-on-year (see below for further details).

Net finance costs in the year were $24.8 million (pre-exceptional), a $3.1 million decrease year-on-year (2019: $27.9 million). The key driver of the decrease in net finance costs in the year was a $3.3 million reduction in interest on bank borrowings due to lower interest rates and lower corporate facility utilisation compared to 2019. The $5.7 million mark-to-market foreign exchange loss on forward hedging contracts seen in the first half of the year (due to sterling weakness in H1) largely reversed in the second half as a result of subsequent sterling strengthening in the latter part of the year ($1.3 million loss at 31 December 2020) and only had a small adverse impact when compared to 2019.

FINANCIAL REVIEW
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The taxation charge for the year was $37.4 million (2019: $50.5 million). Excluding the impact of exceptional and acquisition-related items and the impact of IAS19 finance charges, the effective tax rate on pre-tax profit was 39% (2019: 29%). This rate increase was driven by the significant impact of Covid including withholding taxes that were still incurred at broadly historic levels as the payment of these amounts are not always directly linked to the lower level of operating profits. In addition, deferred tax assets in certain loss-making jurisdictions have not been recognised.

As the Group's operations and profit mix normalise following the Covid crisis, the Group's effective tax rate is expected to return to pre-crisis levels over time (2019 full year effective tax rate: 29%), and this was evidenced by the full year tax rate of 39% (H1 estimated full year tax rate: 48%). In 2021, at the current rate of anticipated normalisation of profit mix we would anticipate a full year effective tax rate in the range of 32–34%.

The reported tax rate was 47% (2019: 30%), which includes the impact of exceptional and acquisition related items (including non-cash impairment charges incurred in the year due to Covid, which attracts zero tax relief).

Profit attributable to minority interests was $15.8 million and was predominantly related to Coats' operations in Vietnam and Bangladesh (in which it has controlling interests). This was 21% below the 2019 level ($20.1 million) which reflects the relative strength of performance of those territories during the year (in particular Vietnam, which was relatively less impacted by the pandemic), compared to the wider Group.

Exceptional and acquisition-related items
Net exceptional and acquisition-related items before taxation were $6.8 million in 2020 (2019: $4.4 million). This consisted of a $4.9 million charge in relation to the non-cash impairment of assets (including Plant and Machinery) at certain smaller European markets whose short-term financial performance and medium-term outlook has been impacted by Covid, and acquisition related items of $4.0 million (2019: $2.2 million). These were offset by a $1.4 million profit ($2.8 million cash proceeds) in relation to the sale of surplus property in Korea (part of the Connecting for Growth reorganisation programme).

The acquisition-related items of $4.0 million consisted of the amortisation of intangible assets acquired ($3.2 million), and acquisition earnouts ($0.8 million).

In the taxation line, exceptional items of $2.2 million predominantly related to $1.9 million of deferred tax assets which are no longer recognised due to the impacts of Covid and $0.3 million tax on exceptional income in Brazil following a successful legacy tax claim last year.

Cash flow
The Group delivered $28 million of adjusted free cash flow in 2020 (2019: $107 million). This free cash flow measure is before annual pension deficit recovery payments, acquisitions and dividends, and excludes exceptional items.

This adjusted free cash flow performance was lower than 2019 ($107 million) as a result of significantly lower adjusted operating profit, well controlled but higher net working capital outflows ($26 million outflow vs $6 million outflow in 2019), with some offset from lower capital expenditure of $15 million (2019: $44 million). Minority dividend payments of $18 million were incurred (broadly in line with 2019) as we accelerated the repatriation of cash from local operations to the Group in order to prudently manage corporate headroom and ensure comfortable levels of liquidity around the Group.

Tax paid was $46 million and in line with 2019, due to prior year tax settlements (for example a tax settlement in China that was provided for in 2019 and settled in Q1 2020) offsetting the benefit of the lower P&L tax charge.

The Group generated a free cash outflow of $23 million in the year (2019: $72 million inflow), which primarily reflects the adjusted free cash flow of $28 million referred to above, offset by the consideration paid for the Pharr HP acquisition of $37 million, as well as UK pension payments of $11 million.

As a result of the above free cash outflow, net debt (excluding the impact of IFRS 16) as at 31 December 2020 was $181 million (31 December 2019: $150 million). Including the impact of IFRS 16, net debt as at 31 December 2020 was $247 million (31 December 2019: $215 million).

Capital expenditure
As previously noted, capital expenditure was significantly reduced in the year ($15 million) due to Covid, and was related to ongoing maintenance requirements, critical new product development, health and safety, and environmental spend.

As we recover out of Covid, and in order to continue to support our longer-term growth strategy and further reinforce our strong environmental compliance credentials, we anticipate capital expenditure to be in the $35–40 million range for 2021. This includes around $7 million (alongside $5 million operating costs) in relation to supporting strategic growth initiatives primarily in our Asian operations.

Pensions and other post-employment benefits
The net obligation for the Group's retirement and other post-employment defined benefit liabilities (UK and other Group schemes), on an IAS19 financial reporting basis, was $226 million as at 31 December 2020, which was higher than 31 December 2019 ($181 million). This increase is primarily due to movements on the UK scheme.

The Coats UK Pension Scheme, which is a key constituent of the Group defined benefit liabilities, shows a $129 million IAS19 deficit at 31 December 2020 (£94 million), which is $37 million higher than at 31 December 2019 ($92 million, £69 million). This increase predominantly relates to net actuarial losses of $37 million (lower discount rate assumption due to lower corporate bond yields which more than offset asset increases), $7 million employer contributions (excluding administrative expenses), with some offset from other items (e.g. FX). The IAS19 discount rate remains underpinned by AA corporate bond yield spreads, unlike the Technical Provisions basis of valuation (relevant for the triennial valuation process) which is linked to gilt yields. The company, in conjunction with the pension trustees, regularly monitors the funding position of the UK Pension Scheme.

In agreement with the trustees of the Coats UK Pension Scheme, and as part of the wider Covid underpinning actions, we agreed to defer the remaining deficit recovery payments for 2020 (April–December inclusive), to provide an additional c.$21 million of headroom cover during this year. The catch up of these payments are currently anticipated to commence in mid-2021 and be evenly spread over a period of around 18 months. We continued to pay the scheme administrative expenses during this time (c.$5 million p.a.). As a result, total payments in 2021 are expected to be around $42 million (which includes $9 million in relation to the start of the catch-up of the 2020 deferred contributions).

The effective date for the next UK scheme triennial is 31 March 2021, and this will be required to be finalised by no later than 30 June 2022.

Balance Sheet and Liquidity

The Group continued to focus on cash, liquidity and working capital management as one of its priorities throughout the Covid crisis, in order to ensure it remained in a strong financial position, and to be well placed to navigate through the current environment safely and emerge even stronger when it passes.

Group net debt (excluding IFRS 16) as at 31 December 2020 was $181 million ($247 million including IFRS 16), which was higher than the same point in 2019 ($150 million), and reflects strong cash management, the acquisition of Pharr HP ($37 million), and UK pension payments ($11 million; being Q1 deficit recovery payments and full year administrative expenses). Excluding the acquisition of Pharr HP net debt reduced year-on-year.

When the Covid crisis initially hit, the Group moved quickly to take action to underpin liquidity and maintain comfortable levels of headroom. These actions include reducing our full year 2020 capital expenditure by c.65% to $15 million (2019: $44 million), cancelling our final FY19 dividend, and agreeing with our UK pension trustees the deferral of all remaining deficit recovery payments in the year from April (c.$21 million).

In addition to these specific cash actions we focused even more closely on working capital management during the year (including a heightened focus on managing our customer credit risk), reflective of the difficult macro-economic environment. Our net working capital remained well controlled in the year, and we saw an encouraging normalisation in our working capital metrics in the second half. In 2021 we expect a marginal working capital outflow as we invest to support the Covid recovery. In addition, bad debt charges remained at a low level ($3.1 million; 2019: $0.2 million) as a proportion of Group revenue (below 1%), albeit higher than recent years, reflective of the macro-economic conditions through the year.

At 31 December 2020, our leverage ratio (net debt to EBITDA; both excluding IFRS 16) was 1.2x and remains well within our 3x covenant limit, and towards the lower end of our target leverage range of 1–2x. Our interest cover covenant also maintained significant headroom at 31 December 2020 at 8.5x vs a covenant of 4x. These covenants are tested twice annually at June and December, and are monitored throughout the year. Committed headroom on our banking facilities was $330 million at 31 December, a further increase from the comfortable levels we reported in the H1 results.

Going Concern

On the basis of current financial projections and the facilities available, the Directors are satisfied that the Group has adequate resources to continue for at least the next 12 months and, accordingly, consider it appropriate to adopt the going concern basis in preparing the financial statements. Further details of our going concern assessment, financial scenarios and conclusions can be seen in note 1.

Simon Boddie
Chief Financial Officer

3 March 2021

The Strategic Report comprising pages 1–51 was approved by the Board and signed on its behalf by the Group Chief Executive.

Rajiv Sharma
Group Chief Executive

3 March 2021

CHAIRMAN'S INTRODUCTION

Dear Shareholder,
Good governance is the thread that runs through the centre of Coats. 2020 has been a year of exceptional change and the Board's role in providing effective leadership and delivering long-term sustainable value to our shareholders has never been more important. This year, we looked again at our purpose and you can read about how we reviewed this and the outcome on page 22. Having a clear and shared purpose, and a strong and consistent approach to governance, underpinned by our values and our culture, helped us work with all our stakeholders to weather the storm and deliver our strategic goals.

In 2019 the Group Risk Management Committee ('GRMC') agreed that climate change should be included in the Group Risk Register as an emerging risk. During 2020 the Company evaluated the impacts of climate change risks and opportunities on the business, strategy and financial planning and agreed that climate change should be recategorised as one of our principal risks. You can read more about the results of this evaluation and the implications on page 40.

This Governance section of the 2020 Annual Report contains an overview of the roles and responsibilities of the Board and its Committees together with a summary of the activities undertaken during the course of the year ended 31 December 2020.

Covid response and our stakeholders
Engagement with our stakeholders remains an important task for the Group and assists us in understanding their views. Our stakeholders' views are a key consideration for the Board when making business decisions. The Board has considered the impact of Covid on all of our stakeholders and has endeavoured to communicate with each group throughout these difficult times. You can read more about how we have communicated with our workforce on page 25. Through our market announcements, we have ensured that all investors are informed of the impact the virus had, and is continuing to have, on our business. In March 2020 we announced that we would not be paying the final dividend for the 2019 financial year and in August 2020 we announced that the interim dividend for the 2020 financial year would not be paid to shareholders. While these were very difficult decisions, these were part of the proactive steps we have taken to strengthen our balance sheet and maximise liquidity for the likely duration of the crisis and recovery period beyond. As a result of the steps that we took during 2020 and the encouraging recovery out of the pandemic, and given our confidence in the strategy and outlook for the Group, I am pleased that we are proposing a final dividend of 1.30 cents per share.

'BY RESPONDING QUICKLY AND GETTING AHEAD OF THE CURVE, THE COATS TEAM HAS PREVENTED TRANSMISSION OF COVID WITHIN OUR FACTORIES AND HAS KEPT OPERATIONAL IMPACT TO A MINIMUM. OUR GOAL REMAINS TO ENSURE THAT OUR COATS FACTORIES AND OFFICES ARE THE SAFEST AND HEALTHIEST PLACES FOR OUR WORKERS.'

SEAN ALVAREZ
GROUP HEALTH & SAFETY DIRECTOR

Culture and goals

The Board strongly believes that good governance should be focused not only on how the Board itself operates effectively but also, and very importantly, on the culture within which all of our businesses and employees operate and conduct themselves on a day-to-day basis. The culture, values and ethics are set and monitored by the Board as set out on page 61 and led in our operations by the Chief Executive and the rest of our Group Executive Team ('GET') and senior management teams. The principles of good governance are embedded throughout Coats and manifest themselves in a number of different ways, including the following:

- A strong health and safety culture. You can read more about the work we did to keep our people, customers, suppliers and visitors to our factories and offices safe on pages 23 and 24.
- The requirement to observe good business practice, including abiding by all applicable laws and regulations that relate to our business.
- The provision of mandatory training to all of our businesses on key legislation and regulations relating to our areas of operation.
- A system of controls and checks underpinned by a rigorous Internal Audit function and in turn overseen by the Audit and Risk Committee.
- Regular and embedded risk assessment and monitoring processes. Please see pages 34 to 44 for more detail about our approach to risk.
- Encouraging and investigating any disclosures made either directly or through our whistleblowing hotline available to employees, subcontractors, suppliers, customers and the general public. Please see page 75.

Sustainability

Coats is a member of the FTSE4Good UK Index and I am pleased that we have moved further up the rankings into the top decile in 2020. This recognition of our strong Environmental Social and Governance ('ESG') and Socially Responsible Investing ('SRI') credentials, as detailed in the Working Responsibly section on pages 23 to 33 of this Annual Report shows our demonstrable commitment to the environment and communities in which we operate. We have also published a separate Sustainability Report which can be found on our website (www.coats.com/sustainability). In this we have provided an update on the seven ambitious targets in the five priority areas of water, energy, effluent & emissions, social and living sustainably that we are aiming to achieve by 2022 and our progress against these. As part of our Remuneration Policy, approved by shareholders at the AGM in 2020, to reflect the importance of the sustainability agenda to our business we now link management remuneration in part to our performance on key sustainability metrics. Coats' leadership ambitions in all our programmes, and the hard work that has gone into supporting these initiatives, are rightfully a source of pride to the Board.

Governance

We recognise that good governance requires Board ownership and accountability for driving the necessary behaviours and culture that we are striving to achieve at Coats. Underpinned by a strong purpose, good governance supports the sustainable growth and superior customer outcomes we are targeting.

This is the second year of reporting under the 2018 UK Corporate Governance Code (the 'Code') and I am pleased to confirm that Coats has applied the principles and complied with all of the provisions. The Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations') and the Code put more emphasis on engagement with stakeholders, diversity, remuneration structures and the strengthening of corporate culture. We have enhanced our disclosures on these throughout this report which I hope demonstrate the high levels of corporate governance maintained within Coats.

Diversity and inclusion

The Code rightly continues to stress the importance of diversity in the composition of an effective Board. I continue to be committed to bringing diversity in its widest sense to the Board including gender, ethnicity, diversity of thought, tenure, age, experience, skills, and geographic, educational, social and professional background.

Further details on the Board's Diversity Policy and our wider approach to diversity and inclusion are contained in the Nomination Committee report set out on pages 71 to 73 of this Annual Report.

Board effectiveness

The way in which the Board has conducted its meetings has had to change during 2020, with meetings taking place via video conference. We reviewed the schedule of our Board and Committee meetings to make sure these were appropriately timed and you can read about the impact this had on page 64. We have worked hard to ensure that our ability to operate effectively has not been adversely impacted by the changed methods of meeting. In particular, I was impressed by our seamless transition to a virtual two-day strategy meeting in September. This year the Board undertook an internally facilitated effectiveness review in accordance with the requirements under the Code. The review highlighted a slight decrease in effectiveness in some areas relative to 2019, as an understandable consequence of the external environment, but given the context of the pandemic the results were pleasing overall. Details of the review, its outcomes and how this will inform the development of the Board's objectives for 2021 can be found on page 65.

CHAIRMAN'S INTRODUCTION CONTINUED

Board composition and succession
I am delighted to welcome Jakob Sigurdsson and Jackie Callaway to the Board. Jakob has more than 20 years' experience in large multinational companies. I look forward to introducing Jakob to shareholders at our upcoming AGM on 19 May 2021 if Covid restrictions allow. Jackie joined the Board as an Executive Director in December and brings 25 years' of industry experience. Jakob's and Jackie's biographies are set out on pages 56 and 58 of this Annual Report.

The 2020 AGM marked the retirement of Alan Rosling from the Board. I would like to thank Alan for his insightful guidance and contribution to the Board over the nine years of his tenure including setting up and chairing the Digital Advisory Council.

Looking forward, Simon Boddie will step down on 31 March 2021. I would like to thank Simon for the excellent contribution he has made to Coats. Amongst his many achievements, he has strengthened the Finance function, successfully delivered a Group refinancing package, helped support the Connecting for Growth global transformation programme and improved our outsourcing effectiveness.

This is my last Corporate Governance report as Chairman of the Company. You can read more about the process used to identify and appoint my successor on page 73 of the Nomination Committee report. During my tenure, the ways in which we do business have changed, with a move to digital and an increased need for speed of delivery. These progressions have caused us to think and act differently, and develop our processes. I take pleasure in reflecting on our culture and the commitment to our high standards of governance that I see at every level and at every site in the organisation. I know that David Gosnell, who will succeed me as Chairman in May 2021, will continue to progress these areas to further enhance our already high standards.

Mike Clasper
Chairman

3 March 2021

'BEING A SOCIALLY RESPONSIBLE COMPANY IS IMPORTANT, NOT ONLY FOR A COMPANY'S BRAND AND LEGACY, BUT INCREASINGLY FOR CUSTOMERS, EMPLOYEES AND THE BOTTOM LINE.'

ECHO LU, NON-EXECUTIVE DIRECTOR

The UK Corporate Governance Code Compliance Statement
Coats complied with all the relevant principles and provisions of the 2018 UK Corporate Governance Code (the 'Code') during the course of the year ended 31 December 2020.

Other information relating to the corporate governance structures is set out over the following pages.

How governance supports strategy

Strategic goal
Profitable sales growth (Read more on page 14)

Key stakeholders

The Board's governance role
The Board approves the Group's strategy and annual operating plan, reviews subsequent progress and makes decisions related to matters reserved for the Board in order to support the delivery of this strategy.

Areas of focus in 2020:
- Regular review of the potential impact of the Covid pandemic on customers' and consumers' behaviour and the Group's strategy and operations
- Applying the Board's strategic understanding of geopolitical and economic risks in international markets to the Company's challenges
- In-depth review of operations and strategy in Brazil, North America and China
- In-depth review of the Apparel & Footwear strategy and operating model including focus on thread and Coats Digital and indepth review of Performance Materials strategy
- Considering acquisitions and divestments as identified and determining appropriate course
- Reviewing the Group's dividend policy

Strategic goal
Continuing to strengthen the core (Read more on page 14)

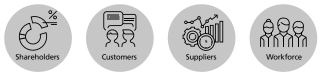
Key stakeholders

The Board's governance role
The Board reviews the strategy for sustainable growth and leverages its collective experience to advise on related matters.

Areas of focus in 2020:
- Received an update on employee views and engagement
- Review of effectiveness of adoption of new ways of working following the Connecting for Growth initiative

Strategic goal
Value creation (Read more on page 14)

Key stakeholders



The Board's governance role
The Board reviews key proposals relating to business capability.

Areas of focus in 2020:
- Regular review of people matters including succession and updates from the Designated Non-Executive Director meetings with employees on culture
- Session at the Strategy Day considering innovation and innovation leadership behaviours
- Ensuring the Company remains at the forefront of developing and embedding best practice in responsible business behaviour
- Considering and monitoring the Group's risk appetite and principal risks and uncertainties and conducting appropriate 'deep dive' reviews of principal risks and health & safety, with a focus on commuting and 'lost time' accidents

'EVERY COMPANY HAS FINITE RESOURCES SO IT'S ESSENTIAL THAT THE BOARD CHALLENGES MANAGEMENT AND HELPS THEM TO PRIORITISE KEY STRATEGIC PROJECTS.'

JACKIE CALLAWAY,

CHIEF FINANCIAL OFFICER DESIGNATE

BOARD OF DIRECTORS

Mike Clasper CBE

N

Position Chairman
Nationality British
Tenure Appointed as a Non-Executive Director on 20 February 2014, Chairman since 16 April 2014. Mike will retire from the Board and as Chairman of the Company in May 2021.

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

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

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

Rajiv Sharma

N

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

Key skills and experience
- 30 years' global multi-industry leadership experience
- Clear strategic mindset

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

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

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

See the Group Chief Executive's statement on page 12.

Simon Boddie

Position Chief Financial Officer
Nationality British
Tenure Appointed as Chief Financial Officer on 4 July 2016. Simon will retire from the Board in March 2021.

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

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

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

Jackie Callaway

Position Chief Financial Officer Designate
Nationality New Zealander
Tenure Appointed as Chief Financial Officer Designate on 1 December 2020.

Key skills and experience
- Strong finance track record
- Experience across multinational manufacturing and supply chain businesses

External appointments
Previously Chief Financial Officer of Devro plc, one of the world's leading manufacturers of collagen products for the food industry. Prior to that was Group Financial Controller of Brambles Limited, the ASX top 20 supply chain logistics company.

Member of Australian Institute of Company Directors since 2017.

Qualifications
Jackie is a Fellow of the Chartered Accountants Australia and New Zealand and has a Bachelor of Business Management Studies from University of Waikato, New Zealand.

Nicholas Bull

A N

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

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

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

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

Anne Fahy

A N

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

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

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

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

See the Audit and Risk Committee report on page 66.

David Gosnell OBE

R A N

Position Independent Non-Executive Director. David will become Chairman of the Board in May 2021
Nationality British
Tenure Appointed 2 March 2015

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

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

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

See the Nomination Committee report on page 71.

See the Remuneration Committee report on page 79.

Hongyan Echo ('Echo') Lu

R N

Position Independent Non-Executive Director
Nationality British / Chinese
Tenure Appointed 1 December 2017

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

External appointments
Chief Executive Officer of Haulfryn Group Ltd, a UK leisure business, and a member of the Advisory Board for Women in Hospitality, Travel and Leisure. Previously Managing Director, International of Holland & Barrett International, Managing Director of Homebase Ltd as part of Home Retail Group plc. Echo spent ten years at Tesco plc in a variety of senior leadership roles. Echo was a Non-Executive Director of Dobbies Garden Centres.

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

BOARD OF DIRECTORS
CONTINUED

Fran Philip
R N

Position Independent Non-Executive Director, Designated Non-Executive Director for workforce engagement
Nationality American
Tenure Appointed 1 October 2016

Key skills and experience
- Extensive speciality retailing business experience
- Deep background in product innovation, design and development
- Workforce dynamics experience

External appointments
Non-Executive Director of Vera Bradley Inc., Totes Isotoner and Vista Outdoor Inc. Previously Fran worked for The Gap, Williams-Sonoma and The Nature Company, and LL Bean, where she initially served as Director of Product Development, Home Furnishings, going on to hold a number of roles including Vice President, Affiliated Brands, before becoming Chief Merchandising Officer until her retirement. Fran was previously a Non-Executive Director of Regent Holdings and an industry executive for Freeman Spogli.

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

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

Jakob Sigurdsson
A N

Position Independent Non-Executive Director
Nationality Icelandic
Tenure Appointed 1 October 2020

Key skills and experience
- International business experience across a diverse range of sectors with particular emphasis on growth in new or developing markets
- Strong background in general management and track record of delivering positive change

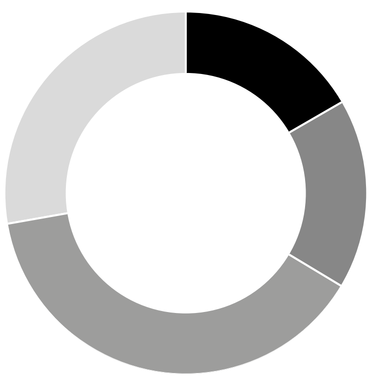
External appointments
Chief Executive Officer of Victrex plc, an innovative world leader in high-performance polymer solutions. Jakob has more than 20 years' experience in large multinational companies, both listed and private, including nine years with Rohm & Haas (now part of Dow Chemical) in the US, as well as Chief Executive of food manufacturer Alfesca in Europe and Chief Executive of Promens.

Between September 2016 and June 2017, Jakob was Chief Executive Officer of VÍS, the largest Icelandic insurance and reinsurance company. He has held various Non-Executive roles and was a Member of the University of Iceland Council and a Non-Executive Director of the Icelandic Technology and Development Board.

Qualifications
Jakob has an BSc in Chemistry from the University of Iceland and an MBA from the Northwestern University.

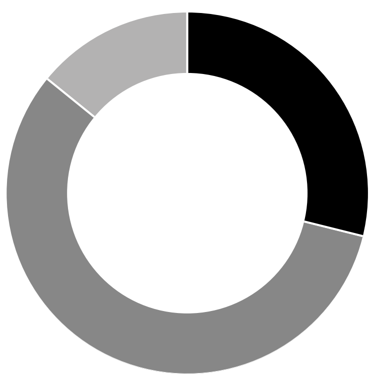
Board profiles (excluding Executive Directors)

Expertise



- 17% Financial
- 17% Digital
- 39% Strategy
- 28% Retail

Length of service



- 29% 0–3 years
- 57% 3–6 years
- 14% 6–9 years

Key to Committee memberships

Committee chair
Committee member
R Remuneration
A Audit
N Nomination

CORPORATE GOVERNANCE

Leadership and engagement

The Board

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

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

Chairman

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

Senior Independent Director

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

Non-Executive Directors

- Contribute to developing our strategy.
- Scrutinise and constructively challenge the performance of management in the execution of our strategy.
- Bring their diverse expertise to the Board and Board Committees.
- Devote such time as is necessary to the proper performance of their duties

Company Secretary

- Provides support to the Board and ensures information is made available to the Board in a timely manner.
- Supports the Chairman on meeting management arrangements including setting the agendas for the Board, administering Board effectiveness reviews, ensuring appropriate Board training and coordinating Board inductions.
- Provides advice on corporate governance matters. All Directors have access to the advice of the Company Secretary.

CORPORATE GOVERNANCE
CONTINUED

Governing documents

Articles of Association
The Articles of Association set out the rules agreed between shareholders as to how the Company is run, including the powers and responsibilities of the Directors.

Coats' Articles of Association are being updated for approval by shareholders at the AGM this year to incorporate best practice and current legal and governance standards.

Service contracts
Details of the Executive Directors' service contracts and the Chairman's and the Non-Executive Directors' letters of appointment are set out in the Directors' Remuneration Report on page 87. These documents are available for inspection at the registered office of the Company during normal business hours and at the AGM. These documents are reviewed regularly.

Committee terms of reference
The Board is assisted by three Board Committees to which it delegates matters as appropriate. Each Committee has full terms of reference that are reviewed annually and have been approved by the Board and which can be found on our website at www.coats.com/en/About/Corporate-Governance/Board-Committees.

Directors' indemnities
The Company maintains Directors' and Officers' liability insurance which provides appropriate cover for legal actions brought against its Directors. Each Director has been granted indemnities in respect of potential liabilities that may be incurred as a result of their position as an officer of the Company. A Director will not be covered by the insurance in the event that they have been proven to have acted dishonestly or fraudulently.

Delegated Authorities
The Coats Delegated Authorities policy is an internal document that sets out the delegations below Board level. It is reviewed and approved annually by the Board. It provides a structured framework to ensure the correct level of scrutiny of various decisions covering matters including contracts, capital expenditure, tax, treasury and HR decisions.

The role of the Board

Strategy The Board is focused on strategic matters and has a forward-looking agenda that considers economic, social, environmental and regulatory issues and any other relevant external matters that may influence or affect the Company's achievement of its goals. The Board holds an annual strategy meeting as well as considering strategic matters at all Board meetings. In 2020, due to Covid, this meeting was held remotely and took place over two consecutive days. The Board considered a wide range of topics including both of our segments and people related matters. You can read more about the Company's strategy on pages 14 to 16.	**Culture** The Board sets the culture of the Group, as described on pages 23 to 35, and uses a number of indicators to inform its regular assessment of whether the culture continues to be appropriate and whether there are any further actions that are necessary. In 2020, monitoring mechanisms included updates from the Designated Non-Executive Director providing direct feedback from the workforce regarding the Group's culture (read more on page 25). At least quarterly people updates, including cultural points, were provided to the Board by the Chief HR Officer and an update was provided at every meeting on our health and safety culture as part of the Chief Executive's report.
Performance and monitoring The Board evaluates and oversees current performance and is responsible for approving annual plans and budgets, results, dividends and announcements, including the going concern and viability statements. Performance monitoring includes non-financial performance such as quality, health and safety, employee wellbeing, environmental and social measures and ethical business practice.	**Leadership and people** The Board is responsible for succession planning and the Remuneration Policy for Board roles, Executive Directors, the Company Secretary and senior management. The Board engages directly with the wider workforce through a variety of channels and monitors policies, practices and behaviour and how they support strategy via reports given at Board meetings.
Internal controls and risk management The Board sets the Company's risk appetite, assesses principal and emerging risks and reviews mitigation plans. Responsibility for monitoring the Company's risk management and internal control systems is delegated to the Audit and Risk Committee. You can read more about our principal and emerging risks on pages 34 to 44.	**Governance and stakeholders** The Board ensures that there is continued full compliance with the Code and with wider statutory and regulatory requirements. The Board acts fairly between stakeholders and engages in appropriate dialogue to obtain the views of stakeholders as a whole. You can read more about our engagement with stakeholders on page 17.
Health and safety and the environment The Board is fully committed to providing a safe place in which our people, suppliers and visitors can work and ensures that we are a considerate neighbour. You can read more about our approach to our Sustainability Strategy on page 28 and about our approach to health and safety on page 23.	

CORPORATE GOVERNANCE
CONTINUED

Committees

Audit and Risk Committee
- Oversees and monitors the Company's financial statements, accounting processes and audits (internal and external).
- Ensures that risks are carefully identified and assessed, and that effective systems of risk management and internal control are in place and appropriately monitored.
- Reviews matters relating to fraud.

See page 66 for more information

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

See page 79 for more information

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

See page 71 for more information

Other committees

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

See page 63 for more details on the members and their individual roles and responsibilities.

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

Digital Advisory Council ('DAC')
The DAC was demobilised in March 2020 as a result of the Covid pandemic.
The DAC previously oversaw the Digital and Technology strategy for the Group. The Group's focus is now on the execution of the Digital and Technology strategy which is being led by a member of the GET. The DAC will continue to provide inputs and insights to the Board and the GET on emerging digital and technology trends, digital business and change management.

GET members' roles and responsibilities

Group Chief Executive

- Responsible for executive management of the Group as a whole.
- Delivers strategic and commercial objectives within the Board's stated risk appetite (see page 34 for more detail on key risks).
- Builds positive relationships with all the Group's stakeholders (see page 17).

Chief Financial Officer and Chief Financial Officer Designate

- Responsible for fiscal control.
- Leads the finance management teams.
- Oversees relationships with the investment community.

Ronan Cox, President, Performance Materials

- Responsible for delivering the overall strategy for Performance Materials, including commercial activities and developing talent, and Group innovation.
- Sector review is on page 47.

Adrian Elliott, President, Apparel and Footwear ('A&F')

- Responsible for the overall strategy for A&F, including the development and delivery of value adding products and customer propositions. Also responsible for Coats Digital and Marketing.
- Sector review is on page 46.

Monica McKee, Chief Human Resources Officer

- Responsible for delivering the global HR strategy, including performance management, progression planning, reward and talent acquisition.

Stuart Morgan, Chief Legal & Risk Officer and Group Company Secretary

- Responsible for legal and compliance, governance, risk management, sustainability, communications, and company secretarial matters. He has oversight of the Group Internal Audit function.
- You can read more about the Group Internal Audit function's work during the year on page 69.

Michael Schofer, Chief Transformation and Digital Officer

- Responsible for business transformation and Digital and Technology.

Paul Turner, President, Business Operations

- Global accountability for business operations, including delivery of business operating profit and responsibility for health and safety, procurement and supply chain planning, together with manufacturing excellence, quality and environment.

As at 31 December 2020, our seven geographic Clusters were each led by a Cluster Managing Director, who reported to the GET, supported by a Cluster Management Committee. From 1 January 2021, an additional extended GET was formed to include these seven Cluster Managing Directors, the Managing Director of Coats Digital and the Group Financial Controller.

CORPORATE GOVERNANCE
CONTINUED

Board and Committee attendance

	Board	Audit and Risk	Nomination	Remuneration	AGM[1]
Mike Clasper	12/12	–	2/2	–	1/1
Rajiv Sharma	12/12	–	2/2	–	0/1
Simon Boddie	12/12	–	–	–	0/1
Jackie Callaway[2]	1/1	–	–	–	0/0
Nicholas Bull	12/12	5/5	2/2	–	0/1
Anne Fahy	12/12	5/5	2/2	–	0/1
David Gosnell	12/12	5/5	2/2	3/4[3]	1/1
Echo Lu	12/12	–	2/2	4/4	0/1
Fran Philip	12/12	–	2/2	4/4	0/1
Alan Rosling[4]	5/5	3/3	2/2	2/2	0/1
Jakob Sigurdsson[5]	3/3	1/1	0/0	–	0/0

1. In line with recommendations and government guidance, the 2020 AGM was held as a 'closed door meeting'. Accordingly, to reduce risk to our Directors and shareholders, the minimum number of shareholders necessary to form a quorum attended the meeting.
2. Jackie Callaway was appointed to the Board on 1 December 2020.
3. David Gosnell did not attend the Remuneration Committee meeting held in November 2020 as the purpose of the meeting was to consider and agree the offer to be made to him as the next Chairman of the Board.
4. Alan Rosling stepped down from the Board on 11 June 2020.
5. Jakob Sigurdsson was appointed to the Board on 1 October 2020

Ensuring effective meetings and decision making through Covid
In order better to assess the impact of the Covid pandemic, to make timely and well-informed decisions and to provide strategic guidance on how the pandemic might impact our people, our business and our operations, the Board increased the frequency of its meetings scheduling additional meetings in March and August. The Board has met virtually from March 2020, using audio-video conferencing, to enable Directors located in different locations and time zones to participate in meetings, with senior executives providing updates and presentations. The length of Board meetings has increased and often has spanned two consecutive days not only to ensure appropriate time to consider the additional matters of focus in 2020 but also to recognise the different dynamic of meeting virtually. This allows the Board to continue to effectively perform and discharge its duties. The annual strategy meeting was held over two days to allow appropriate focus and regular breaks to reflect on the discussion that had taken place. Detailed pre-read was circulated for each area discussed in advance of the meeting and there was a rapid summary provided at the conclusion of the meeting to ensure alignment. The Directors have subsequently confirmed that they found the technology and format of the meeting worked well and was effective in achieving our usual high quality of discussion and agreement on next steps. In addition to the nine Board meetings, three Board calls were held to discuss business matters that the Chairman and Group Chief Executive decided should be considered by the Board.

All Directors received papers for meetings in advance.

In addition to the scheduled meetings, the Senior Independent Director and the Non-Executive Directors meet once a year without the Chairman present in order to appraise his performance. The Chairman and the Non-Executive Directors attended a Board call without management present to discuss, amongst other things, reflections on the annual strategy meeting and the performance of key members of management.

Board evaluation

Formal evaluation is a valuable tool for improvement. With an external evaluation having been carried out in 2019, an internal evaluation of the Board and its Committees was conducted during 2020 in keeping with the guidance provided under the Code.

Review of previous year's evaluation findings and progress help define the scope for this year's evaluation.	→	Evaluation undertaken by a combination of rating scale and open-ended questions on a no-names basis.	→	Recommendations for each of the Committees and the Board analysed and discussed and an action plan was agreed.

The 2020 internal evaluation of the Board and its Committees was led by the Chairman and comprised a questionnaire. The Board values the benefit of a full evaluation of its performance and believes it provides meaningful insight and objectivity to its Committees and Directors, enabling it to improve its leadership, effectiveness and focus. In line with the Code, the Board intends to carry out an internal evaluation in 2021.

The questionnaire sent to Board members focused on the areas identified for improvement last year and also considered the effectiveness of the new ways of working introduced in 2020 as a result of Covid. It also sought to obtain views on certain key corporate governance areas as well as to gauge its own effectiveness. The questionnaire asked Directors to provide an absolute and relative rating and accordingly allowed year-on-year tracking. This is especially important in 2020 when our meetings have predominantly been held remotely. Finally, it gave Directors an opportunity to provide their candid thoughts: what was being done well and what needed to be improved. Views were also sought on the Chairman and Senior Independent Director, as well as the workings of the Committees of the Board.

The questionnaire covered the following areas:

- effectiveness of the Board and Committee meetings including ways of working and information flow during Covid;
- contributions of the Board and its Committees;
- relationships with the GET around the direction and values of the organisation and the decision-making process;
- delivery of strategy against performance measures;
- clarity on the Company's purpose and the Board's oversight of values and culture;
- risk management;
- training and development;
- consideration of each of our identified key stakeholder groups in Board decision making;
- shareholder and stakeholder communications; and
- succession and talent management.

In addition, the Chairman and the incoming Chairman held one-to-one meetings with each Director covering the themes outlined above, the dynamics of the Board, and the training and development needs of the Directors, the areas identified for focus in 2020 to consider if these had been appropriately progressed, as well as any other areas of concern. The results of the internal evaluation led to a detailed Board discussion as, understandably and predictably due to the impact of the changing external environment and the lack of face-to-face interaction resulting from Covid, some respondents noted that there was a decline in some areas of effectiveness relative to 2019. The Board's ways of working in 2020 were rated highly by all respondents, with respondents noting that the Board has adapted well to virtual meetings. The areas identified by respondents for further focus in 2021 are set out below and the actions that are undertaken in relation to these will be provided in the next Annual Report.

Outputs for 2020	Actions for 2021
Succession planning and talent development	People Strategy
Actions taken: Quarterly people updates provided greater insights into below GET level succession and diversity	Executive Succession Planning
Strategy	Inorganic M&A growth opportunities
Actions taken: Focus on Coats Digital, Apparel & Footwear and Performance Materials strategy during strategy meeting	Continuing to focus on the full range of stakeholders in Board discussion and decisions

AUDIT AND RISK COMMITTEE REPORT

Name	Member since
Anne Fahy (Chairman)	2018
Nicholas Bull	2015
David Gosnell	2015
Jakob Sigurdsson	1 October 2020

Principal objectives of the Audit and Risk Committee

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

Key responsibilities

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

Dear Shareholder,

On behalf of the Audit and Risk Committee, I am pleased to present its report for the year ended 31 December 2020. This report sets out how the Committee has discharged the duties delegated to it by the Board, and the key activities and findings during the year.

The duties of the Committee remain unchanged; however the importance of these responsibilities and their discharge have become even more critical given the context of Covid and its impact on our business. Accordingly, we have continued to discuss and challenge the assumptions and judgements made by management in the preparation of published financial information paying special attention to going concern and viability analysis and disclosures and to oversee internal controls, ensuring these remain effective. The Committee has also worked with the Internal Audit function to ensure that their plans were revised and flexed to respond to the evolving Covid impacts and that their remote ways of working ensured appropriate coverage. Given the ongoing impact of Covid, the Committee decided to postpone the planned retender of the external auditor and you can read more about this on page 70.

The Committee continues to have an annual work plan that is linked to the Group's financial reporting cycle and ensures proper coverage of all required areas as well as identifying certain 'deep dives' that are considered in the context of the business' evolving priorities. This year, the Committee reviewed Environmental, Social and Governance ('ESG') external reporting. As part of this review, the Committee noted the intention for ESG disclosures for the year ending 31 December 2021 to be subject to certain external assurance procedures and the evolution of the internal review processes that had already been undertaken to support this aim.

This year the Committee undertook an internally facilitated effectiveness review, including reviews of the effectiveness of the internal and external audit functions, in accordance with the requirements under the UK Corporate Governance Code 2018 (the 'Code') and you can read more about this on page 70.

Alan Rosling stood down as a member of the Committee following his resignation from the Board at the Company's AGM in May 2020. We thank him for his contributions. Jakob Sigurdsson joined the Committee upon his appointment to the Board in October 2020. We are looking forward to working with Jakob and Jackie Callaway, Chief Financial Officer Designate, in 2021.

Anne Fahy
Chairman, Audit and Risk Committee

3 March 2021

Highlights of 2020

- Considering the implications of Covid on the Group's financial statements and internal controls, with a focus on the going concern and long-term viability of the Group as well as whether the carrying value of tangible and intangible assets have been impaired as a result of Covid.
- Ensuring that the Internal Audit function adapt to new ways of working following the travel restrictions of Covid.
- Assessing the appropriate timing for the Group audit tender.
- Deep dive into the Group's controls and process around ESG reporting.
- Improvements in internal controls assessment.

Areas of focus for 2021

- Audit tender.
- Ongoing impacts of Covid.
- Transition in leadership of Chief Financial Officer.
- Developing regulatory environment for audit.

Membership and meetings

During the year, the Committee met four times and met privately with the external auditor once. Details of individual Directors' attendance can be found on page 64. In addition to the Committee members, the Group Chief Financial Officer, the Chief Legal & Risk Officer and Group Company Secretary, the Group Financial Controller, the Head of Group FP&A, the Head of Group Internal Audit, and the external auditor attended parts of these meetings by invitation. The Group Chairman and Group Chief Executive may also attend meetings. The Head of Secretariat acts as Secretary to the Committee. The Chairman of the Committee holds regular meetings with both internal and external auditors, and each has an opportunity to discuss matters with the Committee without management being present.

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

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

The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and depth of financial and commercial, including sectoral, expertise. For the financial year ended 31 December 2020, Anne Fahy and Nicholas Bull were the members of the Committee determined by the Board as having recent and relevant financial experience.

Going concern and viability statements

The Committee reviewed the updated wording of the Group's longer-term viability statement, set out on page 44. To do this, the Committee ensured that the model used was consistent with the approved Business Plan and that scenario and sensitivity testing aligned clearly with the principal risks of the Group. Committee members challenged the underlying assumptions used and reviewed the results of the detailed work performed. The Committee was satisfied that the analysis supporting the viability statement had been prepared on an appropriate basis. The Committee also reviewed the going concern statement, set out on page 76, and confirmed its satisfaction with the methodology including appropriateness of scenario and sensitivity testing. Due to the impact the Covid pandemic has had on the global economy and Coats' trading performance in 2020 the Committee has given additional focus to ensuring that both the basis of preparation of the going concern and viability analysis and the external disclosures are prepared in line with current Financial Reporting Council guidance. The Committee reviewed and challenged the assumptions underlying the forecast models underpinning the going concern and longer-term viability statements including the appropriateness and relevance of the severe but plausible stress tests to ensure adequate liquidity and covenant compliance throughout the relevant periods. The assessment included a review of management's work in conducting a robust assessment of key risks and mitigating strategies.

Fair, balanced and understandable

The Committee considered whether the Annual Report is 'fair, balanced and understandable', in line with the requirements of the Code. The Committee members were consulted at various stages during the drafting process and gave input to the planning process, as well as having the opportunity to review the Annual Report as a whole and discuss, prior to the February 2021 Committee meeting, any areas requiring additional clarity or better balance in the messaging.

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

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

Significant issues relating to the financial statements

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

Issue	Review and conclusion
Impairment of non-current tangible and intangible assets as a result of Covid	The Covid pandemic has caused an increased risk of impairment of assets where there have been interruptions to production and reductions in sales and profitability in the short term. There is also significant uncertainty over how quickly the global economy will recover following the pandemic. The Group's total non-current assets at 31 December 2020 was $673.9 million. The Committee has considered management's assessment of the indicators of impairment, the appropriateness of cash generating units, the assumptions underlying the impairment assessments as well as sensitivity analysis performed. A total impairment charge of $4.9 million was recorded during the year ended 31 December 2020.
Pension matters – valuation of obligations and disclosure	At 31 December 2020, the Group's IAS 19 Pension deficit was $225.8 million. The Committee reviewed the methodology for determining key assumptions underpinning the valuation of liabilities of the Group's most significant pension schemes. The Committee also reviewed in detail the various aspects of the continuing obligations to the Group's ongoing schemes. The Committee is satisfied that these, and the disclosures provided in note 10 to the financial statements, are appropriate.
US legacy environment provision	The Group has recognised a provision, net of insurance reimbursements, of $12.6 million in respect of remediation and legal / professional costs for the Lower Passaic River. The Committee considered management's position on the accounting and disclosure implications surrounding this environmental case, taking into account advice received from external counsel Sive Paget & Riesel P.C. Following the delivery of the US Environmental Protection Agency's Record of Decision in March 2016, the Committee has continued to review whether subsequent events, including those impacting other parties considered to be responsible for the most significant contamination in the river, have triggered the requirement to remeasure the level of remediation provisioning previously established. The Committee is satisfied that there is no requirement to remeasure the remediation provision at 31 December 2020 and that the disclosures provided in note 28 to the financial statements are appropriate.
Taxation	The Group operates in numerous jurisdictions around the world, with different regulations applying in different territories. This complexity together with intra-Group cross-border transactions give rise to inherent risks. In addition to reviewing the Group's underlying effective tax rate which, as a result of Covid, increased from 29% to 39%, the Committee also considered the Group's uncertain tax provisions and deferred tax assets, which amount in total to $15.0 million and $22.7 million respectively. 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.
Overall impact of Covid on financial statements including appropriateness and adequacy of disclosures	The Covid pandemic has had a significant impact on the Group in 2020 with revenue down 16% and pre-exceptional profit attributable to the equity shareholders of the Group down 65% compared to 2019. As a result the pandemic has led to increased risk in certain accounting judgement areas, most notably impairment of tangible and intangible assets, the going concern status of the Group as well as the appropriateness and adequacy of disclosures in the financial statements. During the year the Committee considered management's assessment of the implications of the pandemic on the financial statements, taking into account the latest FRC and other regulatory guidance. The Committee is satisfied that management has responded appropriately to the increased risk that resulted from the Covid pandemic and that the disclosures included in the financial statements are appropriate.

The Committee also received regular updates 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 and emerging risks and the extent of the Group's risk appetite, and for monitoring and reviewing the effectiveness of the Group's systems of risk management and internal control. The principal risks and uncertainties facing the Company are addressed in the Strategic Report and in the table on pages 34 to 44 in this Annual Report. 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 on the effectiveness of internal control matters from management, Internal Audit and the external auditors, as part of its duty to review the Company's internal control processes. This regular monitoring ensured timely identification of issues and formal tracking of remediation plans. During the year, the Committee reviewed detailed reports on internal controls over financial reporting and this included quantitative measures of success. Instances where the effectiveness of internal controls were considered insufficient, including in relation to operational findings in India and the oversight of third party contractors, were discussed during the year with updates being provided to the Audit and Risk Committee. Remediation plans are monitored closely on an ongoing basis.

At its December meeting the Committee, on behalf of the Company, also reviewed effectiveness of the Company's risk management and internal control systems covering all material controls, including operational and compliance controls, and was satisfied that these systems operate effectively in all material respects with weaknesses remediated in a timely fashion. The Committee has also considered management's assessment of the effectiveness of key controls during the pandemic and is satisfied that controls have continued to operate effectively throughout the period despite the challenge of a remote working environment.

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

Internal audit

The Head of Group Internal Audit agrees the Internal Audit function's programme of work annually in advance with the Committee. This year the Committee reviewed the programme regularly to ensure this achieved appropriate coverage of key activities during the pandemic and that ways of working were optimised. At each Committee meeting, the Committee reviews key findings from internal audit reports, receives detailed reports from management where appropriate, and monitors the rate at which actions agreed with management are implemented. The Committee carries out an annual internal review of the effectiveness of the Internal Audit function to satisfy itself that the quality, experience and expertise of the function are appropriate for the business. Key themes considered in the internal audit reports throughout the year included compliance with environmental and regulatory requirements across locations, accuracy of payroll processing for workers including in remote locations as well as the state of compliances by some of Coats' manpower contractors on key regulatory requirements. The Committee also discussed the impact of Covid on audit delivery as well as the use of data analytics by Group Internal Audit to provide assurance. In addition to the above, control weaknesses highlighted as part of an investigation were brought to the attention of the Committee and adequacy of implementation measures arising out of such investigations were also reviewed. Arising out of the Covid situation, the Committee also reviewed the processes in place that enable the Internal Audit function to continue to deliver independent assurance working remotely.

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

External audit

Independence

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

Maintaining an independent relationship with the Company's external auditor is a critical part of assessing the effectiveness of the audit process. Following publication of the FRC's Revised Ethical Standard, the Committee has approved the Company's updated policy on non-audit fees during the year ended 31 December 2020. 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 revised list of all permitted non-audit services following publication of the FRC's Revised Ethical Standard. The auditor is prohibited from providing any services that are not included in the list of permitted non-audit services. Permitted services include audit-related services such as reviews of interim financial information or any other review of accounts required by law to be provided by the auditor.
- Any service that is not on the list of permitted services, if in excess of $25,000, requires the approval of the Committee.
- Engagements entered into prior to 15 March 2020 can be completed in line with the original terms as long as the non-audit work being provided under the transitional arrangements was envisaged at the time the engagement letter was signed.

AUDIT AND RISK COMMITTEE REPORT
CONTINUED

During 2020, the external auditor provided services in relation to the Group's interim results and tax advisory services that were entered into prior to 15 March 2020. 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 fees in relation to the services supplied by the external auditor can be found in note 5 of the financial statements. The ratio is 85/15 audit to non-audit services. The non-audit services primarily relate to long-running tax compliance and advisory services in India and the Committee considered and approved a proposal for the external auditor to continue these works in India. In the case of each engagement, it was considered appropriate to engage Deloitte LLP for the work because of their existing knowledge and experience from prior Group engagements. The Committee discussed with, and received confirmation from, the external auditor that the audit team have not relied on the work performed by their tax teams as part of the audit and their objectivity and independence has been safeguarded.

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

The Code recommends that FTSE 350 companies put their external audit provider out to tender at least once every ten years. The EU Audit Regulation, effective across all Member States from the 17 June 2016, enforces mandatory audit firm rotation after a period of maximum tenure, set at 20 years. Deloitte LLP was appointed the Company's external auditor in 2003 and therefore a new audit firm must be appointed for the year ending 31 December 2023 at the latest. The Board previously intended for the audit tender to take place during 2020; however, the process was deferred as a result of Covid. The Board now intends to undertake a competitive tender process for the external audit during 2021, with the intention of the Board appointing a new audit firm for the year ended 31 December 2022. The tender process will consider Big Four as well as non-Big Four audit firms. There are no contractual obligations that restrict the Company's choice of external audit firm but the restrictions on audit rotation as set out in the EU Audit Regulation preclude Deloitte from the tender process.

Assessment of audit process

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

In respect of the financial year ended 31 December 2020, 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, noting that prior year feedback was acted on. 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 2021.

Assessment of the effectiveness of the Committee

The Committee effectiveness in respect of the year ended 31 December 2020 was evaluated as part of the internal review described on page 65. The key points that were identified in the previous year's assessment were discussed by the Committee to ensure these were adequately addressed and the Chairman provided an update where appropriate.

Looking forward

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

- review any matters relevant to the continued Covid situation;
- continue to monitor legislative and regulatory changes that may impact the work of the Committee;
- conduct a deep dive into key HR policies and controls; and
- consider the impact of proposed audit industry changes.

The Committee's report was approved by a Committee of the Board of Directors on 3 March 2021 and signed on its behalf by:

Anne Fahy
Chairman, Audit and Risk Committee

3 March 2021

NOMINATION COMMITTEE REPORT

Name	Member since
David Gosnell (Chairman)	2015
Rajiv Sharma	2015
Nicholas Bull	2015
Mike Clasper	2014
Anne Fahy	2018
Echo Lu	2017
Fran Philip	2016
Jakob Sigurdsson	1 October 2020

Principal objectives of the Nomination Committee

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

Key responsibilities

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

Highlights of 2020

- Recruitment of Jakob Sigurdsson and ensuring smooth Board succession and induction process.
- Chief Financial Officer succession planning.
- Chairman succession planning.

Areas of focus for 2021

- Senior management succession planning and talent development.
- Monitoring and fostering a successful performance culture.
- Diversity and inclusion, within our ESG strategy, including improvements in gender balance and readiness for succession in our talent pipeline.
- Smooth transition of Chairman and Chief Financial Officer roles.

Dear Shareholder,

I am pleased to welcome you to my first report as Chairman of the Nomination Committee following my appointment to the role in December 2020. There have been some significant changes to the Board during 2020, with the Nomination Committee playing an appropriately central role in the processes. In March 2020 Alan Rosling announced that he would be stepping down and the Nomination Committee oversaw the recruitment of Jakob Sigurdsson. You can read more about that process on pages 72 to 73. In April 2020 Simon Boddie announced that he would be retiring in March 2021 and the Nomination Committee oversaw the process to recruit his successor Jackie Callaway, who joined the Board as an Executive Director in December 2020. Finally, Mike Clasper announced his intention to stand down as Chairman of the Board at the next AGM, triggering the rigorous process that was undertaken to identify me as his successor. You can read more about this on page 73.

In addition to this busy agenda, the Committee has also dedicated time during the year to focus on the combined skill set and capabilities of the Directors to ensure their effectiveness in driving our strategy forward. It also continued to fulfil its core responsibilities of reviewing the structure of the Board and Committees and reviewing its own effectiveness.

Board Diversity Policy

Our objective of driving the benefits of a diverse Board, senior management team and wider workforce is underpinned by our Board Diversity Policy (the 'Policy'), which can be viewed on our corporate website. The Board will continue to keep the Policy under review to ensure that it remains an effective driver of diversity in its broadest sense, having due regard to gender, ethnicity, social background, skill set and breadth of experience. We have a workforce diversity policy that is included in our Coats Key People Principles, which are also available on our website, and mirrors the intention of the Policy.

Diversity and inclusion have continued to be promoted across the business with a number of initiatives, including education and capacity building, resource groups, talent acceleration and development and leveraging data and analytics to help achieve our ambitions. In particular, as a by-product of Covid, the Company has a new flexible working policy. We hope that accommodating more flexible working practices will potentially allow access to a more diverse workforce. You can read more about the work that has been done in this area, and the benefits it brings to the Group, on page 27.

NOMINATION COMMITTEE REPORT
CONTINUED

The Committee continues to focus on these important areas and will continue to consider the various diversity factors set out in the UK Corporate Governance Code 2018 (the 'Code') and the Hampton-Alexander and Parker Reports appropriately. We have 40% female representation on the Board and have two Directors from an ethnic minority background. I am proud of our progress on gender diversity. The recently published Hampton-Alexander Review of FTSE Women Leaders has ranked Coats at number 45 in the FTSE 250 category. The gender diversity across our Group is shown below.

	Male	Female
All employees	58%	42%
Senior managers	77%	23%
Board	60%	40%

You can see more information on the gender split across the Board, senior management team and the Group as a whole in our Sustainability Report, which is available on our website (www.coats.com/sustainability).

Skills matrix
Building the right Board for the Group and the right pipeline means the Committee needs to ensure a good balance of competencies to address the challenges faced as they arise.

The Committee and the Board considers the experience, skills, attributes and capabilities of existing Board members and senior management and challenges the skills matrix in the talent pool. It routinely:

- reviews the competencies and skills of the Board, as a whole, should possess and seeks to build this into succession plans;
- assess what competencies and skills each incumbent Director possesses; and
- considers the character of Directors and their fit with the current Board culture, looking at wider attributes including self-awareness, integrity and high ethical standards.

Succession planning
The Committee, on behalf of the Board, regularly assesses the balance of Executive and Non-Executive Directors, and the composition of the Board in terms of skills, experience, diversity and capacity. The Board tenure tracker is regularly presented to the Committee to ensure that discussions are held well in advance of planned departures to allow appropriate skills gap identification and timely succession. Following Alan Rosling's and Simon Boddie's decisions to retire from the Board, the Committee drew up a candidate selection process.

Candidate section process
External advice: The selection and engagement of independent recruitment consultants who have no other connection to the Company or individual Directors. Russell Reynolds was appointed from a shortlist of three potential consultants for the appointment of Jakob and Inzito was used for the appointment of Jackie.
Consider: The preparation of a longlist of potential candidates which takes into account the outcome of the Committee's latest review of the composition and skill sets of the Board.
Select shortlist: The selection of a shortlist of suitable candidates meeting the Committee's criteria.
Interviews and meetings: Interviews and meetings with the Chairman, Group Chief Executive, other Executive Directors, and with two Independent Non-Executive Directors.
Select candidate.
Take up references.
Appointment.
Induction: See case study on page 73.

When making decisions on new appointments, Board members consider the skills, experience and knowledge already represented on the Board and the benefits of diversity, in all its forms including gender and ethnicity.

The Committee and Board have continued to monitor the Group Executive Team ('GET') and senior management talent pool to ensure that succession planning for business-critical roles is proactively reviewed. In October of this year, the Board received a detailed people update that considered the progress on CEO succession plans, which is reviewed at least annually. There was also a review of the succession plans for our below GET level roles. The Board made specific requests to focus on talent development to enhance this pipeline.

During the year the Committee discussed and approved a policy for senior managers to take on one external Non-Executive Director or equivalent role to allow them to build up their skills as future Board leaders. This has been embraced by members of the GET and several of the team are considering seeking opportunities. We believe that facilitating this development will result in a wider and more diverse talent pipeline in the future.

Induction process – Q&A with Jakob Sigurdsson

The importance of induction and training is recognised by the Committee and the Company has established procedures whereby newly appointed Directors, including Non-Executive Directors, receive a formal induction.

What did your induction programme comprise?

There were deep dives into business units and key functions, an overview of risk management and internal control systems, principal risks, culture and purpose as well as pension matters. I also attended the annual strategy meeting.

Who did you meet?

All my fellow Board members on a one-to-one basis as well as with various members of senior management. I also had meetings with some of our advisers including our brokers.

What did you learn?

Coats serves a diverse range of geographic markets and sectors. There is also a technical transition that the industry is going through. In many ways Coats is in a unique position to capitalise on major trends in the industry, given its history, market presence and resources.

The induction programme for Directors is reviewed periodically and is considered to remain appropriate.

Chair succession process

When Mike announced his decision to retire at the 2021 AGM, it was agreed by the Board that Nicholas Bull would lead a selection committee to undertake necessary activities for identifying his successor. A robust process was undertaken following the identification of me as an internal candidate. Russell Reynolds was engaged, following the review of a shortlist of independent recruitment consultants, to benchmark me against external candidates and conduct a rigorous interview. Following further internal interviews, the selection committee recommended my appointment as Chairman with effect from the 2021 AGM of the Company. I confirm that I am independent on appointment and it was agreed that I would become Chair of the Nomination Committee with effect from the date of the announcement of my appointment. This allows me to lead the process for the appointment of my successor to the Chair of the Remuneration Committee, in line with the Code.

Independence

During 2020, the Committee reviewed the balance of skills, experience and independence of the Board. For Non-Executive Directors independence in thought and judgement is vital to facilitating constructive and challenging debate in the boardroom and is essential to the operational effectiveness of the Coats Board and its Committees.

Prior to Jakob Sigurdsson being appointed as a Non-Executive Director, his significant commitments were disclosed, together with an indication of the time necessary to fulfil these, and these were appropriately considered and approved by the Board. During the course of the year, Board members informed the Chairman of any proposed new external appointments and these were considered and approved by the Board. The Committee is satisfied that the external commitments of its Chairman and members do not conflict with their duties as Directors of the Company and that any situational conflicts have been authorised in line with the process set out in the Company's Articles of Association.

Committee performance and effectiveness

The Committee's performance was evaluated as part of the internal effectiveness review, as described on page 65. The review was completed by all Committee members and routine meeting attendees. The results were broadly positive, with ways of working and dynamics scoring highly. The Committee will continue to increase its focus on succession planning in 2021 including at the GET level.

As I sign off on my first report as Chairman of the Nomination Committee, I take pride in reflecting on the diversity and effectiveness of our Board as set out in these pages and I look forward to continuing to oversee progress in these areas during my tenure.

David Gosnell
Chairman, Nomination Committee

3 March 2021

DIRECTORS' REPORT

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

Annual General Meeting
The Annual General Meeting ('AGM') of the Company will be held on 19 May 2021 at 2.30pm at a location to be confirmed in the Notice of Meeting which will be available from the Company's website, that will be in line with Covid meeting guidelines at that time.

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 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, stakeholder engagement, Section 172 Statement and environmental policy. The 2018 UK Corporate Governance Code is available from the Financial Reporting Council's website (www.frc.org.uk).

Directors
The names and biographical details of the current Directors are shown on pages 56 to 58 of this Annual Report. Particulars of their emoluments and beneficial and non-beneficial interests in shares are given in the Directors' Remuneration Report on pages 87 and 88.

The appointment and removal of Directors are governed by the Company's Articles of Association and the Companies Act 2006. The Directors may, from time to time, appoint one or more Directors. In accordance with the provisions of the Code, all Directors, with the exception of Mike Clasper and Simon Boddie who are not standing for re-election, will retire and submit themselves for election or re-election at the forthcoming AGM.

Directors' Powers
The Board manages the business of the Company under the powers set out in the Company's Articles of Association. These powers include the Directors' ability to issue or buy back shares. Shareholders' authority to empower the Directors to make market purchases of up to 10% of its own ordinary shares is sought at the AGM each year (as set out in the Share Capital section below). The Company's Articles of Association can only be amended, or new Articles adopted, by a resolution passed by shareholders in a general meeting by at least three quarters of the votes cast. As will be set out in the Notice of Meeting, a resolution to update the Article will be proposed at the AGM in 2021. You can read about the proposed changes in the explanatory note to that resolution.

In the event that a Director raises any concerns about the operation of the Board or management of the Company that cannot be resolved, a record would be kept in the Board minutes and this should also be noted in the Director's resignation letter. Further discussion of the Board's activities, powers and responsibilities appears within the Corporate Governance Report on pages 59 to 62. Information on compensation for loss of office is contained in the Directors' Remuneration Report on page 87.

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

Directors' indemnities
The Directors of the Company have entered into individual deeds of indemnity with the Company which constitute 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deeds indemnify the Directors, and the directors of the Company's subsidiary companies, to the maximum extent permitted by law. The deeds were in force for the whole of the year, or from the date of appointment for those appointed during the year. In addition, the Company had Directors' and Officers' liability insurance cover in place throughout the year.

Share capital
Details of the Company's issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 26. The Company has one class of ordinary shares with a nominal value of 5 pence each ('Ordinary Shares'), which does not carry the right to receive a fixed income. Each share carries the right to one vote at general meetings of the Company. There are no restrictions or agreements known to the Company that may result in restrictions on share transfers or voting rights in the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, or on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation. Shareholder authority for the Company to purchase up to 144,605,058 (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 June 2020) of its own Ordinary Shares was granted at the 2020 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 £47,719,669 was granted at the 2020 AGM. No shares were allotted pursuant to this authority during the year. The issued share capital of the Company at 31 December 2020 was approximately £72,603,863 divided into 1,452,077,272 Ordinary Shares.

Since 31 December 2020, 36,672 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 3 March 2021 is 1,452,113,944 Ordinary Shares. The Company's Ordinary Shares are listed on the London Stock Exchange. The register of shareholders is held in the UK. The number of Ordinary Shares of the Company in which the Directors were beneficially interested as at 31 December 2020 are set out in the Directors' Remuneration Report on page 88.

Substantial interests

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

	As at 31 December 2020*	As at 3 March 2021*	Nature of holding
Liontrust Investment Partners LLP	10.52%	10.52%	Direct
Kempen Capital Management N.V.	7.49%	7.49%	Indirect
AXA Investment Managers	5.31%	5.31%	Indirect
Mondrian Investment Partners Limited	5.06%	4.99%	Indirect
Invesco	5.07%	4.97%	Indirect

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

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

Change of control

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

Political donations

No contributions were made to political parties during the year (2019: £nil).

Whistleblowing procedure

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

During the year ended 31 December 2020, there were 83 whistleblowing concerns raised (2019: 119). Of these concerns raised, following investigation 22% of the closed cases were upheld and 8 cases are still under review (2019: 30%). In the case of substantiated concerns, disciplinary action was taken whenever there was any evidence of misdemeanour and training and enhanced controls were implemented wherever appropriate.

Concern is raised via whistleblowing procedure

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

→

Findings are presented to an appropriate member of the GET

Appropriate remedial actions are determined

→

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

Remedial actions may be recommended

DIRECTORS' REPORT
CONTINUED

Going concern
As set out in the Audit and Risk Committee Report on page 67, more frequent reviews of liquidity and financial status have been undertaken during 2020 as a result of Covid. The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement.

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

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

The Directors are satisfied that the Company and Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, 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. In assessing the Group's going concern position, the Directors have considered a number of factors, including the current balance sheet position and available liquidity, the principal and emerging risks which could impact the performance of the Group and compliance with borrowing covenants. Further details are provided in note 1 of the accounts.

Results and dividends
The results of the Group are shown on page 108 and movements in reserves are set out in note 27 to the financial statements.

The Board is mindful of the importance of income to shareholders and, as a result of the strength of the Group's balance sheet and the encouraging recovery out of the Covid pandemic, and given its confidence in the strategy and outlook for the Group, is pleased to propose a final dividend of 1.30 cents per share (2019 final dividend: nil). Subject to approval at the forthcoming AGM, the final dividend will be paid on 25 May 2021 to ordinary shareholders on the register at 30 April 2021, with an ex-dividend date of 29 April 2021.

Going forward, the Board will continue to aim to use the Free Cash Flow the Group generates to fund its pension schemes, self-finance bolt-on acquisitions, and make returns to shareholders. As underlying earnings and cash flows continue to recover from the impact of Covid, the Board intends to return to its previously published progressive dividend policy.

Environmental matters
The Group Risk Management Committee ('GRMC') agreed during 2019 that climate change should be included in the Group Risk Register as a emerging risk and this has been promoted to a principal risk in 2020. This means that it is a Board level issue and therefore that evaluation of risks and opportunities and decisions on appropriate strategies and actions have Board oversight. The GRMC assesses risks and opportunities in detail and makes recommendations to the Board for review and decision.

The involvement of the Group in relation to the Lower Passaic River matter is reported in the Principal Risks section of this Annual Report and can be found on page 43. Further details are contained in note 28 to the financial statements.

Greenhouse gas ('GHG') emissions
For the year ended 31 December 2020, Coats reported the following emissions:

Global thousands of tonnes of CO_2e[1-2]	2020	2019	2018
Scope 1, Direct (Gas, Oil, Coal)	49.5	58.3	64.5
Scope 2, Indirect (Electricity)	182.8	216.4	223.9

1. Based on IEA CO_2 emissions from Fuel Combustion location based factors for Scope 2 conversions, and the UK DEFRA GHG reporting guidance and factors for Scope 1 conversions.
2. Emissions reported are from energy consumption in our global operations. 2018 and 2019 figures are restated to include Pharr HP (acquisition completed 11th February 2020).

This represents a decrease of 20% versus 2019 total emissions on a like-for-like basis. However, the bulk of this reduction is due to the fall in production caused by Covid shutdowns, as shown in the intensity table below.

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 each country for electricity and DEFRA conversion factors for other energy sources. Scope 2 emissions are therefore location based. The resultant figures are then consolidated globally.

Emissions from our five UK office locations in 2020 were 62 tonnes CO_2e and represented 0.03% of our global emissions.

Energy consumption

Millions kWh	2020	2019	2018
Direct (gas, oil, coal)	283.2	390.2	410.9
Indirect (electricity, steam)	393.4	454.5	462.0

Energy consumption in our five UK office locations in 2020 was 313,000 kWh and represented 0.05% of our global energy consumption.

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

2020[1]	2019[3]	2018[3,4]	2017	2016	2015	2014	2013[2]	2012
3.1	3.2	3.2	4.3	4.6	4.5	5.1	5.3	5.6

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

2020[1]	2019[3]	2018[3]	2017	2016	2015	2014	2013[2]	2012
200	192	200	206	219	208	201	212	226

1. 2014–2020 reported figures are based on IEA location based conversion factors for Scope 2 emissions.
2. Scope 2 emissions for 2012–2013 continue to be calculated using DEFRA country level figures derived from IEA data.
3. 2018 and 2019 numbers, including sales used for these, have been restated compared to the 2019 report to include HP Pharr (acquisition completed on 10th February 2020), so 2020, 2019 and 2018 are reported on a like-for-like basis.
4. To reflect the increasing growth of the undyed yarn business in our Company, from 2018 the production basis for these intensity calculations is based on finished production while for 2012–2017 it continues to be based on dyed production.

Further details on activities to reduce energy consumption and emissions can be found in the Working Responsibly section on pages 23 to 31 and in our Sustainability Report which can be found on our website (www.coats.com/sustainability).

Auditor

A resolution to reappoint Deloitte LLP as auditor will be proposed at the 2021 AGM. More information about the consideration of an audit tender can be found on page 70 in the Audit and Risk Committee Report. As a result of Covid, it has been decided that it is in the best interests of the Company and the members to delay the tender of the audit such that the new auditors will be appointed to undertake the audit for the year ending 31 December 2022.

A statement in respect of the auditor, in accordance with Section 418 of the Companies Act 2006, has been included below.

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

Branches

The Company, through various subsidiaries, has branches in several different jurisdictions in which the business operates outside the UK. The full list of subsidiary companies can be found on page 185.

Other information

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

Subject matter	Page(s)
Important events since the financial year-end	176
Likely future developments in the business	6 to 7, 13
Exposure to price risk, credit risk, liquidity risk and cash flow risk	164
Research and development	6 to 7
Information on financial instruments	164
Environmental policy	28
Employment of disabled persons	32
Employee involvement	23 to 27
Stakeholder engagement	17 to 22
Diversity policy	71 (and on our website)

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

On behalf of the Board

Stuart Morgan
Company Secretary

3 March 2021

DIRECTORS' REPORT
CONTINUED

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation and have 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 financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

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

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

This responsibility statement was approved by the Board of Directors on 3 March 2021 and is signed on its behalf by:

Rajiv Sharma
Group Chief Executive

3 March 2021

REMUNERATION COMMITTEE REPORT

Committee Members

Name	Member since
David Gosnell (Chairman)	2015
Echo Lu	2017
Fran Philip	2016
Alan Rosling	2015 (until 11 June 2020)

Key objectives of the Remuneration Committee

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

Key responsibilities

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

‘ALTHOUGH FINANCIAL PERFORMANCE SUFFERED NEGATIVELY BY COMPARISON WITH 2019, THE LEADERSHIP TEAMS TOOK EFFECTIVE ACTION TO SAFEGUARD THE INTERESTS OF SHAREHOLDERS, STAKEHOLDERS, CUSTOMERS AND EMPLOYEES. THE COMMITMENT AND ENGAGEMENT OF ALL OUR PEOPLE AT ALL LEVELS HAS BEEN EXCEPTIONAL.’

DAVID GOSNELL,

CHAIRMAN OF THE REMUNERATION COMMITTEE

I am pleased to introduce the Directors Remuneration Committee Report for 2020. This report includes a summary of the Remuneration Policy, which was approved at the AGM on 11 June 2020, and the Annual Report on Remuneration. A full version of the Remuneration Policy can be found at www.coats.com/governance.

Overview of 2020

The Remuneration Policy operated as intended during the year although business performance was obviously impacted by the challenging consequences of the Covid global pandemic. Although financial performance suffered negatively by comparison with 2019, the leadership teams took effective actions to safeguard the interests of employees, customers, shareholders and other stakeholders. The commitment and engagement of all of our people at all levels has been exceptional. Management focus pivoted very swiftly and effectively at the end of the first quarter of the year to manage the consequences of the pandemic. This was intended to keep all of our employees, customers and suppliers safe, to manage operations in a constantly changing environment as rolling lockdowns were implemented in several countries, to support and maintain an excellent service to our customers and to manage our financial performance so that Coats would weather the storm and emerge in a strong position to win the recovery.

The Board took the decision to reduce base fees and salaries by 20% for the second quarter of the year and all fees and base salaries were frozen at their existing annual levels for the Board, the Group Executive Team and large sections of our employees.

The annual bonus payment for the Executive Directors for 2020 was limited to 7.5% of salary which was linked to the personal objective element of the annual bonus and primarily reflected the effectiveness of their actions in managing the consequences of the pandemic. The financial targets set for the 2020 annual bonus for Sales, EBIT and Free Cash Flow were not adjusted for any Covid impact and the performance for 2020, unsurprisingly, did not reach minimum threshold levels. The Committee exercised its discretion and awarded all of the 2020 bonus at 7.5% of salary in cash in consideration of the fact that Directors had voluntarily accepted a base pay reduction of 5% of salary and both Directors were comfortably ahead of their Minimum Shareholding Requirement.

The Long Term Incentive award granted to Executive Directors on 28 February 2018 for the three-year performance period ended 31 December 2020 did not achieve the performance conditions, primarily due to the unexpected negative impact of 2020 and therefore no awards vested. No adjustment to reflect the pandemic was made to any LTIP performance targets for this award.

REMUNERATION COMMITTEE REPORT
CONTINUED

On 6 March 2020 the Company granted Long Term Incentive awards literally days before the global economic impact of the Covid pandemic began to become apparent. The financial targets for this award have not been adjusted and were disclosed in the 2019 Annual Report on Remuneration and in this report. The Committee will consider these targets in the future and ensure that the incentives support the interests of shareholders and strike an appropriate balance between stretching financial targets and the requirement to set achievable and motivational targets that enable the Company to retain the executives that it needs to achieve its long-term objectives. The Committee will, of course, consider the views of shareholders and consult appropriately should it use its discretion in the future.

During the year the Committee undertook a more detailed review of the remuneration policies applied to all employees globally and this is expected to continue in accordance with the responsibilities of the Committee to consider the alignment of pay for executives and senior management and the rest of the organisation. The Committee also reviewed and approved the adoption of a policy to establish a minimum Living Wage, as an enhancement to any local legally mandated requirements, across all of our locations and based on sourcing data from independent organisations. We are reassured that we have identified only a very small number of examples where our current levels of pay would be below this enhanced minimum and the company is taking action in 2021 to increase pay accordingly.

The Remuneration Policy was subject to an approval resolution at the AGM on 11 June 2020 and received overwhelming support from shareholders at 98.8% and I would like to thank shareholders for their support and comments during the consultation process that we undertook prior to the finalisation of the Remuneration Policy.

Alan Rosling retired from the Board in June 2020 and I would like to thank him for his valued support and contribution to the Committee.

Outlook for 2021

The Company's focus for 2021 will be to emerge stronger and benefit from any recovery as quickly as possible. In the short term there is a renewed focus on sales growth by supporting existing and new customers. The Committee decided to align the short-term annual bonus structure for 2021 to reflect this increased focus on profitable sales growth by equally weighting the measures for Sales and EBIT at 30% each (the weighting for 2020 was 10% Sales and 50% EBIT); the weighting for Free Cash Flow will remain unchanged at 20%; Personal Objectives will also remain at 20%.

The Committee reviewed the measures and weightings for the Long Term Incentive Plan (LTIP) award that we would expect to grant in 2021 and concluded that the current measures of EPS performance (40%), three-year cumulative Free Cash Flow (30%), Sustainability objectives (10%) and Total Shareholder Return (20%) were correctly aligned to the Company's strategic objectives. The targets will be set to reflect the challenging and uncertain external environment and also the potential for recovery from 2020 performance levels. In accordance with the details provided in last year's Remuneration Report and the new approved Remuneration Policy the LTIP grant to the CEO in 2021 will be increased from 150% to 175%.

In March 2021 Simon Boddie will, as previously announced in April 2020, retire as Chief Financial Officer. Simon, as a retiree, will be treated as a good leaver in terms of all equity awards; his performance-related LTIP awards will be reduced pro-rata to reflect his period of employment and will still be subject to the original performance conditions. He will continue to abide by the post-termination Minimum Shareholding requirement for a period of two years following his retirement.

Simon Boddie's successor, Jackie Callaway, was appointed as an external hire on terms that were consistent with the Remuneration Policy which includes pension benefits being aligned to the level with the rest of the UK employees. As stated in last year's report the pension benefit for Rajiv Sharma will be aligned to the rest of the UK workforce by the end of the current Remuneration Policy and his pension contributions will be frozen at their current levels until then.

During 2021 the Remuneration Committee will continue to focus on the policies that apply to the rest of the organisation to ensure that the approach taken to remuneration and recognition for all employees consistently reflects the values and principles of the Company.

I would like to reaffirm our commitment to proactively engaging with shareholders on all issues regarding remuneration and to thank shareholders and the current and former members of the Committee for their support during my tenure as Chairman of the Remuneration Committee.

David Gosnell
Chairman, Remuneration Committee
3 March 2021

REMUNERATION AT A GLANCE

The following is a summary of the key features of the Remuneration Policy that was approved at the AGM on 11 June 2020. The policy can be found at www.coats.com/governance.

Components of remuneration applicable to 2021

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

Fixed components

		Policy
Annual base salary		Executive Directors' salaries are reviewed annually with effect from 1 July. Reference is made to market competitive levels of pay at relevant comparator companies, average salary increases applied elsewhere across the Group, individual performance and experience as well as any changes to the size and scope of the role.
Rajiv Sharma (CEO)	£612,000	
Jackie Callaway (CFO)	£380,000	
Pension		Executive Directors appointed before January 2020 receive defined contributions pensions (and/or cash in lieu thereof) of up to 20% of salary; with effect from 1 January 2020 the pension contributions were fixed at their current level and will not increase with any subsequent salary increase. In 2023 the pensions policy for current incumbents will be aligned to the benefits provided to the average of the rest of the UK workforce. Any new appointments will receive a benefit that is aligned to the average of the UK workforce (currently 12%). 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	
Jackie Callaway (CFO)	12% of salary	

Short-term component

		Policy
Annual bonus		***Maximum award opportunity: 150% of base salary*** Any bonus awarded for the Group Chief Executive for 2021 is subject to mandatory deferral of 50% and a deferral of 40% for the Chief Financial Officer. Deferred bonuses are converted 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.
Maximum opportunities for 2021		
Rajiv Sharma (CEO)	150% of salary	
Jackie Callaway (CFO)	115% of salary	
Performance measures and weightings		
Sales	30%	
EBIT	30%	
Free Cash Flow	20%	
Individual objectives	20%	

Long Term Incentive Plan variable component

		Policy
LTIP		
Maximum opportunities for 2021		***Maximum LTIP award opportunity: 175% of base salary (200% in exceptional circumstances)*** Awards may be made annually; with vesting conditional on three-year performance conditions. Any shares vesting after three years are also subject to an additional two-year holding period. Performance measures and targets are determined by the Committee, taking into account the balance of strategic priorities for Coats for the upcoming three-year performance period. Any LTIP shares awarded are subject to malus and clawback.
Rajiv Sharma (CEO)	175% of salary	
Jackie Callaway (CFO)	150% of salary	
Performance measures and weightings		
Sustainability	10%	
3-year EPS performance	40%	
3-year cumulative Free Cash Flow	30%	
TSR vs FTSE250 (ex. investment trusts)	20%	

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

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 (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 19 May 2021. The current Remuneration Policy applicable to the year ended 31 December 2020 was approved by shareholders at the AGM on 11 June 2020 and can be found in the Corporate Governance section at www.coats.com/governance.

Executive Directors

Three Executive Directors were employed during 2020. Rajiv Sharma was originally appointed to the Board on 2 March 2015 and was appointed as Group Chief Executive with effect from 1 January 2017. Simon Boddie was appointed as Chief Financial Officer on 4 July 2016 and will retire from the Board on 31 March 2021. Jackie Callaway was appointed as a Director on 1 December 2020 and will succeed Simon as Chief Financial Officer following his retirement.

Single total figure for Executive Directors' remuneration for 2020 (audited information)

	Base salary £000		Benefits £000		Annual bonus (cash & shares) £000		LTIP £000		Pension £000		Total £000	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Simon Boddie	**414.2**	429.8	**35.8**	36.8	**32.7**	336.2	**-**	655.2	**87.2**	86.0	**569.9**	1,544.0
Jackie Callaway	**31.7**	-	**1.3**	-	**-**	-	**-**	-	**3.8**	-	**36.8**	-
Rajiv Sharma	**581.4**	603.0	**37.7**	70.8	**45.9**	514.8	**-**	918.9	**122.4**	120.6	**787.4**	2,228.1
Total	**1,027.3**	1,032.8	**74.8**	107.6	**78.6**	851.0	**-**	1,574.1	**213.4**	206.6	**1,394.1**	3,772.1

	Total Fixed Remuneration £000		Total Variable Remuneration £000	
	2020	2019	**2020**	2019
Simon Boddie	**537.2**	552.6	**32.7**	991.4
Jackie Callaway	**36.8**	-	**-**	-
Rajiv Sharma	**741.5**	794.4	**45.9**	1,433.7
Total	**1,315.5**	1,347.0	**78.6**	2,425.1

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

- Benefits: this is the value of all benefits including a car allowance, private medical insurance, life insurance and income replacement insurance. A car allowance of £20,000 per annum is paid to Rajiv Sharma and an allowance of £15,000 per annum is paid to Simon Boddie and Jackie Callaway.
- Annual bonus (cash and shares): is the total value of the annual bonus that is attributable to each year. Forty percent of any bonus outcome for 2019 was compulsorily awarded in shares under the terms of the Deferred Annual Bonus Plan. The bonus award for 2020 was paid fully in cash as referred to in the Committee Chairman's statement and on the next page. Jackie Callaway was not eligible for a bonus payment in 2020 as she joined the Company on 1 December 2020.
- The LTIP values for 2019 have been re-stated to reflect the share price on the vesting dates of 6 March 2020 for Rajiv Sharma and Simon Boddie. The value shown also reflects the cash value of notional dividend equivalents payable on vested shares which are awarded as additional shares on exercise.
- Pension: represents the value of all employer contributions to any pension plan or cash payments paid in lieu of a pension benefit. No Executive Director participates in any defined benefit pension arrangement.
- Rajiv Sharma is a Non-Executive Director of Senior plc and received fees of £50,350 during the year. Simon Boddie is a Non-Executive Director of PageGroup plc and, from 1 October 2020 LTG plc. He received fees of £66,025 and £12,500 respectively during the year. The policy of the Board is that Directors are entitled to retain any fees in respect of external appointments.

Annual bonus outcome 2020 (audited information)

The annual bonus for 2020 was determined in accordance with the details provided in the 2019 Directors' Remuneration Report. Details of the bonus measures and opportunities are provided in the table below.

Annual bonus 2020	Weighting		Bonus opportunity (% of max bonus)		Performance achieved in 2020 (% of max bonus)	
Performance Measure		Threshold	Target	Maximum	Simon Boddie	Rajiv Sharma
Group Sales	10.0%	0%	5.0%	10.0%	0%	0%
Earnings Before Interest and Taxation (EBIT)	50.0%	0%	25.0%	50.0%	0%	0%
Free Cash Flow (adjusted) (FCF)	20.0%	0%	10.0%	20.0%	0%	0%
Individual objectives	20.0%	0%	10.0%	20.0%	6.5%	5%
Total	100.0%	0%	50.0%	100.0%	6.5%	5%
Maximum Bonus (% of salary)					115%	150%
Total (% of salary)					7.5%	7.5%

The measures were selected to incentivise a balance of outcomes that reflected the strategic priorities for the Group at the beginning of 2020. In particular these were 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 2020	Weighting			Bonus targets $m	Performance achieved in 2020
Performance targets		Threshold	Target	Maximum	
Group Sales (US$m)	10.0%	1,485.0	1,523.1	1,561.2	1,190.6
EBIT (US$m)	50.0%	200.0	210.5	221.0	111.2
FCF (adjusted)	20.0%	88.0	98.0	108.0	26.5
Individual objectives	20.0%	Strategic objective			See table above

Targets are set in relation to budget for the upcoming financial year and the figures in the table above reflect the 2020 Plan exchange rates. The performance reflected in the table above reflects the figures disclosed in this Annual Report adjusted to exclude the impact of any exchange rate fluctuations during the year ($27.3m for Sales, $0.6m for EBIT, and $-1.5m for FCF respectively). For the 2020 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 2020 are reflected in the table on the next page. However, as the impact of Covid pandemic began to be felt in March 2020 the focus of the Board switched to managing the operational consequences of the pandemic. The Committee did not adjust the original targets for Group Sales, EBIT and FCF that were set at the beginning of 2020. As noted in the table above the financial impact of Covid resulted in no payments under the three financial elements of the bonus. The Committee determined an award under the individual objectives element for each Exeutive Director.

The payment awarded at 7.5% of salary was aligned to the payment (at the same percentage of salary) awarded to over 4,500 eligible employees globally and was linked to achieving a minimum level of EBIT performance of over $100m and an acceptable level of cash collection that resulted in a net debt to EBITDA ratio of no more than 2.2 times. The Committee exercised discretion to not award a proportion of bonus in shares because the level of bonus outcome was materially lower than normal due to circumstances that were beyond the control of management, because each Director had already exceeded their respective Minimum Shareholding Requirements and because each Executive Director had voluntarily agreed to incur a 5% annual base pay reduction in the period April to June 2020.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Personal objectives linked to 2020 bonus

At the beginning of the year the Committee determined that the following personal objectives would be linked to 20% of the annual bonus outcome. All objectives were equally weighted.

Rajiv Sharma	To exceed planned sales growth by 3%; to leverage digital and data science to deliver a material basis points improvement in gross profit (precise target commercially sensitive);to close at least one acquisition and maintain a robust acquisition pipeline.
Simon Boddie	To close at least one acquisition; to maintain a robust acquisition pipeline and to successfully integrate Pharr into Coats; to build management capability and strengthen the succession plans in the finance function; a specific objective regarding more detailed engagement with non-UK and specialist investors.

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

As explained earlier in this report Covid began to impact business operations in early 2020. Initially this impact was limited to Coats' operations in China and then from March 2020 very swiftly impacted operations globally as the pandemic spread. The focus of management switched to managing the consequences of the pandemic on Coats operations. This focus centred around five priorities; health and safety, cash management, maximising sales, supporting our customers and maintaining critical elements of our supply chain. These priorities were communicated to all employees globally and formed the basis of the action planning to deal with the impact of Covid on operations.

The Committee determined that the level of personal objective achievement for the Executive Directors would be linked to the extent to which the priorities were effectively managed and, assuming an acceptable level of performance versus the five priorities, that the value of any payment as a percentage of salary would be limited to what was paid to over 4,000 eligible employees globally. The payment to the wider workforce was in recognition for their efforts to effectively manage the consequences of the pandemic and the personal sacrifices (including salary reductions) that were made. The payment to eligible employees was subject to the Group achievement of a minimum of $100m for EBIT and the achievement of cash collection so that at the year end the net debt to EBITDA ratio was less than a multiple of 2.2. The level of payment awarded to eligible employees was 7.5% of salary and this was the payment determined by the Committee for the purposes of the bonus payments for the Executive Directors.

Long Term Incentive award vesting (audited information)

On 28 February 2018 Rajiv Sharma and Simon Boddie were granted Long Term Incentive Plan awards in the form of nil cost options over shares in respect of the performance period 1 January 2018 to 31 December 2020 (referred to as LTIP 2018).

The performance measures were based upon the Total Shareholder Return Performance (TSR), compound annual growth (CAGR) in Earnings Per Share and cumulative Free Cash Flow relating to Coats Group plc. In considering the outcome the Committee considered the sale of the Crafts North America business which was divested in February 2019; EPS growth targets remained unchanged although Crafts North America was removed from the 2017 base year for the purposes of the EPS CAGR calculation and the cumulative Free Cash Flow target was adjusted downwards by $15m to reflect the removal of the discontinued business in 2019 and 2020. The downward adjustment to the target was based on the most recent cash contribution of the discontinued business. The achievement of the Long Term Incentive Plan performance measures and the consequent vesting of the award is shown in the table below. The award has not vested.

LTIP 2018: Performance period 1 January 2018 to 31 December 2020

Measure	Weighting	Threshold	Mid	Maximum	Actual
Compound Annual Growth in Attributable Profit	40.0%	7.0%	10.0%	15.0%	-24.7%
Vesting % of total award		10.0%	19.0%	40.0%	0%
Cumulative Free Cash Flow over 3 years	40.0%	$290m	$320m	$350m	$239.8m
Vesting % of total award		10.0%	25.0%	40.0%	0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5th Percentile	Upper Quartile	39th Percentile
Vesting % of total award		5.0%	12.5%	20.0%	0%
Total	**100.0%**	**25.0%**	**56.5%**	**100.0%**	**0%**

Share awards granted in 2020 (audited information)

The following share awards were granted to Executive Directors during the financial year ended 31 December 2020. 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	6-Mar-20	1,110,356	£654,000	150%	£0.589	25%	1 Jan 2020 to 31 Dec 2022	6-Mar-23
Rajiv Sharma	6-Mar-20	1,558,573	£918,000	150%	£0.589	25%	1 Jan 2020 to 31 Dec 2022	6-Mar-23

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	6-Mar-20	228,310	£134,475	30.8%	£0.589	None	6-Mar-23
Rajiv Sharma	6-Mar-20	349,640	£205,938	33.7%	£0.589	None	6-Mar-23

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 £0.589 for 6 March 2020.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Coats Group plc Long Term Incentive Plan

Awards were granted on 6 March 2020 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.

Coats Group plc Deferred Annual Bonus Plan

Any awards are not subject to additional performance measures but are subject to clawback in certain circumstances such as gross misconduct or a material mis-statement of results.

Long Term Incentive Plan awards performance measures

The performance measures applicable to awards granted in respect of the three-year performance period that commenced on 1 January 2020 (LTIP 2020) 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 2020 (LTIP 2018).

LTIP 2020 Measures	Weighting	Threshold	Mid	Maximum
Compound Annual Growth (CAGR) in Earnings Per Share	40.0%	5.0%	10.0%	15.0%
Vesting % of total award		10.0%	25.0%	40.0%
Cumulative Free Cash Flow over 3 years	30.0%	$296m	$326m	$356m
Vesting % of total award		7.5%	18.75%	30.0%
Total Shareholder Return versus the FTSE250 excluding investment trusts	20.0%	Median	62.5th Percentile	Upper Quartile
Vesting % of total award		5.0%	12.5%	20.0%
Sustainability Goals (see details below)	10.0%	See below		
Vesting % of total award		2.5%	6.25%	10.0%
Total	**100.0%**	**25.0%**	**62.5%**	**100.0%**

The Board will consider the growth in normalised EPS, adjusted to exclude the impact of exceptional costs such as property gains or losses and the impact of variation of the IAS19 (pensions finance) charge. Free Cash Flow targets are based on cumulative Free Cash Flow generated for each year of the performance period after maintaining the Company's asset base i.e. operating cash flow minus capital expenditure, adjusted to reflect any exceptional items, disposals, acquisitions or property gains or losses. Targets are established on a basis that is before any UK pension scheme deficit repair contributions.

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

As disclosed in last year's report Sustainability goals are included in the performance measures for the first time. The specific targets are:

Water: by 2022 to achieve a 40% reduction, from a 2018 baseline, of water usage per kilogram of thread production.

Energy: by 2022 to achieve a 7% reduction, from a 2018 baseline, of kWH per kilogram of product made.

Effluent and emissions: by 2022 to achieve compliance with Zero Discharge of Hazardous Chemicals effluent standards.

Social: to achieve Great Place to Work accreditation for locations that cover 80% of employees worldwide and to enable all employees to contribute to community support activities.

Sustainability: reduce waste by 25%, from a 2018 baseline, and progress towards achieving the 2024 goal that all premium polyester thread will be from 100% recycled meterial.

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 response to the Covid pandemic the fee levels for the Chairman and the Non-Executive Directors were reduced by 20% in the period April to June and there was no annual increase in 2020. The base fee of £60,000 per annum has remained at the same level since 1 October 2013.

Single total figure for Non-Executive Directors' remuneration for 2020 (audited information)

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

	Base fee £000		Supplementary fee £000		Benefits[1] £000		Other fee[2] £000		Total £000		Comments
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	
Mike Clasper	**237.5**	250.0	-	-	-	3.8	-	-	**237.5**	253.8	
Nicholas Bull	**57.0**	60.0	**9.5**	10.0	-	3.3	-	1.5	**66.5**	74.8	
Anne Fahy	**57.0**	60.0	**11.9**	12.5	-	0.3	-	1.5	**68.9**	74.3	
David Gosnell	**57.0**	60.0	**11.9**	12.5	-	3.2	-	1.5	**68.9**	77.2	
Echo Lu	**57.0**	60.0	-	-	-	0.4	-	1.5	**57.0**	61.9	
Fran Philip	**57.0**	60.0	**7.1**	7.5	-	-	**1.5**	7.5	**65.6**	75.0	
Alan Rosling	**24.7**	60.0	**2.4**	7.5	-	-	**1.5**	7.5	**28.6**	75.0	Resigned 11-Jun-20
Jakob Sigurdsson	**15.0**	-	-	-	-	-	-	-	**15.0**	-	Appointed 1-Oct-20
Total	**562.2**	610.0	**42.8**	50.0	-	11.0	**3.0**	21.0	**608.0**	692.0	

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.

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

The base fee paid by Coats Group plc is £60,000 per annum for Non-Executive Directors and £250,000 for the Chairman.

A supplementary fee is paid to the Senior Independent Director (£10,000 per annum) and Chairs of the Audit and Risk Committee and Remuneration Committee (£12,500 per annum). Alan Rosling received an additional fee of £7,500 per annum fulfilling a role as Chair of the Company's Digital Advisory Committee until his resignation and Fran Philip receives £7,500 per annum for undertaking additional responsibilities concerning employee engagement.

Payments for loss of office (audited information)

There have been no payments for loss of office during the year. Alan Rosling resigned from the Board on 11 June 2020.

Payments to former Directors (audited information)

There were no payments to former Directors during the year.

Directors service agreements and appointment letters

All Executive Directors, Rajiv Sharma, Simon Boddie and Jackie Callaway, have service agreements which provide for a notice period from either side of twelve months. With the exception of Simon Boddie, who will retire from the Board and the Company on 31 March 2021, all of this notice is unexpired. No appointment letters for Non-Executive Directors, including the Chairman, contain a notice period. All service agreements and appointment letters for Directors are available for inspection at the Company's registered office during normal hours of business and will also be available for inspection at the Company's Annual General Meeting.

DIRECTORS' REMUNERATION REPORT
CONTINUED

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

The interests of the Directors who held office during the year, and their closely associated persons (if any), in the shares, options and listed securities of Coats Group plc and its subsidiaries as at 31 December 2020, are set out below.

	Shareholding requirement in 2020			Shares beneficially owned		Deferred bonus shares subject to vesting period		LTIP share options (subject to performance conditions)		Share options (no performance conditions)	
	Number of shares	Equivalent % of salary[3]	Condition met?	01-Jan-20[1]	31-Dec-20[2]	01-Jan-20[1]	31-Dec-20[2]	01-Jan-20[1]	31-Dec-20[2]	01-Jan-20[1]	31-Dec-20[2]
Executive Director											
Simon Boddie	1,450,000	200%	Yes	300,000	300,000	316,121	472,925	2,619,915	2,634,381	1,451,723	2,573,091
Jackie Callaway	1,250,000	200%	No	-	75,078	-	-	-	-	-	-
Rajiv Sharma	2,050,000	200%	Yes	400,000	4,039,012	557,800	696,226	3,674,815	3,696,402	5,743,046	-
Chairman and Non-Executive Directors											
Mike Clasper			N/A	1,490,000	1,690,000	-	-	-	-	-	-
Nicholas Bull			N/A	500,000	500,000	-	-	-	-	-	-
Anne Fahy			N/A	–	40,000	-	-	-	-	-	-
David Gosnell			N/A	786,475	1,099,990	-	-	-	-	-	-
Echo Lu			N/A	15,000	15,000	-	-	-	-	-	-
Fran Philip			N/A	-	25,000	-	-	-	-	-	-
Alan Rosling			N/A	-	-	-	-	-	-	-	-
Jakob Sigurdsson			N/A	-	-	-	-	-	-	-	-

1. Or date of appointment, if later.

2. Or date of resignation, if earlier.

3. The target number of shares is based on the average share price for 2020 which was 58.67p.

The Executive Directors' shareholding requirement must be met within five years of their appointment to the Board (2 March 2020 for Rajiv Sharma, 4 July 2021 for Simon Boddie and 1 December 2025 for Jackie Callaway). There is no requirement for Non-Executive Directors. For the purposes of achieving this target the total number of shares beneficially owned by the Executive Director or a closely associated person is considered as well as the estimated post-tax number of vested but unexercised share options or deferred bonuses that are not subject to a performance condition. All Long Term Incentive Plan awards granted to Executive Directors from 29 July 2016 onwards include a requirement to retain any vested shares (save for any shares that may be sold to satisfy income tax liabilities) until a minimum of the fifth anniversary of the date of grant.

Details of scheme interests as at 31 December 2020 (audited information)
Rajiv Sharma

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP18	4 -Mar-21	N/A	4-Mar-28	184,542	Unvested	No
DABP19	4-Mar-22	N/A	4-Mar-29	162,044	Unvested	No
DABP20	6-Mar-23	N/A	6-Mar-30	349,640	Unvested	No
Sub-total				696,226		
LTIP share options (subject to performance conditions)						
LTIP18	4-Mar-21	4-Mar-23	4-Mar-28	1,044,578	Unvested	Yes
LTIP19	4-Mar-22	4-Mar-24	4-Mar-29	1,093,251	Unvested	Yes
LTIP20	6-Mar-23	6-Mar-25	6-Mar-30	1,558,573	Unvested	Yes
Sub-total				3,696,402		

Share options (exercised during the year)

Award	Vesting date	Retention period	Expiry date	No.	Dividend equivalents	Exercise date	Share price on exercise
LTIP14	24-Feb-17	N/A	24-Feb-25	749,781	–	17-Dec-20	£0.6940
LTIP15	7-Apr-18	N/A	7-Apr-25	1,612,359	18,474	17-Dec-20	£0.6940
DABP15	7-Apr-18	N/A	7-Apr-25	482,925	5,533	17-Dec-20	£0.6940
LTIP16	2-Mar-19	N/A	26-Feb-26	2,448,595	58,136	17-Dec-20	£0.6940
DABP16	26-Feb-19	N/A	26-Feb-26	449,386	10,515	17-Dec-20	£0.6940
LTIP17	5-Mar-20	27-Feb-22	27-Feb-27	1,472,432	88,700	17-Dec-20	£0.6940
DABP17	5-Mar-20	N/A	27-Feb-27	211,214	12,723	17-Dec-20	£0.6940
Sub-total				7,426,692	194,081		

All of the above share option exercises awards are nil priced share options. Details of each award were disclosed in each relevant Single Figure remuneration table in previous reports.

Awards subject to a retention period must be held until for the duration of the retention period although a proportion may be sold to cover personal tax obligations if an exercise occurs before the end of the retention period. Mr Sharma sold 47% of shares acquired on exercise from all awards and retained the balance.

Dividend equivalents are added to vested options at the point of exercise. The number of dividend equivalents is based on the cash value of dividends paid in the period from grant to vesting or, if applicable, from grant to any later retention period and the share price at the vesting date.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Simon Boddie

Award	Vesting date	Retention period	Expiry date	No.	Status	Performance conditions?
Deferred bonus shares subject to vesting period						
DABP18	4-Mar-21	N/A	4-Mar-28	130,384	Unvested	No
DABP19	4-Mar-22	N/A	4-Mar-29	114,231	Unvested	No
DABP20	6-Mar-23	N/A	6-Mar-30	228,310	Unvested	No
Sub-total				472,925		
LTIP share options (subject to performance conditions)						
LTIP18	4-Mar-21	4-Mar-23	4-Mar-28	744,578	Unvested	Yes
LTIP19	4-Mar-22	4-Mar-24	4-Mar-29	779,447	Unvested	Yes
LTIP20	6-Mar-23	6-Mar-25	6-Mar-30	1,110,356	Unvested	Yes
Sub-total				2,634,381		
Share options (no performance conditions)						
LTIP16	29-Jul-19	29-Jul-21	29-Jul-26	1,451,723	Vested	No
LTIP17	27-Feb-20	27-Feb-22	27-Feb-27	1,049,862	Vested	No
DABP17	5-Mar-20	N/A	27-Feb-27	71,506	Vested	No
Sub-total				2,573,091		

No options have been exercised by any Director between the year end and the signing of this report. No other Directors have entered into any transactions since the year end.

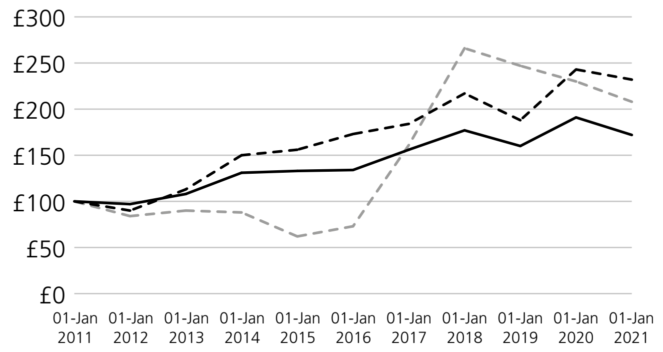
The middle market price of Coats Group plc shares at 31 December 2020 was 68.2 pence and the range during the year was 36.5 pence to 79.6 pence.

Review of performance

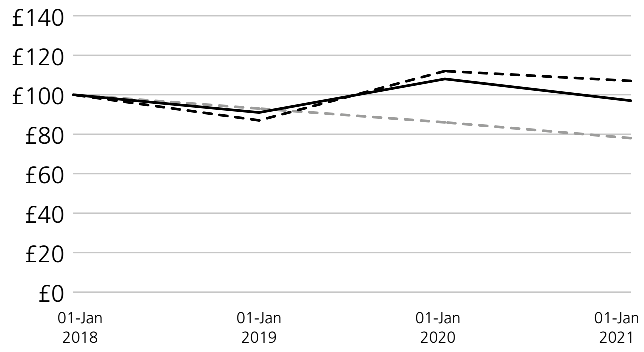
The graph (below left) shows the difference between investing £100 in the Company and the constituents of the FTSE All Share Index and FTSE 250 from 1 January 2011 to 31 December 2020. It is assumed dividends are reinvested over that period. The Board feels the FTSE All Share Index and the FTSE 250 each 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 2020.

Historical TSR performance
Growth in the value of a hypothetical £100 holding since 1 January 2011 (with all dividends reinvested)



Historical TSR performance
Growth in the value of a hypothetical £100 holding since 1 January 2018 (with all dividends reinvested)



FTSE250 Index — FTSE All-Share Index — Coats

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

Executive Director	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO single figure of remuneration (£k)	–	–	–	–	1,017.0	1,760.3	2,566.9	3,356.7	2,228.1	787.4
Annual bonus as a % of maximum opportunity	–	–	–	–	87.1%	77.0%	79.5%	66.7%	67.3%	5.0%
LTIP award as a % of maximum opportunity	–	–	–	–	–	43.6%	60.0%	84.2%	95.8%	0%

Director’s remuneration – percentage change from 2019 to 2020

	Salary	Benefits[3]	Bonus
Executive Directors			
Rajiv Sharma	-3.6%	-46.8%	-91.1%
Simon Boddie	-3.6%	-2.7%	-90.3%
Jackie Callaway	Appointed 1 December 2020		
Non-Executive Directors			
Mike Clasper	-5%	0%	N/A
Nicholas Bull	-5%	0%	N/A
Anne Fahy	-5%	0%	N/A
David Gosnell	-5%	0%	N/A
Echo Lu	-5%	0%	N/A
Fran Philip	-5%	0%	N/A
Alan Rosling	Resigned 10 June 2020		
Jakob Sigurdsson	Appointed 1 October 2020		
Average of all employees[2]	0%	0%	-51.4%

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

2 The average of all employees reflects the total number of employees based in the UK. The UK has been chosen as the most appropriate comparator group because the CEO is based in the UK and the majority of Coats employees who are employed outside the UK are working in locations with very different inflationary and market pressures. The UK employee population includes employees across all levels of the organisation. A reduction of pay was applied in the second quarter of 2020 but this was matched by a ccrresponding reduction in hours.

3. The significant decrease for benefits in 2020 for the CEO arises because of the level of one-time relocation related benefits provided in 2019.

4. Non-Executive Directors do not receive benefits-in-kind however, figures are disclosed in the benefits Single Figure table to reflect business expense payments that are regarded as taxable by the UK tax authority. Year-on-year variations in the reported taxable benefits value have been ignored for this purpose unless there is the provision of a material specific benefit or if the difference in benefit is greater than £5,000 from one year to the next.

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 2020	Year to 31 December 2019	% change
Employee costs (US$m)	**272.1**	303.0	(10)%
Distributions to shareholders[1] (US$m)	–	24.4	(100)%
Average number of employees	**17,082**	16,876	1%
Revenues from continuing operations (US$m) – CER basis	**1,163.3**	1,356.0	(14)%
Operating profit pre-exceptional (US$m) – CER basis	**110.6**	195.3	(43)%

1. By way of dividends.

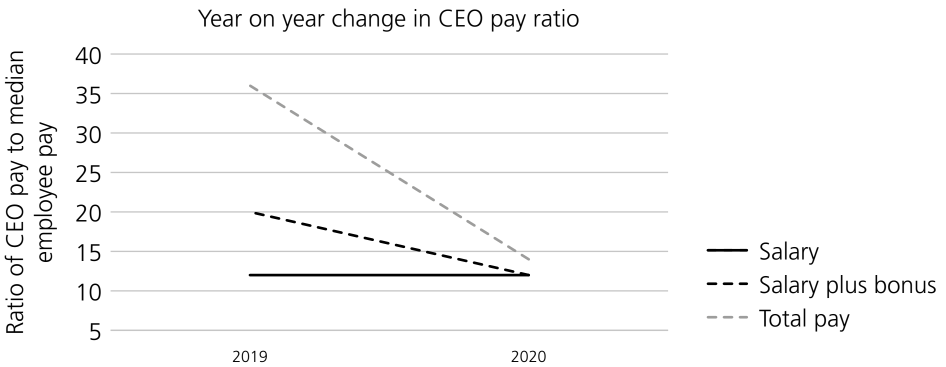
DIRECTORS' REMUNERATION REPORT
CONTINUED

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 2020 and 2019 have been stated on the basis of continuing operations only. Information for 2020 includes acquisitions made during the year. The figures for revenues and operating profit are on a constant exchange rate (CER) basis with amounts for 2019 restated at 2020 exchange rates.

CEO pay ratio

Coats is not required to publish a CEO pay ratio as the Group employs less than 250 employees in the UK. However, the Company publishes a disclosure on a voluntary basis.

		Salary			**Salary plus bonus**			**Total pay**		
Financial year	Calculation methodology	P25	P50	P75	P25	P50	P75	P25	P50	P75
2019	A	21	12	8	37	20	11	58	36	19
2020	A	20	12	7	20	12	7	20	14	7



The ratio of pay has remained constant considering that no salary reviews were awarded during 2020 and the CEO ratios that reflect incentive pay have reduced considerably due to the much lower bonus outcome in 2020 and no vesting of long term incentive awards. The lower quartile, median and upper quartile employees were identified on the basis of full-time equivalent total remuneration and benefits in the twelve month period ending 31 December 2020 (this is referred to as methodology A according to the Regulations). This calculation methodology was selected as it was the closest comparative methodology to the basis on which the remuneration for the CEO is disclosed for the year ended 31 December 2020. The UK workforce is the most appropriate comparator group because the CEO is UK based and the pay of the global workforce is subject to very significant fluctuations due to local inflationary pressures and foreign exchange rate movements.

The Committee has considered the pay data for the three individuals identified and concludes that the median ratio is a fair reflection of the movement of pay and reward within the UK workforce especially considering that the pay for all three individuals does not include any share-based incentive remuneration. In addition, the data was compared to the average of five individuals above and below their remuneration in terms of total compensation and mix of pay for the year to 31 December 2020 to ensure the percentile ranking for each individual was comparable to all individuals within that quartile grouping. No adjustments have been made to the remuneration other than to ensure that the remuneration is equivalent to a full-time employee and where a performance bonus is relevant an assumption, based on the average attainment for the element linked to personal performance has been assumed. The Committee is satisfied that any assumptions do not have a material impact on the selected reference employee nor on the calculated ratio. The remuneration details for the individuals are shown below.

	CEO	**P25**	**P50**	**P75**
Base pay	£581,400	£28,500	£48,925	£85,500
Base and bonus	£627,300	£30,750	£52,788	£92,250
Total remuneration	£787,392	£38,574	£57,099	£106,906

A significant proportion of the CEO's remuneration is appropriately linked to the Company's performance and share price movements over time which may fluctuate materially over time. To enable a comparison to be made which reflects this element of variable pay a ratio has been calculated which reflects base pay and base pay and bonus.

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

Statement of implementation of Remuneration Policy for 2021
Base salaries for Executive Directors and fees for the Non-Executive Directors will be reviewed on 1 July 2021. The Chairman's fee will remain £250,000 per annum from 1 July 2021 following David Gosnell's appointment.

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

Jackie Callaway will receive a base salary of £380,000 per annum; a pension benefit of 12% per annum which will increase following any salary review; a car allowance of £15,000 per annum; medical, life and income replacement insurance. As part of the terms of her recruitment she will also be entitled during 2021 to a maximum cash payment of £100,000 as compensation for the loss of an annual bonus from her previous employer. The Committee will determine the amount of the payment in 2021 when it is possible to verify the extent of the loss incurred from information that will be publicly available. It is a condition of the payment that by 31 December 2021 Jackie will have purchased Coats shares of equivalent value of the net compensation paid. The payment will be disclosed in next year's report.

Simon Boddie will receive until his retirement on 31 March 2021 a base salary of £436,000 per annum, a fixed pension allowance of £87,200 per annum, a car allowance of £15,000 per annum, medical insurance, life insurance and income replacement insurance. He will be eligible for a pro-rata bonus for 2021 based on three months service which will be paid fully in cash. No further equity awards will be granted and he will be treated as a retiree for the purposes of all Long Term Incentive and Deferred Annual Bonus awards.

In accordance with the Remuneration Policy approved by shareholders on 11 June 2020 the LTIP opportunity for the Chief Executive Officer will be increased from 150% to 175% and the maximum annual bonus opportunity will remain 150%. The maximum bonus opportunity for other Directors will be 115% and the LTIP opportunity for Jackie Callaway will be 150%; no LTIP award will be granted to Simon Boddie in 2021 and he will be regarded as a retiree for the purposes of all existing awards. The compulsory three-year deferral into shares of the 2021 bonus outcome will be 50% for the Chief Executive Officer (Rajiv Sharma) and 40% for the Chief Financial Officer (Jackie Callaway). No deferral will be applied to any pro-rata bonus awarded to Simon Boddie following his retirement. A post-termination minimum shareholding requirement applies to all Executive Directors for two years following termination of employment based on 100% of the MSR or the actual shareholding at termination.

The performance measures and weightings for annual and long term incentives are shown below. For the annual bonus the weightings for Sales will be increased from 10% to 30% and the EBIT measure will be decreased from 50% to 30%. As referred to in the Committee Chairman's opening statement this is to reflect the Company's focus for 2021 of maximising sales growth from 2020 to recover sales from existing customers and to gain market share. The Committee will ensure that any payment for the Sales measure is reflective of achieving an acceptable level of margin for the sales achieved.

Annual bonus

Measure	Weighting
Sales	30%
Earnings Before Interest and Taxation	30%
Free Cash Flow	20%
Individual objectives	20%

Long Term Incentive

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

DIRECTORS' REMUNERATION REPORT
CONTINUED

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

The Long Term Incentive Plan awards granted in 2021 will be subject to the following targets:

Measure	Threshold	Mid	Maximum
EPS in 2023 (adjusted as described below)	6.0 cents	7.0 cents	8.0 cents
Vesting % for EPS measure	25%	62.5%	100%
Cumulative Free Cash Flow (US$m) over three years	$205m	$242.5m	$280.0m
Vesting % for FCF measure	25%	62.5%	100%
Total Shareholder Return vs FTSE250 excluding investment trusts	Median	62.5th Percentile	Upper Quartile
Vesting % of each measure for TSR measure	25%	62.5%	100%

Straight line vesting occurs between Threshold, Mid and Maximum.

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

The Committee recognises the important concerns of shareholders regarding Environmental, Social and Governance issues. Sustainability targets have been reflected in the Long Term Incentive measures since 2020, with a 10% weighting, to emphasise the importance of delivering the Company's objectives and priorities in this area. Specifically these targets for the LTIP award in 2021 will be based on sustaining and maintaining in 2023 a reduction (versus a 2018 baseline) of 40% in water usage, a 7% reduction in energy usage and a 25% reduction in waste; compliance with Zero Discharge of Hazardous Chemicals effluent standards; the achievement of Great Place to Work or equivalent accreditation in sites that cover at least 80% of our employees worldwide and providing opportunities for all employees to support community development activities and increasing the use of recycled material in our premium poyester threads. Further details including updates of our progress can be in this Annual Report and in our Sustainability Report available at www.coats.com/sustainability.

Consideration by the Directors of matters relating to Directors' remuneration

The members of the Committee were: David Gosnell (Chairman), Echo Lu, Fran Philip and Alan Rosling (until June 2020). Echo Lu chaired one meeting that concerned the terms of appointment that would be offered to David Gosnell as Chairman of the Company; David Gosnell did not attend this meeting.

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

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

The Company received advice from Herbert Smith Freehills LLP in relation to legal matters relating to the Group's incentive plans. Mercer-Kepler provided independent advice to the Company principally in relation to the design and performance targets set for the Group's incentive plans, benchmarking of Executive Directors' pay, review of the Directors' Remuneration Report and regulatory developments in remuneration governance and practice. Mercer-Kepler received fees of £54,487 for time spent and materials used in providing advice to the Company during the period to 31 December 2020. Mercer-Kepler provide no other advice to the Company or any of the Directors and the Committee is satisfied that the advice provided was fair and objective. The Committee appointed Mercer-Kepler because of their extensive knowledge of Coats' strategy and operations and development and supported the Committee in the transition from being a subsidiary of the Guinness Peat Group plc to Coats Group plc.

Statement of voting at the General Meeting

At the AGM of the Company on 11 June 2020 the results of the vote regarding Resolution 2 (to approve the Annual Report on Remuneration) were:

Votes for Number	%	Votes against Number	%	Votes total	Votes withheld
860,050,547	98.8	10,755,942	1.2	870,806,489	61,888,506

At the AGM of the Company on 11 June 2020 the results of the vote regarding Resolution 3 (to approve the Directors Remuneration Policy were):

Votes for Number	%	Votes against Number	%	Votes total	Votes withheld
933,453,843	98.8	11,759,000	1.2	945,212,843	78,764

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

Assessment of the effectiveness of the Committee

During the year the Board undertook a review of the effectiveness of the Board and Board Committees, including the Remuneration Committee, in accordance with the requirements under the Code. The review involved a questionnaire of all of the Committee members and regular presenters to the Board. The overall conclusion is that the Committee is working well and is covering its remit with relatively few areas for improvement highlighted.

The Remuneration Report was approved by a Committee of the Board of Directors on 3 March 2021 and signed on its behalf by:

David Gosnell

Chairman, Remuneration Committee

3 March 2021

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

Report on the audit of the financial statements

1 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and 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.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 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).

2 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.

3 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; • uncertain tax positions; and • impairment of fixed assets. Due to the impact of the Covid pandemic, the level of audit effort, judgement and complexity in our assessment of management's impairment review analysis of fixed assets has increased. Accordingly, this is a new key audit matter in the current year.
Materiality	The materiality that we used for the group financial statements was $6.5 million, which was determined on the basis of 0.6% of revenue. We have changed the basis on which materiality is determined in the current period to reflect the volatility in the results of the group arising from the impact of Covid. For further details refer to section 6 of this report.
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 67% of the group's net assets, 71% of the group's revenue and 79% of the group's profit before tax from profit making components.
Significant changes in our approach	We have identified impairment of fixed assets as an additional key audit matter as set out above.

4 Conclusions relating to going concern

Our evaluation of the directors' assessment of the group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Considering as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit and Covid, the requirements of the applicable financial reporting framework and the system of internal control;
- Assessing the sales and gross margin forecast in management's base case against the historical trading results of the group, the latest economic forecasts, the latest customer order book and our understanding of management's discussions with key customers;
- Challenging management on the accuracy of the forecasted cost savings and the extent to which these are already demonstrated and within the management's control;
- Testing the mechanical and logical accuracy of management's assessment;
- Assessing the consistency of management's forecast covenant compliance calculation in relation to the facility agreements; and
- Assessing the likelihood of management's reverse stress test.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

5 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.

5.1 Lower Passaic River Study Area 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) with regard to environmental damage caused by historical operations of the group in the Lower Passaic River Study Area. In March 2016, the EPA issued a Record of Decision providing a basis for management to estimate a provision in respect of remediation and legal costs which amounts to \$12.6 million (2019: \$14.6 million), net of insurance proceeds, at 31 December 2020. This is currently considered by management to be the best estimate of the anticipated share of the future liability and legal fees, 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. Refer to note 1 for the relevant accounting policy. The carrying value of the provision and background information to the matter is included in note 28 of the financial statements and management discuss the matter as a significant financial and reporting issue in the audit and risk committee report on page 68.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant control regarding the recognition of the provision and evaluated whether this had been implemented as designed. We evaluated management's assumptions, including a review of evidence used in estimating the group's share of total remediation costs for the Lower Passaic River Study Area, both in terms of appropriateness of recognition and the valuation thereof. We verified the material cash outflows relating to the utilisation of the element of the total provision that relates to legal costs and made enquiries of management to confirm whether any further correspondence had been received in connection with this matter. We evaluated the competence of management's external legal advisers. We considered the legal advice management had obtained in relation to litigation and directly challenged management's judgements through inspecting the relevant third party legal confirmation and through discussion with the key external legal adviser and our internal environmental specialist.
Key observations	There were no material developments during 2020 that would result in a re-measurement of the underlying remediation provision. Management has properly taken into account the latest information available from their third party legal advisors.

5.2 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 2020 was \$3,589 million (2019: \$3,276 million). The assumptions used in the valuation are relatively sensitive to small changes and can result in a material difference in the net deficit recognised of \$225.8 million (2019: \$181.3 million). Key assumptions involved in the determination of the present values of the UK and US defined benefit obligations include discount rates, mortality and inflation rates. The carrying values of the group's pension obligations as well as a sensitivity analysis relating to the group's major defined benefit pension arrangements are included in note 10 of the financial statements and the accounting policy is detailed in note 1. Management identify UK retirement benefit obligations as a key source of estimation uncertainty in note 1 of the financial statements and discuss the matter as a significant financial and reporting issue in the audit and risk committee report on page 68.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant control over the pension assumptions and evaluated whether this had been implemented as designed. We worked with our own pension specialists to challenge the assumptions underlying management's calculation of the group defined benefit scheme. We have compared the key assumptions to industry benchmarks and prior year rates. We evaluated the competence of the experts that management engaged to calculate the defined benefit pension obligations, by checking they are qualified and affiliated with the appropriate industry body; and we evaluated the sensitivity of the pension scheme liabilities to differences between our independent reasonable range for key assumptions and the key assumptions determined by management, both individually and in aggregate.
Key observations	The key assumptions used in the calculation of the retirement benefit obligations were within our reasonable ranges.

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

5.3 Uncertain tax positions

Key audit matter description	The group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local tax authorities, and consequently agreement may not be reached for a number of years. Given the global operations of Coats, the group is exposed to a large number of tax jurisdictions and this exposure gives rise to a number of judgemental taxation positions, such as cross-border transactions. The group's uncertain tax provisions at 31 December 2020 amount to $15.0 million (2019: $14.1 million). There is a risk that there are matters excluded from the gross exposure calculation and there is judgement required to determine the amount to be provided against known exposures. We have therefore identified a key audit matter relating to the valuation of the central tax provision. Refer to note 1 for the relevant accounting policy. 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 68.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the central tax provision and evaluated whether these had been implemented as designed. We worked with our tax specialists in key jurisdictions to evaluate and challenge the appropriateness of judgements and assumptions made by management with respect to their assessment and valuation of the central tax provision. This included a review of applicable third party evidence and inspection of correspondence with tax authorities to assess the adequacy of the associated provision and disclosures. We also consider the tax provisions communicated by our full scope component auditors against the central tax provision.
Key observations	We are satisfied that the provisions raised in respect of the potential taxation exposures are appropriate.

5.4 Impairment of fixed assets

Key audit matter description	In light of the impact of Covid, there is a heightened risk of impairment in respect of the group's property, plant and equipment balance of $254.4 million, intangible assets balance of $288.6 million and right-of-use assets balance of $60.7 million at 31 December 2020. Following the impact of Covid, management identified significant indicators of impairment for certain cash generating units at 30 June 2020. In line with the requirements of IAS 36 impairment of assets, management prepared full impairment reviews for each of these cash generating units at 30 June 2020. The group recognised an impairment charge of $5 million at 30 June 2020 in respect of plant and equipment and right-of-use assets. Management has reassessed whether significant indicators of impairment exist at 31 December 2020 for any cash generating units. There is judgement required by management in determining whether indicators of impairment exist in respect of each of the cash generating units and therefore the completeness of cash generating units identified that require a full impairment review to be performed. There is also judgement required by management in determining their future cash flow forecasts in respect of the units most at risk of a material impairment to the carrying value of plant and equipment, intangible assets and right-of-use assets, and whether this represents a key source of estimation uncertainty. The carrying values of the group's intangible assets and details of the stress test analysis management has performed on their value in use impairment assessments are included in note 13 of the financial statements and the accounting policy is detailed in note 1. The matter is further discussed as a significant financial and reporting issue in the audit and risk committee report on page 68.
How the scope of our audit responded to the key audit matter	We have completed the following procedures: • obtained an understanding of relevant controls relating to management's impairment review and evaluated whether such controls had been implemented as designed; • tested the mechanical accuracy of the models and cash flow forecasts; • challenged the key assumptions used by management in their impairment review through comparison to historical performance and external evidence; • considering the extent to which the possible effects of Covid should be included in the impairment models and assessing the impact of the pandemic with reference to the recent performance of the group; • performed sensitivity and breakeven analysis on the forecasts to identify whether a cash generating unit is materially sensitive to reasonable changes in assumptions and challenge management's downside valuations; • engaged our internal valuation specialists to assess the appropriateness of the discount rates determined by management at year-end; and • engaged our real-estate specialists to assess the appropriateness of the property valuations obtained by management.
Key observations	We concur with management's identification of units showing significant indicators of impairment. We also concur with the value of the impairment recognised by management. We concur with management's conclusion that there is not a significant risk of a change in assumption occurring within 12 months of the reporting period that would result in a material change to the carrying value of non-current assets held by the group.

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

6 Our application of materiality

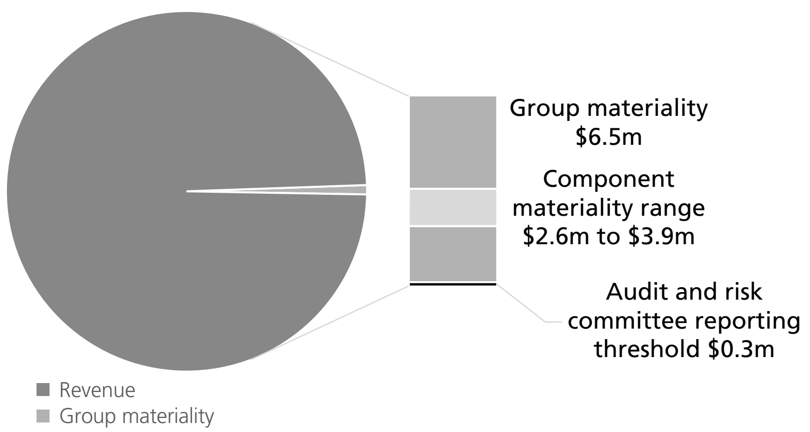
6.1 Materiality

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	$6.5 million (2019: $8.2 million)	$5.8 million (2019: $7.4 million)
Basis for determining materiality	Group materiality is based on 0.6% of revenue (2019: 5% of adjusted profit before tax).	Parent company materiality equates to 0.6% of net assets, having been capped at 90% (2019: 90%) of group materiality.
Rationale for the benchmark applied	In the prior year, materiality was determined on the basis of 5% of adjusted profit before tax. As a result of the impact of Covid on group profitability, we have determined current year materiality on the basis of 0.6% of group revenue which is a consistent percentage in relation to the prior year financial years. This approach is a change from the prior year to reflect the volatility in the results of the group arising from the impact of Covid.	The parent company is primarily an investment holding company and net assets is considered the most appropriate benchmark.

Revenue $1,163m



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	65% (2019: 70%) of group materiality	65% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered our history of auditing the entity, including the lack of significant deficiencies and errors identified in previous years. The reduced performance materiality reflects our consideration of the business disruption brought on by the ongoing global pandemic and the risk it poses to the group’s internal control environment.	

6.3 Error reporting threshold

We agreed with the audit and risk committee that we would report to the Committee all audit differences in excess of $0.3 million (2019: $0.4 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit and risk committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7 An overview of the scope of our audit

7.1 Identification and scoping of components

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 (2019: 11) overseas components spread across four continents, which were subject to full audits. Our involvement in their audits is as follows:

- Given the global travel restrictions during 2020, we have not physically visited Coats components in the year. We have however visited 10 of the 11 full scope components periodically over the previous three years and we have continued our remote interactions with our full scope component audit teams.
- For all components, we held planning calls, maintained regular contact throughout the audit process, directed the audit procedures performed and reviewed the risk assessment and work of overseas component auditors.

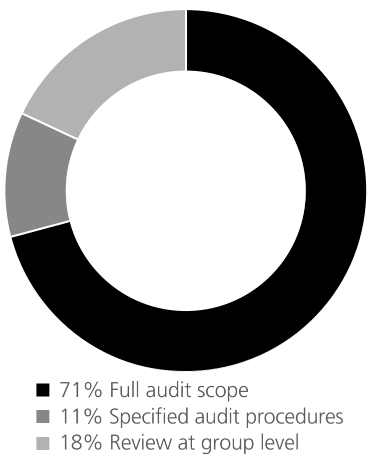
Our audit work at these components was executed at levels of materiality set by the group engagement team, which were lower than the group materiality and range from $2.6 million to $3.9 million (2019: $3.3 million to $6.2 million).

The 11 overseas components and UK components subject to full audit scope account for 67% of the group's net assets (2019: 75%), 79% of the group's profit before tax within the group's profit making components (2019: 79%) and 71% of the group's revenue (2019: 77%). If including the specified procedures performed over the revenue in Pharr HP, we have obtained coverage over 76% of the group's revenue.

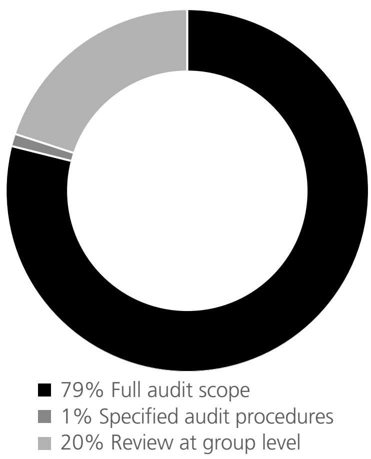
Additionally, five components were subject to specified audit procedures. These components were selected in order to provide an appropriate basis for undertaking the audit work to address the risks of material misstatement identified above. Our oversight of these components was the same as for components subject to full audits, maintaining regular contact throughout the audit process.

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

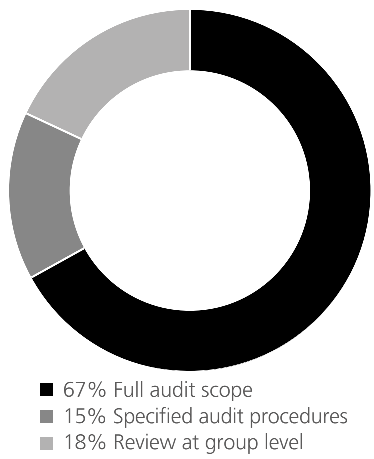
Revenue



Profit before tax



Net assets



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

7.2 Our consideration of the control environment
Coats Group plc plc is reliant on the effectiveness of a number of IT applications and controls to ensure that financial transactions are processed and recorded completely and accurately. The financial reporting systems of the group is spread across four operating instances.

The India component audit team relies upon controls across various operating cycles, which are dependent upon one of these instances; the general IT controls and relevant entity level controls of which we found to be operating effectively. As a result, we relied on the operating effectiveness of controls over the operating cycles of this component.

The rest of the in-scope components are independently reliant upon their respective operating instances within the group. Aligned with our planned audit approach we did not seek to place reliance upon the operating effectiveness of the general IT and entity level controls within these components.

7.3 Working with other auditors
The same audit team is responsible for the audit work of the group and the component audits within the United Kingdom and the United States of America.

The group audit team also supervises and provides oversight over eleven overseas components. The group audit team held regular communication with these component auditors ahead of and during the year-end audit process. Oversight of the component audit teams included reviewing their audit work via video conferencing.

At the Coats Group plc 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.

8 Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves.

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.

We have nothing to report in this regard.

9 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.

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

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

11 Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management , group internal audit and the audit and risk committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams, and involving relevant internal specialists, including tax, valuations, real estate, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: the valuation of accrued customer rebates in relation to revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

11.2 Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit and risk committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with tax and licensing authority;
- in addressing the risk of fraud in revenue recognition, we have substantively tested a sample to assess whether both the global and local rebates recognised are accurate and complete; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

Report on other legal and regulatory requirements

12 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 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.

13 Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 76;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate is set out on page 44;
- the directors' statement on fair, balanced and understandable set out on page 67;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 76;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 69; and
- the section describing the work of the audit and risk committee set out on page 66.

14 Matters on which we are required to report by exception

14.1 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.

14.2 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.

15 Other matters which we are required to address

15.1 Auditor tenure

Following the recommendation of the audit and risk committee, we were appointed by the board of directors on 17 June 2003 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2003 to 31 December 2020.

15.2 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).

16 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

3 March 2021

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2020 Before exceptional and acquisition related items US$m	2020 Exceptional and acquisition related items (see note 4) US$m	2020 Total US$m	2019 Before exceptional and acquisition related items US$m	2019 Exceptional and acquisition related items (see note 4) US$m	2019 Total US$m
Continuing operations:							
Revenue	2,3	**1,163.3**	**–**	**1,163.3**	1,388.7	–	1,388.7
Cost of sales		**(806.6)**	**(4.9)**	**(811.5)**	(898.1)	0.4	(897.7)
Gross profit		**356.7**	**(4.9)**	**351.8**	490.6	0.4	491.0
Distribution costs		**(116.1)**	**–**	**(116.1)**	(135.9)	(2.8)	(138.7)
Administrative expenses		**(130.0)**	**(4.0)**	**(134.0)**	(156.7)	(7.5)	(164.2)
Other operating income		**–**	**1.4**	**1.4**	–	2.9	2.9
Operating profit	2,4,5	**110.6**	**(7.5)**	**103.1**	198.0	(7.0)	191.0
Share of profits of joint ventures	16	**0.6**	**–**	**0.6**	1.1	–	1.1
Finance income	6	**0.7**	**0.7**	**1.4**	1.7	2.6	4.3
Finance costs	7	**(25.5)**	**–**	**(25.5)**	(29.6)	–	(29.6)
Profit before taxation	5	**86.4**	**(6.8)**	**79.6**	171.2	(4.4)	166.8
Taxation	9	**(35.2)**	**(2.2)**	**(37.4)**	(50.5)	–	(50.5)
Profit from continuing operations		**51.2**	**(9.0)**	**42.2**	120.7	(4.4)	116.3
Profit/(loss) from discontinued operations	32	**–**	**–**	**–**	0.1	(0.6)	(0.5)
Profit for the year		**51.2**	**(9.0)**	**42.2**	120.8	(5.0)	115.8
Attributable to:							
Equity shareholders of the company		**35.4**	**(9.0)**	**26.4**	100.7	(5.0)	95.7
Non-controlling interests		**15.8**	**–**	**15.8**	20.1	–	20.1
		51.2	**(9.0)**	**42.2**	120.8	(5.0)	115.8
Earnings per share (cents):	11						
Continuing operations:							
Basic				**1.81**			6.66
Diluted				**1.81**			6.60
Continuing and discontinued operations:							
Basic				**1.81**			6.63
Diluted				**1.81**			6.57
Adjusted earnings per share	37(d)	**2.42**			6.97		

Notes on pages 114 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2020 US$m	2019 US$m
Profit for the year	**42.2**	115.8
Items that will not be reclassified subsequently to profit or loss:		
Actuarial losses on retirement benefit schemes	**(39.7)**	(31.1)
Tax on items that will not be reclassified	**0.1**	7.3
	(39.6)	(23.8)
Items that may be reclassified subsequently to profit or loss:		
Net changes in fair value of cash flow hedges	**(2.4)**	4.8
Transferred to profit or loss on cash flow hedges	**-**	(0.3)
Exchange differences on translation of foreign operations	**(13.3)**	(7.7)
	(15.7)	(3.2)
Other comprehensive income and expense for the year	**(55.3)**	(27.0)
Net comprehensive income and expense for the year	**(13.1)**	88.8
Attributable to:		
Equity shareholders of the company	**(28.9)**	69.0
Non-controlling interests	**15.8**	19.8
	(13.1)	88.8

Notes on pages 114 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December	Notes	2020 US$m	2019 US$m
Non-current assets:			
Intangible assets	13	**288.6**	291.0
Property, plant and equipment	14	**254.4**	276.3
Right-of-use assets	15	**60.7**	63.4
Investments in joint ventures	16	**11.1**	11.4
Other equity investments	16	**6.0**	6.1
Deferred tax assets	17	**22.7**	16.2
Pension surpluses	10	**11.4**	13.8
Trade and other receivables	19	**19.0**	20.1
		673.9	698.3
Current assets:			
Inventories	18	**187.0**	172.5
Trade and other receivables	19	**274.5**	261.2
Other equity investments	16	**0.1**	0.1
Pension surpluses	10	**4.8**	4.7
Cash and cash equivalents	30(f)	**71.9**	177.4
Non-current assets classified as held for sale	32(b)	**–**	1.5
		538.3	617.4
Total assets		**1,212.2**	1,315.7
Current liabilities:			
Trade and other payables	21	**(255.7)**	(284.4)
Current income tax liabilities		**(13.9)**	(17.8)
Bank overdrafts and other borrowings	23	**(22.8)**	(43.8)
Lease liabilities	15	**(16.4)**	(14.1)
Retirement benefit obligations:			
– Funded schemes	10	**(35.3)**	(27.5)
– Unfunded schemes	10	**(7.1)**	(6.2)
Provisions	25	**(8.2)**	(12.8)
		(359.4)	(406.6)
Net current assets		**178.9**	210.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION CONTINUED

31 December	Notes	2020 US$m	2019 US$m
Non-current liabilities:			
Trade and other payables	21	**(18.1)**	(18.2)
Deferred tax liabilities	24	**(9.0)**	(8.2)
Borrowings	23	**(229.7)**	(283.5)
Lease liabilities	15	**(49.6)**	(50.9)
Retirement benefit obligations:			
– Funded schemes	10	**(100.1)**	(71.6)
– Unfunded schemes	10	**(99.5)**	(94.5)
Provisions	25	**(27.9)**	(30.7)
		(533.9)	(557.6)
Total liabilities		**(893.3)**	(964.2)
Net assets		**318.9**	351.5
Equity:			
Share capital	26	**90.1**	89.6
Share premium account	27	**10.5**	10.5
Own shares	26, 27	**(3.2)**	(5.7)
Translation reserve	27	**(89.2)**	(75.9)
Capital reduction reserve	27	**59.8**	59.8
Other reserves	27	**246.3**	248.7
Retained loss	27	**(23.8)**	(5.9)
Equity shareholders' funds		**290.5**	321.1
Non-controlling interests	27	**28.4**	30.4
Total equity		**318.9**	351.5

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 3 March 2021

Company Registration No.103548

Notes on pages 114 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Own shares US$m	Translation reserve US$m	Capital reduction reserve US$m	Other reserves US$m	Retained loss US$m	Total US$m	Non-controlling interests US$m	Total equity US$m
Balance as at 1 January 2018	88.5	10.4	(6.8)	(68.5)	59.8	244.2	(56.7)	270.9	28.0	298.9
Profit for the year	–	–	–	–	–	–	95.7	95.7	20.1	115.8
Other comprehensive income and expense for the year	–	–	–	(7.4)	–	4.5	(23.8)	(26.7)	(0.3)	(27.0)
Dividends (see note 12)	–	–	–	–	–	–	(24.4)	(24.4)	(17.4)	(41.8)
Issue of ordinary shares	1.1	0.1	–	–	–	–	(1.1)	0.1	–	0.1
Movement in own shares	–	–	1.1	–	–	–	(0.2)	0.9	–	0.9
Share based payments	–	–	–	–	–	–	6.1	6.1	–	6.1
Deferred tax on share schemes	–	–	–	–	–	–	(1.5)	(1.5)	–	(1.5)
Balance as at 31 December 2019	89.6	10.5	(5.7)	(75.9)	59.8	248.7	(5.9)	321.1	30.4	351.5
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**26.4**	**26.4**	**15.8**	**42.2**
Other comprehensive income and expense for the year	**–**	**–**	**–**	**(13.3)**	**–**	**(2.4)**	**(39.6)**	**(55.3)**	**–**	**(55.3)**
Dividends (see notes 12 and 27)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(17.8)**	**(17.8)**
Issue of ordinary shares (see note 26)	**0.5**	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**–**	**–**	**–**
Movement in own shares	**–**	**–**	**2.5**	**–**	**–**	**–**	**(5.8)**	**(3.3)**	**–**	**(3.3)**
Share based payments	**–**	**–**	**–**	**–**	**–**	**–**	**1.6**	**1.6**	**–**	**1.6**
Balance as at 31 December 2020	**90.1**	**10.5**	**(3.2)**	**(89.2)**	**59.8**	**246.3**	**(23.8)**	**290.5**	**28.4**	**318.9**

Notes on pages 114 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Notes	2020 US$m	2019 US$m
Cash inflow from operating activities:			
Cash generated from operations	30(a)	**128.0**	205.4
Interest paid		**(16.1)**	(15.2)
Taxation paid	30(b)	**(46.3)**	(46.3)
Net cash generated by operating activities		**65.6**	143.9
Cash outflow from investing activities:			
Investment income	30(c)	**0.9**	0.3
Net capital expenditure and financial investment	30(d)	**(12.3)**	(39.1)
Acquisitions and disposals of businesses	30(e)	**(36.9)**	25.8
Net cash absorbed in investing activities		**(48.3)**	(13.0)
Cash outflow from financing activities:			
Purchase of own shares		**(3.1)**	–
Receipts from exercise of share options		**–**	0.2
Dividends paid to equity shareholders		**(0.2)**	(24.1)
Dividends paid to non-controlling interests		**(17.8)**	(17.4)
Payment of lease liabilities		**(19.4)**	(17.3)
Net decrease in borrowings		**(58.7)**	(52.3)
Net cash absorbed in financing activities		**(99.2)**	(110.9)
Net (decrease)/increase in cash and cash equivalents		**(81.9)**	20.0
Net cash and cash equivalents at beginning of the year		**135.9**	115.7
Foreign exchange (losses)/gains on cash and cash equivalents		**(1.9)**	0.2
Net cash and cash equivalents at end of the year	30(f)	**52.1**	135.9
Reconciliation of net cash flows to movements in net debt			
Net (decrease)/increase in cash and cash equivalents		**(81.9)**	20.0
Net decrease in other borrowings		**58.7**	52.3
Change in net debt resulting from cash flows (free cash flow)		**(23.2)**	72.3
Increase in lease liabilities on adoption of IFRS 16		**–**	(57.7)
Net movement in lease liabilities during the period following the adoption of IFRS 16		**(0.3)**	(6.8)
Movement in fair value hedges		**(5.4)**	-
Other non-cash movements		**(0.7)**	(0.7)
Foreign exchange (losses)/gains		**(2.1)**	0.7
(Increase)/decrease in net debt		**(31.7)**	7.8
Total net debt at the start of the year		**(214.9)**	(222.7)
Total net debt at the end of the year	30(f)	**(246.6)**	(214.9)

Notes on pages 114 to 179 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

The following are the principal accounting policies adopted in preparing the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The principal accounting policies adopted by the Group are set out in this note to the consolidated financial statements. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible over time the actual results could differ from the estimates based on the assumptions and judgements used by the Group. Due to the size of the amounts involved, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the year and/or the carrying values of assets and liabilities in the consolidated financial statements:

Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimations (which are dealt with separately below) that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

UK retirement benefit obligations

The UK retirement benefit obligations recognised in the consolidated statement of financial position are the present values of the defined benefit obligations at the year end less the fair value of any associated assets. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, beneficiary mortality and inflation rates. Changes in any or all of these assumptions could materially change the employee benefit obligations recognised in the consolidated statement of financial position. The carrying values of the Group's pension obligations as well as a sensitivity analysis relating to changes in discount rates, beneficiary mortality and inflation rates are included in note 10.

In preparing the consolidated financial statements for the year ended 31 December 2020, the critical accounting judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2019.

a) Accounting convention and format

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulations. The financial statements are prepared under the historical cost convention except for investments and derivatives which are stated at fair value, disposal groups which are held at fair value less costs to sell and retirement benefit obligations which are valued in accordance with IAS 19 Employee Benefits.

Except for the changes arising from the adoption of new accounting standards (as detailed in note 1), 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 2019.

b) Basis of preparation

Subsidiaries

Subsidiaries are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. 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.

1 Principal accounting policies continued

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

In January 2019 the Group announced the agreement to sell the North America Crafts business to Spinrite Acquisition Corp and the sale was completed on 20 February 2019, the date which control passed to the acquirer.

Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

In assessing the Group's going concern position, the Directors have considered a number of factors, including the current balance sheet position and available liquidity, the principal and emerging risks which could impact the performance of the Group and compliance with borrowing covenants. In order to assess the going concern status of the Group management has prepared:

- A base case scenario, aligned to the latest Group budget for 2021 as well as the Group's Medium Term Plan for 2022 and 2023;
- A severe but plausible downside scenario, assumes that the global economic environment is severely depressed over the assessment period; and
- A reverse stress test flexing sales to determine what circumstance would be required to either reduce headroom to nil on committed borrowing facilities or breach borrowing covenants, whichever occurred first.

The severe but plausible downside scenario includes further management actions that would be deployed if required (for example further reduction in costs).

The reverse stress test also includes further controllable management actions that could be deployed if required. The outcome of the reverse stress test was that the interest cover covenant would be breached, however, at the breaking point in the test the Group still maintained a comfortable level of liquidity on committed borrowing facilities. The Directors consider the likelihood of the condition in the reverse stress test occurring to be remote.

Liquidity headroom

The Group entered 2020 with a robust Balance Sheet, generating healthy levels of cash, and with comfortable headroom on banking covenants, which places the Group in a strong position to manage through this period of uncertainty. As at 31 December 2020 the Group's net debt (excluding IFRS16 leases) was $180.6 million. The Group's committed debt facilities total $575 million across both its Banking and US Private Placement group, with a range of maturities from late 2022 through to 2027, as of 31 December 2020 the Group has around $330 million of headroom against these committed banking facilities.

In both the base case and the severe but plausible downside scenario liquidity is comfortable throughout the assessment period.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 Principal accounting policies continued

Covenant testing

The Group's committed borrowing facilities are subject to ongoing covenant testing. Covenants are measured twice a year, at full year and half year and are measured under frozen accounting standards and therefore exclude the effects of IFRS 16. The financial covenants under the borrowing agreements are for leverage (net debt / EBITDA) less than 3.0 and interest cover (EBITDA / interest charge) to be in excess of 4.0.

All banking covenants tests were met comfortably at 31 December 2020, with leverage of 1.2x and interest cover of 8.5x despite the significant impact on Group profitability from Covid in Q2. The base case forecast indicates that banking covenants will be comfortably met at the June 2021 and December 2021 testing dates.

Under the severe but plausible downside scenario covenant compliance is still projected to be achieved at both June 2021 and December 2021, although with reduced but adequate headroom.

Conclusion

In conclusion, after reviewing the base case, the severe but plausible downside scenario and considering the remote likelihood of the scenario in the reverse stress test occurring as well as having considered the uncertainty relating to Covid and the mitigating actions available, the Directors have formed the judgement that, at the time of approving the consolidated financial statements, there are no material uncertainties that cast doubt on the Group's going concern status and that it is appropriate to prepare the consolidated financial statements on the going concern basis.

c) Functional currency

The functional currency of Coats Group plc continued to be United States dollars ('USD') during the year ended 31 December 2020.

d) Foreign currencies

Foreign currency translation

The Group's presentation currency is USD. Transactions of companies within the Group are recorded in the functional currency of that company. Currencies other than the functional currency are foreign currencies.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the period end. All currency differences on monetary items are taken to the consolidated income statement with the exception of currency differences that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Group companies

Assets and liabilities of subsidiaries whose presentation currency is not USD are translated into the Group's presentation currency at the rates of exchange ruling at the period end and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of such an entity, the deferred cumulative amount recognised in equity since 1 January 2004 relating to that particular operation is recycled through the consolidated income statement. Translation differences that arose before the date of transition to IFRS in respect of all such entities are not presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of such operations are regarded as assets and liabilities of the particular operation, expressed in the currency of the operation and recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

1 Principal accounting policies continued

The principal exchange rates (to the US dollar) used in preparing these financial statements are as follows:

		2020	2019
Average	Sterling	**0.78**	0.79
	Euro	**0.88**	0.90
	Brazilian Real	**5.16**	3.95
	Chinese Renminbi	**6.90**	6.91
	Indian Rupee	**74.11**	70.41
	Turkish Lira	**7.02**	5.78
Period end	Sterling	**0.73**	0.75
	Euro	**0.82**	0.89
	Brazilian Real	**5.19**	4.02
	Chinese Renminbi	**6.53**	6.96
	Indian Rupee	**73.04**	71.35
	Turkish Lira	**7.43**	5.95

e) Operating segments

Operating segments are components of the Group about which separate financial information is available that is evaluated by the Coats Group plc Group Executive Team in deciding how to allocate resources and in assessing performance. See note 2 for further details.

f) Operating profit

Operating profit is stated before the share of results of joint ventures, investment and interest income, finance costs and foreign exchange gains and losses from cash and cash equivalents used in investing activities.

g) Exceptional and acquisition related items

The Group has adopted an income statement format which seeks to highlight significant items within the Group results for the year. Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, gains or losses arising from significant one off changes to the assumptions underlying the defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration. Please see note 4 for further details on why management consider these items to be exceptional.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, should be presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

h) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 Principal accounting policies 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 improvements	10 years to 50 years or over the term of the lease if shorter
Plant and equipment	3 years to 20 years
Vehicles and office equipment	2 years to 10 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end.

i) Intangible assets

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and tested for impairment at least annually. Any impairment is recognised immediately in the income statement. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing. CGUs represent the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Negative goodwill is recognised immediately in the income statement.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The estimated useful lives (other than the Coats Brand) are as follows:

Brands and trade names	5 years to 20 years
Technology	4 years to 10 years
Customer relationships	9 years to 14 years

The useful life of the Coats Brand is considered to be indefinite.

Other intangibles

Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

Intellectual property, comprising trademarks, designs, patents and product development which have a finite useful life, are carried at cost less accumulated amortisation and impairment charges. Amortisation is calculated using the straight-line method to allocate the cost over the assets' useful lives, which vary from 5 to 10 years.

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

1 Principal accounting policies continued

Impairment of property, plant and equipment, right-of-use assets and intangible assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

Research and development

All research costs are expensed as incurred.

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

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

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

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

j) Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as assets with a value of US$5,000 or less when new). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 Principal accounting policies continued
Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Variable rents that do not depend on an index are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

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

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 maturing in less than three months. 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. Financial liabilities designated as hedged items in a fair value hedge are subsequently measured at fair value.

(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.

1 Principal accounting policies continued

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 fair value or cash flow hedges.

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

(v) Fair value hedges

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

(vi) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. Once the related hedged item is recognised in the income statement, the amounts deferred in equity are recycled through the consolidated income statement. The gain or loss arising from any ineffective portion of the hedge is recognised immediately through the consolidated income statement.

(vii) Hedges of net investments in foreign operations

Gains and losses on hedging instruments relating to the effective portion of such hedges are recognised through the translation reserve, and recycled through the consolidated income statement on disposal of the respective foreign operations. The gain or loss arising from any ineffective portion of such hedges is recognised immediately through the consolidated income statement.

l) Revenue

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

(i) Sales of goods

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

(ii) Sales of services

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

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

Advances received from customers are included within contract liabilities.

(iii) Income from sales of property

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

m) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials are valued at cost on a first-in, first-out basis.

The costs of finished goods and work in progress include direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving and defective inventories.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 Principal accounting policies continued

n) Employee benefits

(i) Retirement and other post-employment obligations

For retirement and other post-employment benefit obligations, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period by independent actuaries.

Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest) are recognised immediately in the consolidated statement of financial position with a charge or credit to the consolidated statement of comprehensive income in the period in which they occur. Remeasurement recorded in the consolidated statement of comprehensive income is not recycled.

Current and past service costs, along with the impact of any settlements or curtailments, are charged to the consolidated income statement. The net interest expense on pension plans' liabilities and the expected return on the plans' assets is recognised within finance expense in the consolidated income statement.

In addition, pension scheme administrative expenses including the Pension Protection Fund (PPF) levy and actuary, audit, legal and trustee charges are recognised as administrative expenses.

The retirement benefit and other post employment benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit schemes. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the schemes or reductions in future contributions to the schemes and refunds expected from the schemes to fund other Group defined benefit schemes, in accordance with relevant legislation.

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.

1 Principal accounting policies continued

o) Taxation

The tax expense represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the period end.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying values of deferred tax assets are reviewed at each period end.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

p) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

r) 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.

s) 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.

t) 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.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

1 Principal accounting policies continued

u) 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.

Climate change

In preparation of the consolidated financial statements, consideration has been given to the impact of climate change on the Group's key accounting policies, estimates and judgements. As noted in the principal risks and uncertainties on page 40 we are exposed to specific climate related risks. We are committed to emissions reductions in line with COP 21 targets and will be developing the detailed plans to achieve this during 2021. As such, the Group's current assessment is that our climate change strategy does not have a material impact on the key accounting policies, estimates and judgements that form the basis of these consolidated financial statements.

New IFRS accounting standards, interpretations and amendments adopted in the year

During the year, the Group has adopted the following standards, interpretations and amendments:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7);
- Definition of a Business (Amendments to IFRS 3); and
- Definition of Material (Amendments to IAS 1 and IAS 8).

The adoption of these standards has not had a material impact on the financial statements of the Group.

Amendments to IFRS 16 'Leases' – Covid-Related Rent Concessions which is effective for annual periods beginning on or after 1 June 2020 has not been early adopted in the financial statements of the Group.

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 2021:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

From the year beginning 1 January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Annual Improvements to IFRS Standards 2018–2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16); and
- Reference to the Conceptual Framework (Amendments to IFRS 3).

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.

2 Segmental analysis

Operating segments are components of the Group's business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Group Executive Team). The Group's customers are grouped into two segments Apparel & Footwear and Performance Materials which have distinct different strategies and differing customer/end-use market profiles.

a) Segment revenue and results

Year ended 31 December 2020	**Apparel & Footwear US$m**	**Performance Materials US$m**	**Total US$m**
Revenue	**822.7**	**340.6**	**1,163.3**
Segment profit	**95.5**	**15.1**	**110.6**
Exceptional and acquisition related items (note 4)			**(7.5)**
Operating profit			**103.1**
Share of profits of joint ventures			**0.6**
Finance income			**1.4**
Finance costs			**(25.5)**
Profit before taxation from continuing operations			**79.6**

Year ended 31 December 2019	Apparel & Footwear US$m	Performance Materials US$m	Total US$m
Revenue	1,063.1	325.6	1,388.7
Segment profit	156.3	41.7	198.0
Exceptional and acquisition related items (note 4)			(7.0)
Operating profit			191.0
Share of profits of joint ventures			1.1
Finance income			4.3
Finance costs			(29.6)
Profit before taxation from continuing operations			166.8

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Exceptional and acquisition related items are not allocated to segments to align to the reporting provided to the chief operating decision maker. In addition no measures of total assets and total liabilities are reported for each reportable segment as such amounts are not regularly provided to the chief operating decision maker.

The accounting policies of the reportable operating segments are the same as the Group's accounting policies described in note 1.

NOTES TO THE FINANCIAL STATEMENTS
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2 Segmental analysis continued
b) Geographic information

Year ended 31 December	Revenue by origin		Revenue by destination		Non-current assets	
	2020 US$m	2019 US$m	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m
Europe, Middle East & Africa (EMEA)						
UK	**8.0**	11.3	**12.3**	13.0	**260.3**	264.4
Rest of EMEA	**211.4**	254.5	**198.1**	239.6	**68.6**	77.1
Americas						
USA	**187.9**	145.1	**195.8**	147.0	**61.1**	57.1
Rest of Americas	**126.6**	178.1	**126.5**	185.6	**35.4**	45.9
Asia & Rest of World						
India	**110.1**	168.5	**107.1**	164.1	**50.3**	58.1
China and Hong Kong	**147.2**	177.9	**135.3**	164.9	**55.7**	51.9
Vietnam	**176.4**	202.0	**159.2**	182.3	**34.5**	35.6
Other	**195.7**	251.3	**229.0**	292.2	**68.4**	74.9
	1,163.3	1,388.7	**1,163.3**	1,388.7	**634.3**	665.0

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

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

Year ended 31 December	**2020 US$m**	2019 US$m
Continuing operations:		
Goods transferred at a point in time	**1,154.8**	1,376.6
Software solutions services transferred over time	**8.5**	12.1
	1,163.3	1,388.7
Other operating income	**1.4**	2.9
Finance income	**1.4**	4.3
	1,166.1	1,395.9
Discontinued operations:		
Goods transferred at a point in time	–	14.0
Other operating income	–	1.6
	–	15.6
	1,166.1	1,411.5

The software solutions business is included in the Apparel & Footwear segment.

3 Revenue continued

Disaggregation of revenue

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

Year ended 31 December	**2020 US$m**	2019 US$m
Continuing operations:		
Asia	**629.4**	799.7
Americas	**314.5**	323.2
EMEA	**219.4**	265.8
	1,163.3	1,388.7
Continuing operations:		
Apparel & Footwear	**822.7**	1,063.1
Performance Materials	**340.6**	325.6
	1,163.3	1,388.7

Revenue of Pharr HP of $66.8 million which was acquired in February 2020 (see note 31) is included in the amounts above for the Americas geographical market and the Performance Materials segment.

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

4 Exceptional and acquisition related items

The Group's consolidated income statement format includes results before and after exceptional and acquisition related items. Adjusted results exclude exceptional and acquisition related items to reflect the underlying performance of the business and to provide a more meaningful comparison of how the business is managed and measured on a day-to-day basis. Further details on alternative performance measures are set out in note 37.

Exceptional items may include significant restructuring associated with a business or property disposal, litigation costs and settlements, profit or loss on disposal of property, plant and equipment, gains or losses arising from significant one off changes to the assumptions underlying the defined benefit pension obligations, regulatory investigation costs and impairment of assets. Acquisition related items include amortisation of acquired intangible assets, acquisition transaction costs, contingent consideration linked to employment and adjustments to contingent consideration.

Judgement is used by the Group in assessing the particular items, which by virtue of their scale and nature, are presented in the income statement and disclosed in the related notes as exceptional items. In determining whether an event or transaction is exceptional, materiality is a key consideration and qualitative factors, such as frequency or predictability of occurrence, are also considered. This is consistent with the way financial performance is measured by management and reported to the Board.

Total exceptional and acquisition related items charged to operating profit for the year ended 31 December 2020 were $7.5 million (2019: $7.0 million) comprising exceptional items for the year ended 31 December 2020 of $3.5 million (2019: $4.8 million) and acquisition related items for the year ended 31 December 2020 of $4.0 million (2019: $2.2 million).

NOTES TO THE FINANCIAL STATEMENTS
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4 Exceptional and acquisition related items continued

Exceptional items

Exceptional items charged/(credited) to operating profit during the year ended 31 December 2020 are set out below:

Year ended 31 December	**2020 US$m**	2019 US$m
Exceptional items:		
Cost of sales:		
Impairment charges	**4.9**	–
Brazil indirect taxes	**–**	(3.5)
Connecting for Growth programme reorganisation costs:		
– Cost of sales	**–**	3.1
– Distributions costs	**–**	2.8
– Administrative costs	**–**	5.3
	–	11.2
Profit from sale of property:		
– Other operating income	**(1.4)**	(2.9)
Total exceptional items charged to operating profit from continuing operations	**3.5**	4.8

Impairment charges – At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets are estimated in order to determine the extent of the impairment loss, if any. During the year ended 31 December 2020, following this review impairment charges totalling $4.9 million (2019: $nil) were made in smaller markets in EMEA ($4.1 million relating to property, plant and equipment and $0.8 million relating to right-of-use assets). The impairment charges are attributable to the increased economic uncertainty as a result of Covid. The impairment charges in these markets represent a full write down of property, plant and equipment and right-of-use assets, except for owned land and buildings of $1.7 million which is not considered to be impaired. In determining the recoverable amount of these assets, the most recent trading activity was considered and projected cash flows reflected the economic uncertainty resulting from the Covid pandemic. None of the cash generating units for which an impairment charge was recognised during the year includes goodwill or intangible assets with indefinite useful lives.

Connecting for Growth programme – property disposals – During the year ended 31 December 2020 a profit of $1.4 million (2019: $2.9 million) was made from the sale of a property in a non-core market. This related to the strategic Connecting for Growth transformation programme which was completed during 2019.

Exceptional items in the year ended 31 December 2019 also included the following:

Connecting for Growth programme – Connecting for Growth was a two-year transformation programme designed to drive speed, agility, innovation and lower costs across the organisation. The programme finished in 2019. The programme focused on simplification across many aspects of the organisation and included transitioning from market-focussed support functions to realigned globally integrated support functions.

Exceptional reorganisation costs of $11.2 million were incurred in the year ended 31 December 2019 comprising severance costs of $7.4 million, fixed asset disposals and write offs of $2.2 million and closure and other one-off costs of $1.6 million.

4 Exceptional and acquisition related items continued

Brazil indirect taxes – During the year ended 31 December 2019 a final and unappealable Supreme Court decision was received by one of the Group's subsidiary companies in Brazil relating to payments of indirect taxes dating back to 2005. This Supreme Court decision grants the company the right to exclude Brazilian ICMS (indirect tax on goods and services) from the calculation basis of PIS (Program of Social Integration) and COFINS (Contribution for the Financing of Social Security) indirect taxes. As a result, estimated refunds were recognised in the results for the year ended 31 December 2019 with an exceptional credit of $3.5 million included in cost of sales and exceptional interest income recognised of $2.6 million. A further $0.7 million of exceptional interest income has been recognised during the year ended 31 December 2020 (see note 6).

Legal filings have been advanced in respect of the Group's other subsidiary in Brazil in respect of the same matter which dates back approximately 15 years but the Supreme Court ruling has not yet been received. This represents a contingent asset and no amounts have been recognised in the results for this. At this stage it is not practicable to quantify the potential amount of this contingent asset.

Exceptional items: Discontinued operations – During the year ended 31 December 2019 exceptional charges in relation to the sale of the North America Crafts business and included in discontinued operations were $0.6 million. See note 32.

Acquisition related items

Acquisition related items are set out below:

Year ended 31 December	**2020 US$m**	2019 US$m
Acquisition related items:		
Administrative expenses:		
Acquisition earnouts and contingent consideration	**0.8**	(1.7)
Acquisition transaction costs	**–**	1.0
Amortisation of acquired intangible assets	**3.2**	2.9
Total acquisition related items before taxation	**4.0**	2.2

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.

NOTES TO THE FINANCIAL STATEMENTS
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5 Profit for the year (including discontinued operations)

Year ended 31 December	2020 US$m	2019 US$m
Profit for the year is stated after charging/(crediting):		
Amortisation of intangible assets	**7.2**	8.0
Depreciation of owned property, plant and equipment	**30.5**	29.9
Depreciation of right-of-use assets	**18.3**	15.2
Profit on disposal of property, plant and equipment	**(1.0)**	(2.9)
Fees charged by Deloitte LLP		
Group audit fees:		
– Fees payable for the audit of the Company's annual accounts	**0.6**	0.6
– Fees payable for the audit of the Company's subsidiaries	**1.5**	1.5
Other Deloitte services:		
– Taxation services	**0.1**	0.3
– Other services	**0.2**	0.2
Total fees charged by Deloitte LLP	**2.4**	2.6
Research and development expenditure	**6.4**	5.6
Bad and doubtful debts	**3.1**	0.2
Net foreign exchange losses/(gains)	**3.2**	(0.8)
Rental income from land and buildings	**(0.2)**	(0.2)
Inventory as a material component of cost of sales	**487.1**	555.5
Inventory write-downs to net realisable value	**4.5**	2.8

6 Finance income

Year ended 31 December	2020 US$m	2019 US$m
Income from investments	**0.1**	0.1
Other interest receivable and similar income	**1.3**	4.2
	1.4	4.3

Other interest receivable and similar income for the year ended 31 December 2020 includes exceptional income of $0.7 million (2019: $2.6 million) relating to refunds for indirect taxes in Brazil (see note 4 for further details).

7 Finance costs

Year ended 31 December	2020 US$m	2019 US$m
Interest on bank and other borrowings	**11.2**	14.5
Interest expense on lease liabilities	**3.9**	3.7
Net interest on pension scheme assets and liabilities	**4.7**	5.5
Other finance costs including unrealised gains and losses on foreign exchange contracts	**5.7**	5.9
	25.5	29.6

8 Staff costs

The average monthly number of employees was:

Year ended 31 December	2020	2019
Continuing operations[1]:		
Manufacturing	**13,723**	13,430
Other staff	**3,359**	3,446
	17,082	16,876
Discontinued operations[2]	**–**	555
Total number of employees	**17,082**	17,431
Comprising:		
UK	**182**	187
Overseas	**16,900**	17,244
	17,082	17,431
The total numbers employed at the end of the year were:		
Continuing operations:		
UK	**183**	184
Overseas	**17,125**	16,957
Total number of employees	**17,308**	17,141

1. The 2020 average number of employees for continuing operations includes 274 employees of Pharr HP which was acquired in February 2020 (see note 31).
2. The 2019 average number of employees for the discontinued North America Crafts business are for the period until disposal on 20 February 2019 (see note 32).

Year ended 31 December	2020 US$m	2019 US$m
Employee aggregate remuneration comprised (including directors)[3]:		
Continuing operations:		
Wages and salaries	**237.8**	267.3
Social security costs	**24.6**	27.8
Other pension costs (note 10)	**9.7**	7.9
	272.1	303.0
Discontinued operations	**–**	4.8
	272.1	307.8

3. 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).

9 Tax on profit from continuing operations

Year ended 31 December	2020 US$m	2019 US$m
UK Corporation tax at 19% (2019: 19%)	**–**	–
Overseas tax charge	**(43.0)**	(48.3)
Deferred tax credit/(charge)	**5.6**	(2.2)
Total tax charge	**(37.4)**	(50.5)

The overseas tax charge includes withholding tax charges and other taxes not based on profits for the year ended 31 December 2020 of $12.5 million (2019: $14.4 million). Exceptional tax charges for the year ended 31 December 2020 were $2.2 million (2019: $nil) and includes a charge of $1.9 million following the write off of deferred tax assets which were recognised in previous periods but are no longer recoverable due to the impacts of Covid.

NOTES TO THE FINANCIAL STATEMENTS
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9 Tax on profit from continuing operations continued

The deferred tax credit of $5.6 million for the year ended 31 December 2020 includes the exceptional charge of $1.9 million offset by deferred tax provision releases following remittance of dividends from subsidiaries, deferred tax credits arising from the expected recovery of current year losses in certain jurisdictions and other timing differences.

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

				2020				2019
Year ended 31 December	**Underlying US$m**	**Exceptional and acquisition related items US$m**	**Other adjustments[1] US$m**	**Total US$m**	Underlying US$m	Exceptional and acquisition related items US$m	Other adjustments[1] US$m	Total US$m
Profit before tax	**91.1**	**(6.8)**	**(4.7)**	**79.6**	176.7	(4.4)	(5.5)	166.8
Expected tax charge/(credit) at the UK statutory rate of 19% (2019: 19%)	**17.3**	**(1.3)**	**(0.9)**	**15.1**	33.6	(0.8)	(1.0)	31.8
Differences between overseas and UK taxation rate	**(0.7)**	**0.3**	**(0.1)**	**(0.5)**	4.2	(1.1)	(0.3)	2.8
Non-deductible expenses	**0.6**	**1.3**	**–**	**1.9**	2.6	0.8	–	3.4
Non-taxable income	**(0.4)**	**–**	**–**	**(0.4)**	(0.1)	(0.6)	–	(0.7)
Local tax incentives	**–**	**–**	**–**	**–**	(0.6)	–	–	(0.6)
Utilisation of unrecognised deferred tax assets	**(1.5)**	**–**	**–**	**(1.5)**	(6.4)	–	–	(6.4)
Potential deferred tax assets not recognised	**5.9**	**1.9**	**0.5**	**8.3**	3.6	1.7	0.9	6.2
Impact of changes in tax rates	**(0.6)**	**–**	**–**	**(0.6)**	(1.8)	–	–	(1.8)
Prior year adjustments	**2.6**	**–**	**–**	**2.6**	1.4	–	–	1.4
Withholding tax on remittances (net of double tax credits) and other taxes not based on profits	**12.5**	**–**	**–**	**12.5**	14.4	–	–	14.4
Income tax expense/(credit)	**35.7**	**2.2**	**(0.5)**	**37.4**	50.9	–	(0.4)	50.5
Effective tax rate	**39%**	**(32)%**	**11%**	**47%**	29%	0%	7%	30%

1. Other adjustments consist of net interest on pension scheme assets and liabilities of $4.7 million (2019: $5.5 million).

The Group's underlying effective tax rate is higher than the blended rate of the countries we operate in primarily due to the impact of unrelieved tax losses in countries where we are not currently able to recognise deferred tax assets in respect of those losses and the impact of withholding taxes on the repatriation of earnings and royalties to the UK.

Excluding exceptional and acquisition related items and the impact of IAS 19 finance charges, the underlying effective rate on pre-tax profits was 39% (2019: 29%). The higher rate was driven by withholding tax being largely independent of profit before tax thereby receiving no relief from the lower profits as well as losses in jurisdictions we are unable to recognize an asset.

The overseas tax rate for the year ended 31 December 2020 is lower than the UK tax rate for the same period whereas it was higher in 2019. This reflects lower year on year profits and losses in jurisdictions where the tax rate is higher than the UK tax rate.

9 Tax on profit from continuing operations continued

Uncertain tax positions

The Group's current tax liability includes a number of tax provisions, which although individually are relatively small, together they total $15.0 million (2019: $14.1 million). These provisions relate to management's estimate of the amount of tax payable on open tax returns yet to be agreed with the local tax authorities. The Group evaluates uncertain tax items, which are subject to interpretation and agreement of the position with the local Tax Authorities and consequently agreement may not be reached for a number of years. Primarily the tax items for which a provision has been made relate to the interpretation of transfer pricing legislation and practices across the jurisdictions in which the Group operates.

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

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

Taxation paid

During the year the Group made Corporate Income Tax payments in respect of continuing operations (including withholding and dividend distribution taxes) of $46.3 million (2019: $46.3 million). The amount of tax paid in each jurisdiction is as follows:

Year ended 31 December	**2020 US$m**	2019 US$m
UK	**12.3**	11.7
Vietnam	**14.0**	12.7
China	**3.0**	1.5
Indonesia	**2.7**	3.2
India	**2.5**	5.7
Bangladesh	**2.2**	1.7
Singapore	**1.7**	1.8
Brazil	**1.0**	(1.4)
Sri Lanka	**0.9**	1.1
Colombia	**0.9**	0.7
Spain	**0.9**	0.3
Hong Kong	**0.8**	0.1
Morocco	**0.7**	0.6
Poland	**0.6**	0.7
Thailand	**0.6**	0.7
Pakistan	**0.2**	0.6
USA	**-**	1.3
Turkey	**(0.5)**	1.5
Others (16 countries each less than $0.5 million)	**1.8**	1.8
Total Corporate Income Tax paid	**46.3**	46.3

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

9 Tax on profit from continuing operations continued

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

	2020 US$m	2019 US$m
Estonia	**2.8**	–
Indonesia	**2.7**	2.8
Bangladesh	**1.5**	2.4
Vietnam	**1.2**	1.5
China	**0.9**	1.0
India	**0.8**	2.3
Thailand	**0.5**	0.2
Colombia	**0.4**	0.6
Others (each less than $0.5 million)	**3.2**	2.7
Total withholding taxes paid	**14.0**	13.5

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$m	**Year ended 31 December 2020 US$m**	US$m	Year ended 31 December 2019 US$m
Defined contribution schemes			**3.7**		3.0
Defined benefit schemes –					
	Coats US funded	**1.8**		1.9	
	Other funded and unfunded	**4.2**		3.4	
			6.0		5.3
Past service credit			**(0.6)**		(3.2)
Settlements			**–**		0.1
Administrative expenses for defined benefit schemes			**4.9**		5.5
			14.0		10.7

Included in the table above are $nil (2019: $0.7 million) of past service costs that have been presented as exceptional items in the Consolidated Income Statement. Also included in the table above is a $nil (2019: $1.8 million) past service credit (non-cash) on the US post-retirement medical scheme relating to the discontinued NA Crafts business.

10 Retirement and other post-employment benefit arrangements continued

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 $nil (2019: $0.1 million).

c) Defined benefit schemes

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

The sponsor of the Coats UK Pension Scheme is Coats Limited and the Company provides a guarantee to the Coats UK Pension Scheme.

In addition, the Group has the Coats North America Pension Plan ('Coats US') which is a defined benefit scheme the assets of which are held in funds that are legally separated from the Group. During the prior year the Group agreed to amend the Plan to close to new hires from 1 January 2020, and to cease future accrual for current employees from 1 January 2022. The amendment resulted in a $2.6 million past service credit in 2019.

Finally, the Group also operates various other pension and other post-retirement arrangements in most of the countries in which it operates (most significantly in Germany). Detailed disclosures in respect of the UK plans and the Coats US plan are given in this note as the defined benefit obligations under these schemes represent around 96% of all defined benefit obligations.

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

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

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

10 Retirement and other post-employment benefit arrangements continued

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 143. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds and derivatives. The Coats UK Pension Scheme is currently over 80% (2019: over 80%) hedged against interest rate movements by reference to the Technical Provisions liability.
Inflation	The present value of the defined benefit liabilities are calculated by reference to assumed future inflation rates. An increase in inflation rates will increase defined benefit obligations.	The impact of the movement in inflation rates are shown on page 143. The Trustees of the UK and US schemes hedge these sensitivities through physical bonds, derivatives and real assets. The Coats UK Pension Scheme is currently over 80% (2019: over 80%) hedged against inflation rate movements by reference to the Technical Provisions liability.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of member life expectancies. An increase in life expectancy will increase liabilities.	The impact of an increase in life expectancy is shown on page 143. 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.

ii) UK funding commitments

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes, updated to take account of the valuations of assets and liabilities as at 31 December 2020.

On 6 March 2019 Coats Limited and the Trustee of the Coats UK Pension Scheme agreed the first valuation of the Coats UK Pension Scheme with a 1 July 2018 effective date. This agreement resulted in ongoing annual deficit recovery payments of £20 million ($27 million at 31 December 2020 exchange rate) 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 ($345 million). At 1 July 2018 the market value of assets were £2,109 million ($2,883 million) and liabilities were £2,361 million ($3,228 million) resulting in the Technical Provisions deficit of £252 million ($345 million). As before the Group will also meet Scheme administrative expenses and levies estimated in future at £4 million ($5 million) per annum (i.e. total ongoing payments of $32 million per annum). The new deficit recovery payments were effective from 1 April 2019 and are payable until 31 December 2028. The Scheme's next triennial valuation will have an effective date of 31 March 2021 to realign with the valuation cycle of the previous UK schemes.

In agreement with the trustees of the Coats UK Pension Scheme, and as part of the wider Covid underpinning actions during H1 2020, the Group agreed to defer the deficit recovery payments for April-December 2020 inclusive (circa $21 million deferred). The catch up of these payments is currently anticipated to commence in mid-2021 and will be evenly spread over a period of 18 months.

10 Retirement and other post-employment benefit arrangements continued

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 2020.

The most recent actuarial valuation for the Coats UK pension scheme had a 1 July 2018 effective date and the most recent actuarial valuation for the Coats US scheme was 31 December 2019.

iii) Principal assumptions

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

Principal assumptions at 31 December 2020	**Coats UK Pension Scheme %**	**Coats US %**	**Other %**
Rate of increase in salaries	**–**	**3.0**	**4.7**
Rate of increase for pensions in payment	**Various**	**–**	**3.0**
Discount rate	**1.3**	**2.3**	**3.1**
Inflation assumption	**3.0**	**2.2**	**3.7**

Principal assumptions at 31 December 2019	Coats UK Pension Scheme %	Coats US %	Other %
Rate of increase in salaries	–	3.0	5.1
Rate of increase for pensions in payment	Various	–	3.5
Discount rate	2.0	3.2	3.9
Inflation assumption	3.1	2.2	4.1

The rate of increase for pensions in payment for members of the combined Coats UK Pension Scheme vary in accordance with each member's former scheme category and period of membership. For former Coats UK plan members the increases for pensions in payment are assumed to be at a rate of 3.0% (2019: 3.0%). For former Staveley scheme members, the majority of the increases for pensions in payment fall within the range 2.4%-3.0% (2019: 2.5%-3.0%). For former Brunel scheme members, the majority of the increases for pensions in payment fall within the range 3.0%-4.0% (2019: 3.0%-4.0%).

The assumed life expectancy on retirement is:

	Year ended 31 December 2020		Year ended 31 December 2019	
	Coats UK Pension Scheme Years	**Coats US Years**	Coats UK Pension Scheme Years	Coats US Years
Retiring today at age 60:				
Males	**25.7**	**24.7**	25.6	24.8
Females	**27.9**	**26.8**	27.7	27.0
Retiring in 20 years at age 60:				
Males	**27.2**	**26.3**	27.1	26.6
Females	**29.5**	**28.4**	29.3	28.7

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

10 Retirement and other post-employment benefit arrangements continued

iv) Amounts recognised in the consolidated income statement

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

Year ended 31 December 2020	**Coats UK Pension Scheme US$m**	**Coats US US$m**	**Other US$m**	**Group US$m**
Current service cost	**–**	**(1.8)**	**(4.2)**	**(6.0)**
Past service credit	**–**	**–**	**0.6**	**0.6**
Administrative expenses	**(4.5)**	**(0.4)**	**–**	**(4.9)**
	(4.5)	**(2.2)**	**(3.6)**	**(10.3)**
Interest on defined benefit obligations – unwinding of discount	**(55.6)**	**(3.6)**	**(4.2)**	**(63.4)**
Interest income on pension scheme assets	**54.0**	**6.3**	**1.0**	**61.3**
Effect of asset cap	**–**	**(2.2)**	**(0.4)**	**(2.6)**
	(1.6)	**0.5**	**(3.6)**	**(4.7)**

Year ended 31 December 2019	Coats UK Pension Scheme US$m	Coats US US$m	Other US$m	Group US$m
Current service cost	–	(1.9)	(3.4)	(5.3)
Past service cost	–	2.6	0.6	3.2
Settlements	–	–	(0.1)	(0.1)
Administrative expenses	(4.6)	(0.8)	(0.1)	(5.5)
	(4.6)	(0.1)	(3.0)	(7.7)
Interest on defined benefit obligations – unwinding of discount	(73.2)	(4.7)	(5.2)	(83.1)
Interest income on pension scheme assets	70.6	7.4	1.3	79.3
Effect of asset cap	–	(1.2)	(0.5)	(1.7)
	(2.6)	1.5	(4.4)	(5.5)

Included in the table above is a current service cost for the year ended 31 December 2020 of $nil (2019: $0.3 million) which has been included in discontinued operations relating to the disposed North America Crafts business.

v) Amounts recognised in the consolidated statement of comprehensive income

Actuarial gains and losses were as follows:

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Effect of changes in demographic assumptions	**(10.4)**	50.7
Effect of changes in financial assumptions	**(321.6)**	(308.1)
Effect of experience adjustments	**13.7**	(1.4)
Remeasurement on assets (excluding interest income)	**286.3**	278.9
Adjustment due to surplus cap	**(7.7)**	(51.2)
Included in the statement of comprehensive income	**(39.7)**	(31.1)

10 Retirement and other post-employment benefit arrangements continued

vi) Amounts recognised in the consolidated statement of financial position

The amounts included in the consolidated statement of financial position arising from the Group's defined benefit arrangements are as follows:

Year ended 31 December 2020	Coats UK Pension Scheme US$m	Coats US US$m	Other US$m	Total US$m
Cash and cash equivalents	251.2	7.6	2.8	261.6
Equity instruments:				
US	108.0	28.2	1.2	137.4
UK	7.8	3.5	–	11.3
Eurozone	16.5	10.0	–	26.5
Other regions	44.9	16.0	5.0	65.9
Debt instruments:				
Corporate bonds (Investment grade)	956.5	113.1	4.3	1,073.9
Corporate bonds (Non-investment grade)	303.5	4.0	–	307.5
Government/sovereign instruments	1,122.5	78.4	–	1,200.9
Global real estate	286.6	–	0.1	286.7
Derivatives:				
Total return, interest and inflation swaps	(11.1)	0.1	–	(11.0)
Assets held by insurance company:				
Insurance contracts	2.9	0.5	1.2	4.6
Diversified investment fund	–	–	5.0	5.0
Other	120.9	(44.3)	0.2	76.8
Total market value of assets	3,210.2	217.1	19.8	3,447.1
Actuarial value of scheme liabilities	(3,338.7)	(121.0)	(128.8)	(3,588.5)
Net (liability)/asset in the scheme	(128.5)	96.1	(109.0)	(141.4)
Adjustment due to surplus cap	–	(80.5)	(3.9)	(84.4)
Recoverable net (liability)/asset in the scheme	(128.5)	15.6	(112.9)	(225.8)

NOTES TO THE FINANCIAL STATEMENTS
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10 Retirement and other post-employment benefit arrangements continued

Year ended 31 December 2019	Coats UK Pension Scheme US$m	Coats US US$m	Other US$m	Total US$m
Cash and cash equivalents	118.2	7.3	4.5	130.0
Equity instruments:				
US	119.1	30.7	0.8	150.6
UK	10.3	3.4	–	13.7
Eurozone	30.8	9.1	–	39.9
Other regions	47.1	15.0	4.7	66.8
Debt instruments:				
Corporate bonds (Investment grade)	1,014.7	108.1	4.9	1,127.7
Corporate bonds (Non-investment grade)	272.4	1.4	–	273.8
Government/sovereign instruments	901.5	65.5	–	967.0
Global real estate	267.4	–	0.2	267.6
Derivatives:				
Total return, interest and inflation swaps	(34.8)	0.1	–	(34.7)
Assets held by insurance company:				
Insurance contracts	6.7	0.5	1.1	8.3
Diversified investment fund	72.6	–	7.1	79.7
Other	113.2	(35.1)	0.2	78.3
Total market value of assets	2,939.2	206.0	23.5	3,168.7
Actuarial value of scheme liabilities	(3,030.8)	(118.3)	(126.5)	(3,275.6)
Net (liability)/asset in the scheme	(91.6)	87.7	(103.0)	(106.9)
Adjustment due to surplus cap	–	(69.8)	(4.6)	(74.4)
Recoverable net (liability)/asset in the scheme	(91.6)	17.9	(107.6)	(181.3)

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

Year ended 31 December	**2020 US$m**	2019 US$m
Non-current assets:		
Funded	**11.4**	13.8
Current assets:		
Funded	**4.8**	4.7
Current liabilities:		
Funded	**(35.3)**	(27.5)
Unfunded	**(7.1)**	(6.2)
Non-current liabilities:		
Funded	**(100.1)**	(71.6)
Unfunded	**(99.5)**	(94.5)
	(225.8)	(181.3)

The schemes disclosed as part of the ‘other’ column in the tables above include surplus positions of $0.6 million (2019: $0.4 million).

10 Retirement and other post-employment benefit arrangements continued

	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January	**(3,275.6)**	(3,002.4)
Current service cost	**(6.0)**	(5.3)
Increase in liabilities on settlements	**–**	(0.1)
Past service credit	**0.6**	3.2
Interest on defined benefit obligations – unwinding of discount	**(63.4)**	(83.1)
Actuarial losses on obligations	**(318.3)**	(258.8)
Contributions from members	**(0.1)**	(0.1)
Benefits paid	**178.5**	183.8
Exchange difference	**(104.2)**	(112.8)
At 31 December	**(3,588.5)**	(3,275.6)
Movements in the fair value of scheme assets were as follows:		
At 1 January	**3,168.7**	2,855.5
Interest income on scheme assets	**61.3**	79.3
Remeasurement on assets (excluding interest income)	**286.3**	278.9
Contributions from members	**0.1**	0.1
Contribution from sponsoring companies	**13.0**	28.5
Benefits paid	**(178.5)**	(183.8)
Administrative expenses paid from plan assets	**(0.5)**	(0.9)
Exchange difference	**96.7**	111.1
At 31 December	**3,447.1**	3,168.7

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	**74.4**	21.4
Interest cost on unrecognised surplus	**2.6**	1.7
Changes in the effect of limiting a net defined benefit asset to the asset ceiling (excluding interest)	**7.7**	51.2
Exchange difference	**(0.3)**	0.1
Unrecognised surplus at 31 December	**84.4**	74.4

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

10 Retirement and other post-employment benefit arrangements continued

vii) Assets without a quoted price in an active market

For the Coats UK Pension Scheme, all assets in the table above, except for cash and cash equivalents, do not have a quoted price in an active market.

For the Coats US scheme, included in the tables above are \$0.4 million (2019: \$0.4 million) of US equity instruments, \$113.1 million (2019: \$108.1 million) of corporate bonds (Investment grade), \$4.0 million (2019: \$1.4 million) of corporate bonds (Non-investment grade), government/sovereign instruments of \$15.2 million (2019: \$24.2 million), \$0.5 million (2019: \$0.5 million) of insurance contracts and \$44.1 million (2019: \$35.0 million) of other liabilities without a quoted price in an active market. All other assets have a quoted price in an active market.

viii) Basis of asset valuation

Under IAS 19, plan assets must be valued at the bid market value at the balance sheet date. For the main asset categories:

- Equities and bonds listed on recognised exchanges are valued at closing bid prices;
- Other bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves;
- Global real estate assets are valued on either a fair value approach as provided by the investment manager or notional bid valuations provided by the investment managers due to investments being held within a single priced pooled investment vehicle. Valuations are prepared in accordance with the current RICS Valuation – Global Standards (1 July 2017) and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015);
- Certain unlisted investments, for example derivatives and insurance contracts, are valued using a model based valuation such as a discounted cash flow; and
- Diversified investment funds are valued at fair value which is typically the Net Asset Value provided by the investment manager.

ix) Recoverability of plan surplus

The recoverable surplus on the Coats US scheme has been recognised in line with the benefit from contribution holidays, plus annual refunds expected from the scheme to fund the US post-retirement medical scheme in accordance with relevant US legislation. Following the disposal of North America Crafts, Coats retains the previously incurred pension obligations from the business. The pension scheme was in a surplus position of \$96.1 million at 31 December 2020 of which a recoverable surplus of \$15.6 million is recognised on the Balance Sheet.

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

x) Duration of plan liabilities

The weighted average duration of benefit obligations is 15 years (2019: 15 years) for the Coats UK scheme and 8 years (2019: 8 years) for the Coats US scheme.

10 Retirement and other post-employment benefit arrangements continued

xi) Sensitivities

Sensitivities regarding the discount rate, inflation (which also impacts the rate of increases in salaries and rate of increase for pension in payments assumptions for the UK scheme) and mortality assumptions used to measure the liabilities of the principal schemes, along with the impact they would have on the scheme liabilities, are set out below. Interrelationships between assumptions might exist and the analysis below does not take the effect of these interrelationships into account:

	Year ended 31 December 2020		Year ended 31 December 2019	
	+0.25% US$m	**-0.25% US$m**	+0.25% US$m	-0.25% US$m
Coats UK Pension Scheme discount rate	**(127.3)**	**135.2**	(113.6)	112.9
Coats US discount rate	**(3.4)**	**3.5**	(2.4)	2.5
Coats UK Pension Scheme inflation rate	**89.6**	**(99.3)**	82.3	(90.2)
Coats US inflation rate	**–**	**–**	–	–

An increase of 1.0% in the discount rate would result in the Coats UK Pension Scheme and the Coats US scheme liabilities decreasing by $467.2 million and $13.5 million. A decrease of 1.0% in the discount rate would result in the Coats UK Pension Scheme and the Coats US scheme liabilities increasing by $594.6 million and $15.0 million.

If members of the Coats UK Pension Scheme live one year longer the scheme liabilities will increase by $157.8 million (2019: $142.3 million). If members of the Coats US scheme live one year longer scheme liabilities will increase by $4.3 million (2019: $3.9 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 2020		Year ended 31 December 2019	
	+1% US$m	**-1% US$m**	+1% US$m	-1% US$m
Sensitivity of medical schemes to medical cost trend rate assumptions:				
Effect on total service cost and interest cost components of other schemes	**0.1**	**(0.1)**	0.1	(0.1)
Effect on defined benefit obligation of other schemes	**1.6**	**(1.4)**	1.4	(1.2)

xii) Expected contributions for 2021

The total estimated amount to be paid in respect of all of the Group's retirement and other post-employment benefit arrangements during the 2020 financial year (excluding administrative expenses paid by the Company) is $41.1 million. This includes $9 million of deficit repair contributions that were deferred in 2020 for the Coats UK Pension Scheme.

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.

NOTES TO THE FINANCIAL STATEMENTS
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11 Earnings per ordinary share continued

For diluted earnings per ordinary share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group has two classes of dilutive potential Ordinary Shares: those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and those long-term incentive plan awards for which the performance criteria would have been satisfied if the end of the reporting period were the end of the contingency period.

Year ended 31 December	2020 US$m	2019 US$m
Profit from continuing operations attributable to equity shareholders	**26.4**	96.2
Profit from continuing and discontinued operations attributable to equity shareholders	**26.4**	95.7

Year ended 31 December	2020 Number of shares m	2019 Number of shares m
Weighted average number of ordinary shares in issue for basic earnings per share	**1,455.6**	1,443.8
Adjustment for share options and LTIP awards	**1.4**	13.7
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,457.0**	1,457.5

Year ended 31 December	2020 cents	2019 cents
Continuing operations:		
Basic earnings per ordinary share	**1.81**	6.66
Diluted earnings per ordinary share	**1.81**	6.60
Continuing and discontinued operations:		
Basic earnings per ordinary share	**1.81**	6.63
Diluted earnings per ordinary share	**1.81**	6.57

12 Dividends

Year ended 31 December	2020 US$m	2019 US$m
2019 interim dividend paid – 0.55 cents per share	**–**	7.8
2018 final dividend paid – 1.16 cents per share	**–**	16.6
	–	24.4

The proposed final dividend of 1.30 cents per ordinary share for the year ended 31 December 2020 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 25 May 2021 to ordinary shareholders on the register on 30 April 2021, with an ex-dividend date of 29 April 2021.

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 2019	24.9	243.9	13.3	6.7	263.9	87.4	376.2
Currency translation differences	–	–	(0.1)	–	(0.1)	(0.4)	(0.5)
Additions	1.0	0.1	3.8	–	3.9	2.8	7.7
Reclassifications	–	–	–	–	–	7.4	7.4
Disposals	–	(1.3)	–	–	(1.3)	(2.6)	(3.9)
At 31 December 2019	**25.9**	**242.7**	**17.0**	**6.7**	**266.4**	**94.6**	**386.9**
Currency translation differences	**1.0**	**–**	**1.1**	**0.4**	**1.5**	**0.1**	**2.6**
Additions	**0.3**	**0.6**	**–**	**–**	**0.6**	**2.0**	**2.9**
Disposals	**–**	**–**	**–**	**–**	**–**	**(9.9)**	**(9.9)**
At 31 December 2020	**27.2**	**243.3**	**18.1**	**7.1**	**268.5**	**86.8**	**382.5**
Cumulative amounts charged							
At 1 January 2019	–	1.9	3.7	1.4	7.0	85.0	92.0
Currency translation differences	–	0.1	–	–	0.1	(0.4)	(0.3)
Reclassifications	–	–	–	–	–	0.1	0.1
Amortisation charge for the year	–	0.2	2.2	0.5	2.9	5.1	8.0
Disposals	–	(1.3)	–	–	(1.3)	(2.6)	(3.9)
At 31 December 2019	**–**	**0.9**	**5.9**	**1.9**	**8.7**	**87.2**	**95.9**
Currency translation differences	**–**	**–**	**0.4**	**0.2**	**0.6**	**–**	**0.6**
Amortisation charge for the year	**–**	**0.4**	**2.4**	**0.4**	**3.2**	**4.0**	**7.2**
Disposals	**–**	**–**	**–**	**–**	**–**	**(9.8)**	**(9.8)**
At 31 December 2020	**–**	**1.3**	**8.7**	**2.5**	**12.5**	**81.4**	**93.9**
Net book value at 31 December 2020	**27.2**	**242.0**	**9.4**	**4.6**	**256.0**	**5.4**	**288.6**
Net book value at 31 December 2019	25.9	241.8	11.1	4.8	257.7	7.4	291.0

The carrying value of Coats brands at 31 December 2020 and 31 December 2019 is $239.6 million. There is no foreseeable limit to the net cash inflows from royalties, which are generated from continued sales of thread resulting from the Coats brands, and those brands are therefore assessed as having indefinite useful lives. The recoverable amount of these brands has been estimated using the relief from royalty method to calculate the fair value and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on the latest budget and medium-term plan approved by the Board, covering the period to 31 December 2022, applying a pre-tax discount rate of 10.6% (2019: 10.0%) and long-term growth of 2.8% (2019: 2.8%). Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS
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13 Intangible assets continued
Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. The acquisition of Pharr High Performance Yarns ("Pharr HP") in February 2020 provided the Group with further scale and expertise within Personal Protection, a key end-use market in the Performance Materials operating segment. Following the acquisition of Pharr HP, the Group integrated a number of key business processes of Pharr HP with its existing Personal Protection businesses of Patrick Yarn and Coats American, as all three businesses serve the same Personal Protection market in the US and have similar product offerings as well as the capability to fulfil each other's orders. As such, the Group views these businesses as three manufacturing sites serving the Personal Protection market in the US rather than separate businesses. As the cash inflows of Pharr HP, Patrick Yarn and Coats American are inter-dependent, the Group considers goodwill arising from the Pharr HP and Patrick Yarn acquisitions to be allocated to the single CGU of North America. This is consistent with the information used by the Board to monitor the goodwill arising from these acquisitions for impairment. Comparative information relating to Patrick Yarn for the year ended 31 December 2019 has been presented on a consistent basis. The carrying amount of goodwill has been allocated as follows:

Year ended 31 December	**2020 US$m**	2019 US$m
Gotex	**13.9**	12.9
North America	**2.6**	2.3
Coats Digital	**8.9**	8.6
Other	**1.8**	2.1
	27.2	25.9

The carrying value of the goodwill allocated to the CGUs has been tested for impairment during the year by comparing the carrying value of the CGU to their value in use. The value in use calculations were based on projected cash flows, derived from the latest budgets approved by the Board and factoring in the most recent trading activity. Projected cash flows are, discounted at CGU specific, risk adjusted, discount rates to calculate the net present value.

The calculation of 'value in use' is most sensitive to the following assumptions:

- CGU specific operating assumptions that are reflected in the budget and medium-term plan periods for the financial year to December 2023;
- discount rates; and
- growth rates used to extrapolate risk adjusted cash flows beyond the medium-term period.

13 Intangible assets continued

CGU specific operating assumptions are applicable to the cash flows for the years 2021 to 2023 and relate to revenue forecasts and forecast operating margins. A short-term growth rate is applied to the December 2023 plan to derive the cash flows arising in 2024–2025 and a long-term rate is applied to 2025 to determine a terminal value. Revenue growth and operating margin improvement assumptions in 2024-2025 are as follows:

	Revenue growth %	Operating margin improvement %
Gotex	**5.0–10.0**	**1.0**
North America	**6.2–7.0**	**0.9–1.3**
Coats Digital	**25.7–30.4**	**2.9–3.0**

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. The pre-tax base discount rate of 10.6% (2019: 10.0%) has been adjusted for economic risks that are not already captured in the specific operating assumptions. This results in the impairment testing using a pre tax discount rate of 13.3% for Gotex, 11.0% for North America, and 13.6% for Coats Digital.

The following scenarios would result in headroom being completely eliminated in the value in use impairment assessments:

- the discount rate increasing by 600bps in Gotex, 270bps points in North America and 700bps in Coats Digital; or
- cumulative 2021-2025 revenue is 29% lower in Gotex, 25% lower in North America and 30% lower in Coats Digital; or
- cumulative 2021-2025 operating profit is 35% lower in Gotex, 36% lower in North America and 46% lower in Coats Digital.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Property, plant and equipment

Cost	Land and buildings US$m	Plant and equipment US$m	Vehicles and office equipment US$m	Total US$m
At 1 January 2019	157.3	557.3	93.7	808.3
Currency translation differences	(0.5)	(8.6)	(1.0)	(10.1)
Subsidiaries bought externally	–	0.1	–	0.1
Additions	7.2	27.0	4.4	38.6
Transfer to non-current assets held for sale	(2.4)	–	–	(2.4)
Reclassifications	(0.2)	(1.3)	(7.4)	(8.9)
Disposals	(1.1)	(11.9)	(3.5)	(16.5)
At 31 December 2019	**160.3**	**562.6**	**86.2**	**809.1**
Currency translation differences	**0.1**	**(5.5)**	**(0.6)**	**(6.0)**
Subsidiaries bought externally	**–**	**3.9**	**–**	**3.9**
Additions	**3.1**	**7.9**	**1.7**	**12.7**
Disposals	**(0.4)**	**(6.1)**	**(10.8)**	**(17.3)**
At 31 December 2020	**163.1**	**562.8**	**76.5**	**802.4**

Cumulative amounts charged				
At 1 January 2019	71.0	381.9	73.2	526.1
Currency translation differences	(0.9)	(5.2)	(1.0)	(7.1)
Depreciation charge for the year	4.3	21.6	4.0	29.9
Impairment charge	–	1.2	0.1	1.3
Transfer to non-current assets held for sale	(0.9)	–	–	(0.9)
Reclassifications	(0.1)	(1.1)	(0.1)	(1.3)
Disposals	(1.0)	(11.3)	(2.9)	(15.2)
At 31 December 2019	**72.4**	**387.1**	**73.3**	**532.8**
Currency translation differences	**0.2**	**(2.5)**	**(0.2)**	**(2.5)**
Depreciation charge for the year	**5.0**	**21.8**	**3.7**	**30.5**
Impairment charge (see note 4)	**0.1**	**3.7**	**0.3**	**4.1**
Disposals	**(0.3)**	**(5.8)**	**(10.8)**	**(16.9)**
At 31 December 2020	**77.4**	**404.3**	**66.3**	**548.0**
Net book value at 31 December 2020	**85.7**	**158.5**	**10.2**	**254.4**
Net book value at 31 December 2019	87.9	175.5	12.9	276.3

14 Property, plant and equipment continued

Analysis of net book value of land and buildings 31 December	2020 US$m	2019 US$m
Freehold	**71.0**	72.6
Leasehold improvements:		
Over 50 years unexpired	**2.0**	2.0
Under 50 years unexpired	**12.7**	13.3
	85.7	87.9

15 Leases

The Group leases several assets including buildings, plants, vehicles and office equipment. The average lease term is 4 years (2019: 3 years). The Group's consolidated balance sheet includes the following amounts relating to leases:

Right-of-use assets

Net carrying amount	Land and buildings US$m	Plant and equipment US$m	Vehicles and office equipment US$m	Total US$m
At 1 January 2020	47.5	9.8	6.1	63.4
At 31 December 2020	**49.7**	**6.4**	**4.6**	**60.7**
Depreciation expense for the year ended				
31 December 2019	9.3	2.5	3.4	15.2
31 December 2020	**12.9**	**2.2**	**3.2**	**18.3**

Additions to the right-of-use assets during the year ended 31 December 2020 were $16.2 million (2019: $22.2 million).

Lease liabilities

Year ended 31 December	2020 US$m	2019 US$m
Current	**16.4**	14.1
Non-current	**49.6**	50.9
	66.0	65.0
Maturity analysis		
Payable within one year	**16.4**	14.1
Payable between one and five years	**34.6**	33.5
Payable after more than five years	**15.0**	17.4
	66.0	65.0

The net increase in lease liabilities during the year ended 31 December 2020 was $1.0 million (2019: $7.3 million) which includes foreign exchange losses on lease liabilities of $0.7 million (2019: gains of $0.4 million). The total cash outflow for leases in the year ended 31 December 2020 was $19.4 million (2019: $17.3 million).

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15 Leases continued

The Group's consolidated income statement includes the following amounts relating to leases:

Year ended 31 December	2020 US$m	2019 US$m
Depreciation expense	**18.3**	15.2
Interest expense on lease liabilities	**3.9**	3.7
Expenses relating to short term leases	**1.5**	3.0
Expenses relating to leases of low value assets	**0.1**	0.1
Expense relating to variable lease payments not included in the measurement of the lease liability	**0.6**	0.3
Impairment of right-of-use assets (see note 4)	**0.8**	-
Income from subleasing right-of-use assets	**(0.2)**	(0.2)

The Group subleases some of its right-of-use assets. At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

Year ended 31 December	2020 US$m	2019 US$m
Receivable within one year	**0.2**	0.2
Receivable between one and five years	**–**	0.2
	0.2	0.4

16 Non-current investments

Year ended 31 December	2020 US$m	2019 US$m
Interests in joint ventures (see below)	**11.1**	11.4
Investments in equity securities:		
Unlisted investments	**6.0**	6.1
	17.1	17.5

Other investments included within current assets were $0.1 million at 31 December 2020 (2019: $0.1 million).

Interests in joint ventures	US$m
At 1 January 2020	11.4
Dividends receivable	(0.9)
Share of profit after tax	0.6
At 31 December 2020	**11.1**

Year ended 31 December	2020 US$m	2019 US$m
Share of net assets on acquisition	**10.6**	10.6
Share of post-acquisition retained profits	**0.5**	0.8
Share of net assets	**11.1**	11.4

16 Non-current investments continued

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	2020 US$m	2019 US$m
Summarised income statement information:		
Revenue	**20.8**	25.1
Profit before tax	**0.8**	1.4
Taxation	**(0.2)**	(0.3)
Profit after tax	**0.6**	1.1

Year ended 31 December	2020 US$m	2019 US$m
Summarised balance sheet information:		
Non-current assets	**5.7**	5.9
Current assets	**12.9**	13.9
	18.6	19.8
Liabilities due within one year	**(7.5)**	(8.4)
Net assets	**11.1**	11.4

17 Deferred tax assets

Year ended 31 December	2020 US$m	2019 US$m
Deferred tax assets	**22.7**	16.2

The Group's deferred tax assets are included within the analysis in note 24.

The movements in the Group's deferred tax asset during the year were as follows:

	2020 US$m	2019 US$m
At 1 January	**16.2**	19.2
Currency translation differences	**0.6**	(0.4)
Acquisition/disposal of subsidiaries	**–**	(0.7)
Reclassified from deferred tax liability	**5.2**	2.8
Transfer to current tax	**(0.2)**	(0.3)
Credited/(charged) to the income statement	**0.8**	(3.4)
Credited to other comprehensive income and expense	**0.1**	0.5
Charged to equity	**–**	(1.5)
At 31 December	**22.7**	16.2

18 Inventories

Year ended 31 December	2020 US$m	2019 US$m
Raw materials and consumables	**96.6**	75.1
Work in progress	**28.0**	29.8
Finished goods and goods for resale	**62.4**	67.6
	187.0	172.5

NOTES TO THE FINANCIAL STATEMENTS
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19 Trade and other receivables

Year ended 31 December	**2020 US$m**	2019 US$m
Non-current assets:		
Income tax assets	**0.5**	1.5
Trade receivables	**0.6**	0.7
Other receivables	**12.4**	14.6
Derivative financial instruments	**5.5**	3.3
	19.0	20.1
Current assets:		
Trade receivables	**223.5**	208.7
Current income tax assets	**6.8**	5.5
Prepayments and accrued income	**5.6**	6.9
Derivative financial instruments	**3.5**	0.9
Other receivables	**35.1**	39.2
	274.5	261.2

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

Interest charged in respect of overdue trade receivables is immaterial.

Included within trade receivables is $6.2 million (2019: $5.8 million) relating to software solutions revenue contracts, for which performance obligations are fulfilled over a period of time (see note 21).

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 $10.2 million (2019: $8.1 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 2020**
Expected loss rate	**0.6%**	**2%**	**25%**	**87%**	
Gross carrying amount (US$m)	**199.8**	**23.5**	**1.6**	**9.4**	**234.3**
Loss allowance provision (US$m)	**1.1**	**0.5**	**0.4**	**8.2**	**10.2**

	Current	1-3 months past due	3-6 months past due	6 + months past due	Total 2019
Expected loss rate	0%	0%	8%	96%	
Gross carrying amount (US$m)	183.0	23.9	2.5	8.1	217.5
Loss allowance provision (US$m)	–	0.1	0.2	7.8	8.1

19 Trade and other receivables continued

The movements in the expected loss allowance are analysed as follows:

	2020 US$m	2019 US$m
At 1 January	**8.1**	9.6
Currency translation differences	**(0.4)**	(0.4)
Charged to the income statement	**3.1**	0.2
Amounts written off during the year	**(0.6)**	(1.3)
At 31 December	**10.2**	8.1

20 Derivative financial instruments – assets

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

Year ended 31 December	2020 US$m	2019 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**4.4**	2.9
Interest rate swap contracts	**4.6**	-
Fair value hedges through the statement of comprehensive income:		
Interest rate swap contracts	**-**	1.3
	9.0	4.2
Amounts shown within non-current assets	**5.5**	3.3
Amounts shown within current assets	**3.5**	0.9

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.

21 Trade and other payables

Year ended 31 December	2020 US$m	2019 US$m
Amounts falling due within one year:		
Trade payables	**158.5**	170.7
Amounts owed to joint ventures	**12.4**	16.2
Other tax and social security payable	**8.0**	5.6
Other payables	**29.7**	35.8
Accruals	**32.1**	37.7
Contract liabilities	**6.5**	5.8
Derivative financial instruments	**-**	0.3
Employee entitlements (excluding pensions)	**8.5**	12.3
	255.7	284.4
Amounts falling due after more than one year:		
Other payables	**16.1**	15.0
Contract liabilities	**0.6**	0.5
Employee entitlements (excluding pensions)	**1.1**	1.5
Derivative financial instruments	**0.3**	1.2
	18.1	18.2

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21 Trade and other payables continued

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

Interest paid to suppliers in respect of overdue trade payables is immaterial.

Contract liabilities amounting to $5.8 million (2019: $6.6 million) which were outstanding at 31 December 2019 were released to revenue during the year ended 31 December 2020, with the remainder expected to be released in 2021.

22 Derivative financial instruments – liabilities

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

Year ended 31 December	2020 US$m	2019 US$m
Fair value through the income statement:		
Forward foreign currency contracts	**0.3**	1.5
	0.3	1.5
Amounts shown within non-current liabilities	**0.3**	1.2
Amounts shown within current liabilities	**-**	0.3

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

23 Borrowings

Year ended 31 December	2020 US$m	2019 US$m
Bank overdrafts	**19.8**	41.5
Borrowings repayable within one year	**3.0**	2.3
Due within one year	**22.8**	43.8
Borrowings repayable between one and two years	**0.4**	0.3
Borrowings repayable between two and five years	**129.3**	183.2
Due after more than five years	**100.0**	100.0
Due after more than one year	**229.7**	283.5
Bank overdrafts	**19.8**	41.5
Series A and Series B Senior Notes	**230.4**	225.0
Bank and other borrowings	**2.3**	60.8
	252.5	327.3

On 6 December 2017 the Group issued $125.0 million of 3.88% Series A Senior Notes due 6 December 2024 and $100.0 million of 4.07% Series B Senior Notes due 6 December 2027 in a US private placement. Interest is payable semi-annually in arrears on 6 June and 6 December of each year beginning on 6 June 2018. The Senior Notes are unsecured and rank equally with all the Group's other unsecured and unsubordinated indebtedness.

On 6 December 2017 the Group also entered into a $350.0 million five year bank facility. The facility bears interest at LIBOR plus a margin.

Series A and Series B Senior Notes at 31 December 2020 of $230.4 million includes a fair value adjustment to the nominal amount outstanding of $5.4 million, for which the Group has interest rate swaps which are accounted for as fair value hedges.

The currency and interest rate profile of the Group's borrowings is included in note 34 on page 170.

24 Deferred tax liabilities

	2020 US$m	2019 US$m
At 1 January	**8.2**	10.5
Currency translation differences	**0.4**	(0.2)
Acquisition/disposal of subsidiaries	**–**	(0.3)
Reclassified from deferred tax assets	**5.2**	2.8
Transfer to current tax	**–**	3.4
Credited to the income statement	**(4.8)**	(1.2)
Credited to other comprehensive income and expense	**–**	(6.8)
At 31 December	**9.0**	8.2

	2020		2019	
	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	**16.0**	**(12.6)**	14.4	(10.2)
Other temporary differences	**(12.0)**	**(9.2)**	(9.0)	3.7
Revenue losses carried forward	**(13.6)**	**(330.8)**	(13.8)	(303.7)
Capital losses carried forward	**–**	**(290.3)**	–	(254.1)
Investment in subsidiaries	**3.3**	**4.3**	7.5	5.7
Brands	**45.5**	**–**	40.7	–
Retirement benefit obligations offset against brands	**(45.5)**	**–**	(40.7)	–
Retirement benefit obligations	**(7.4)**	**15.3**	(7.1)	(3.5)
	(13.7)	**(623.3)**	(8.0)	(562.1)

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:

	2020	2019
Deferred tax assets (note 17)	**(22.7)**	(16.2)
Deferred tax liabilities	**9.0**	8.2
	(13.7)	(8.0)

During the year ended 31 December 2020, the Group performed a detailed recoverability review of its recognised deferred tax assets, given the heightened economic uncertainty arising due to the impact of Covid. This review resulted in a $1.9 million write-off of deferred tax assets which are no longer expected to be realised based on future expected taxable profits due to Covid impacts. The remaining deferred tax assets of $22.7 million as at 31 December 2020 are deemed to be wholly recoverable.

At the year end, the Group had approximately $1.6 billion (2019: $1.5 billion) of unused gross income tax losses and approximately $1.5 billion (2019: $1.4 billion) of unused gross capital losses available for offset against future profits. A deferred tax asset of $13.6 million (2019: $13.8 million) has been recognised in respect of $56.7 million (2019: $50.5 million) of such income tax losses. No deferred tax asset has been recognised in respect of the remaining losses due to lack of certainty regarding the availability of future taxable income. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

NOTES TO THE FINANCIAL STATEMENTS
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24 Deferred tax liabilities continued

The Group's income tax losses can be analysed as follows:

	2020 US$m	2019 US$m
Expiring within 5 years	**41.8**	33.0
Expiring in more than 5 years	**13.9**	15.5
Available indefinitely	**1,530.9**	1,481.4
	1,586.6	1,529.9

At 31 December 2020, 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 (2019: $5.7 million). Deferred tax on distribution of these profits has not been provided on the grounds that the Group is able to control the timing of the reversal of the remaining temporary differences and it is probable that they will not reverse in the foreseeable future.

25 Provisions

Year ended 31 December	2020 US$m	2019 US$m
Provisions are included as follows:		
Current liabilities	**8.2**	12.8
Non-current liabilities	**27.9**	30.7
	36.1	43.5

Provisions are analysed as follows:

Year ended 31 December	2020 US$m	2019 US$m
Property related provisions	**2.2**	2.2
Other provisions	**33.9**	41.3
	36.1	43.5

	Property related provisions US$m	Other provisions US$m	Total US$m
At 1 January 2020	**2.2**	**41.3**	**43.5**
Currency translation differences	**0.3**	**(0.6)**	**(0.3)**
Utilised in year	**(0.1)**	**(9.4)**	**(9.5)**
(Credited)/charged to the income statement	**(0.2)**	**2.6**	**2.4**
At 31 December 2020	**2.2**	**33.9**	**36.1**

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.

26 Share capital

	2020		2019	
Year ended 31 December	Number	US$m	Number	US$m
Ordinary Shares of 5p each	**1,452,077,272**	**90.1**	1,444,816,041	89.6

26 Share capital continued

During the year ended 31 December 2020 the Company issued 7,261,231 ordinary shares of 5p each (2019: 17,324,009) following the exercise of share options as set out below:

	Number of shares	US$m
At 1 January 2020	**1,444,816,041**	**89.6**
Issue of ordinary shares	**7,261,231**	**0.5**
At 31 December 2020	**1,452,077,272**	**90.1**

The own shares reserve of $3.2 million at 31 December 2020 (2019: $5.7 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 2020 was 7,010,248 (2019: 14,591,071).

During the year ended 31 December 2020 nil (2019: 524,745) options under the Group's 2002 share option scheme were exercised and nil (2019: 64,960) options lapsed.

Details of share awards outstanding under the Group's LTIP and Deferred Bonus Plans are set out in note 35.

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 2020	**10.5**	**(5.7)**	**(75.9)**	**59.8**	**248.7**	**(5.9)**	**30.4**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(17.8)**
Currency translation differences	**–**	**–**	**(13.3)**	**–**	**–**	**–**	**–**
Net change in fair value of cash flow hedges	**–**	**–**	**–**	**–**	**(2.4)**	**–**	**–**
Actuarial losses on employee benefits	**–**	**–**	**–**	**–**	**–**	**(39.7)**	**–**
Tax on actuarial gains and losses	**–**	**–**	**–**	**–**	**–**	**0.1**	**–**
Issue of ordinary shares	**–**	**–**	**–**	**–**	**–**	**(0.5)**	**–**
Movement in own shares	**–**	**2.5**	**–**	**–**	**–**	**(5.8)**	**–**
Share based payments	**–**	**–**	**–**	**–**	**–**	**1.6**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**26.4**	**15.8**
At 31 December 2020	**10.5**	**(3.2)**	**(89.2)**	**59.8**	**246.3**	**(23.8)**	**28.4**

The table below shows financial information of non-wholly owned subsidiaries of the Group that have non-controlling interests:

	Profit allocated to non-controlling interests		Accumulated non-controlling interests	
	Year ended 31 December 2020 US$m	Year ended 31 December 2019 US$m	**31 December 2020 US$m**	31 December 2019 US$m
EMEA	**–**	0.1	**1.5**	2.0
Asia & Rest of World	**15.8**	20.0	**26.9**	28.4
	15.8	20.1	**28.4**	30.4

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 185 to 194.

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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, 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 final 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 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 allocation, CC presented 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 or even smaller de micromis party. The confidential allocation process concluded in December 2020. CC continues to believe that it is a de minimis or even smaller de micromis party.

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 continued belief that it is a de minimis or even smaller de micromis party in an settlement or court ruling allocating remedial costs.

In 2015, a provision of $9.0 million was recorded for remediation costs for the entire 17 miles of the LPR. This provision was based on CC's estimated share of de minimis costs for EPA's selected remedy for the lower 8 miles of the LPR and the remedy proposed by the CPG for the upper 9 miles. A separate provision of $6.8 million was recorded for associated legal and professional costs in defence of CC's position. Both of these charges to the income statement were net of insurance reimbursements and were stated on a net present value basis. During the year ended 31 December 2018, an additional provision of $8.0 million was recorded as an exceptional item to cover legal and professional fees. The Group will continue to mitigate additional costs as far as possible through insurance and other avenues.

As at 31 December 2020, $12.0 million of this provision had been utilised. The remaining provision at 31 December 2020, taking into account insurance reimbursement, was $12.6 million (2019: $14.6 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.

28 Contingent liabilities and environmental matters continued

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 or even smaller de micromis party, and that additional parties not currently in the CPG will be responsible for a significant share of the ultimate costs of remediation. However, as this matter evolves, additional provisions could be recorded and such provisions could increase materially based on further decisions by EPA, negotiations among the parties, and other future events.

Following the sale of the North America Crafts business, including CC, announced on 22 January 2019, Coats North America Consolidated Inc. (the seller) retains the control and responsibility for the eventual outcome of the ongoing LPR environmental matters, including the rights to the related insurance reimbursements.

29 Capital commitments

As at 31 December 2020, the Group had commitments of $3.7 million in respect of contracts placed for future capital expenditure (2019: $5.8 million).

30 Notes to the consolidated cash flow statement

a) Reconciliation of operating profit to cash generated from operations

Year ended 31 December	2020 US$m	2019 US$m
Operating profit	**103.1**	191.0
Depreciation of owned property, plant and equipment	**30.5**	29.9
Depreciation of right-of-use assets	**18.3**	15.2
Amortisation of intangible assets	**7.2**	8.0
Decrease in inventories	**4.9**	10.4
Decrease/(increase) in debtors	**1.1**	(6.5)
Decrease in creditors	**(28.7)**	(13.8)
Provision and pension movements	**(14.0)**	(33.5)
Foreign exchange and other non-cash movements	**5.7**	4.4
Discontinued operations	**(0.1)**	0.3
Cash generated from operations	**128.0**	205.4

b) Taxation paid

Year ended 31 December	2020 US$m	2019 US$m
Overseas tax paid	**(46.3)**	(46.3)
	(46.3)	(46.3)

c) Investment income

Year ended 31 December	2020 US$m	2019 US$m
Dividends received from joint ventures	**0.9**	0.3
	0.9	0.3

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

30 Notes to the consolidated cash flow statement continued

d) Capital expenditure and financial investment

Year ended 31 December	2020 US$m	2019 US$m
Acquisition of property, plant and equipment and intangible assets	**(15.4)**	(44.3)
Acquisition of other equity investments	**0.1**	0.4
Disposal of property, plant and equipment	**3.0**	4.3
Discontinued operations	**–**	0.5
	(12.3)	(39.1)

e) Acquisitions and disposals of businesses

Year ended 31 December	2020 US$m	2019 US$m
Acquisition of businesses	**(36.9)**	(4.9)
Disposal of businesses	**–**	30.7
	(36.9)	25.8

f) Summary of net debt

Year ended 31 December	2020 US$m	2019 US$m
Total cash and cash equivalents	**71.9**	177.4
Bank overdrafts	**(19.8)**	(41.5)
Net cash and cash equivalents	**52.1**	135.9
Other borrowings (see note 23)	**(232.7)**	(285.8)
Net debt excluding lease liabilities	**(180.6)**	(149.9)
Lease liabilities (see note 15)	**(66.0)**	(65.0)
Total net debt	**(246.6)**	(214.9)

Total net debt is presented in the consolidated statement of financial position as follows:

Year ended 31 December	2020 US$m	2019 US$m
Current assets:		
Cash and cash equivalents	**71.9**	177.4
Current liabilities:		
Bank overdrafts and other borrowings	**(22.8)**	(43.8)
Lease liabilities	**(16.4)**	(14.1)
Non-current liabilities:		
Borrowings	**(229.7)**	(283.5)
Lease liabilities	**(49.6)**	(50.9)
Total net debt	**(246.6)**	(214.9)

For financial covenant purposes, the Group’s leverage is calculated on the basis of net debt without IFRS 16 lease liabilities and at the Coats Group Finance Company Limited level. Net debt excluding IFRS 16 lease liabilities at the Coats Group Finance Company Limited level at 31 December 2020 for covenant purposes was $177.0 million (31 December 2019: $152.6 million).

30 Notes to the consolidated cash flow statement continued

Total net debt of $246.6 million (2019: $214.9 million) comprises of borrowings of $232.7 million (2019: $285.8 million), net cash and cash equivalents of $52.1 million (2019: $135.9 million) and lease liabilities of $66.0 million (2019: $65.0 million). Movements in total net debt during the year included the net cash repayments of borrowings of $58.7 million (2019: $52.3 million), decrease in net cash and cash equivalents of $81.9 million (2019: $20.0 million increase), increase in lease liabilities of $0.3 million (2019: $64.5 million), movement in fair value hedges of $5.4m (2019: $nil), foreign exchange losses of $2.1 million (2019: $0.7 million gain) and other non-cash movements of $0.7 million (2019: $0.7 million).

31 Acquisitions

On 26 November 2019 the Group announced a binding agreement to acquire the trade and assets of Pharr High Performance Yarns ("Pharr HP"), a market leading manufacturer of high performance engineered yarns, based in McAdenville, North Carolina, US. Pharr HP specialises in providing technical yarn solutions to the markets of Industrial Thermal Protection, Defence and Fire Service industries. Its manufacturing capabilities and customer base provide the Group with further expertise within Personal Protection, a key end-use market in the Performance Materials operating segment. Other parts of Pharr, such as the carpet yarns and speciality flooring products business were not included as part of the acquisition. The acquisition was completed on 10 February 2020.

The initial consideration transferred on the acquisition date to acquire the Pharr HP business was $37 million. An adjustment to the consideration of $0.1 million was received in June 2020 following finalisation of certain completion consideration adjustments based on the amount of net working capital at the acquisition date.

Fair values of the identifiable assets and liabilities of Pharr HP as at the date of acquisition were as follows:

	Fair value recognised US$m
Assets:	
Intangible assets	0.6
Property, plant and equipment	3.9
Right-of-use assets	3.7
Inventories	23.7
Trade and other receivables	14.3
	46.2
Liabilities:	
Trade and other payables	(5.9)
Lease liabilities	(3.7)
Total identifiable net assets acquired at fair value	**36.6**
Goodwill recognised on acquisition	0.3
Total consideration paid	**36.9**

In accounting for the acquisition, adjustments are made to the book values of the net assets of the business acquired to reflect the fair values to the Group. Previously unrecognised assets and liabilities at acquisition are included and accounting policies are aligned with those of the Group where appropriate. The assessment of the fair value of assets and liabilities acquired was completed during the year ended 31 December 2020 within 12 months of the acquisition date.

Due to their contractual dates, the fair value of receivables acquired (shown above) approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial. There are no material contingent liabilities recognised in the amounts above in accordance with paragraph 23 of IFRS 3 (revised).

The excess of the fair value of the consideration paid over the fair value of the assets and liabilities acquired is represented by trade names of $0.6 million with residual goodwill arising of $0.3 million. Goodwill arising from the acquisition of Pharr HP has been allocated to the single cash generating unit of North America.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

31 Acquisitions continued
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.

Pharr HP revenues of $66.8 million and loss before tax of $0.7 million from the date of acquisition to 31 December 2020 has been included in the results from the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been $79.0 million and the loss before tax would have been $0.5 million based on unaudited management accounts for the six months ended 31 December 2020.

Transaction costs relating to the acquisition of $0.9 million were expensed and included in administrative expenses in the condensed consolidated income statement for the year ended 31 December 2019.

The total cash outflow in the year ended 31 December 2020 relating to the acquisition of Pharr HP was $37.3 million representing the consideration paid of $36.9 million and transaction costs paid of $0.4 million.

32 Discontinued operations and assets and liabilities held for sale
a) Discontinued operations
The results of the discontinued operations are presented below. Unless stated, all amounts relate to the North America Crafts business which was sold on 20 February 2019:

Year ended 31 December	2020 US$m	2019 US$m
Revenue	–	14.8
Cost of sales	–	(10.4)
Gross profit	–	4.4
Distribution costs	–	(3.7)
Administrative expenses	–	(2.4)
Other operating income	–	1.6
Operating loss and loss before taxation	–	(0.1)
Tax on loss	–	0.2
Profit from discontinued operations	–	0.1
Exceptional loss on disposal of North America Crafts	–	(1.1)
Exceptional profit on disposal of legacy UK Crafts property	–	0.5
Total loss from discontinued operations	–	(0.5)

32 Discontinued operations and assets and liabilities held for sale continued

The loss per ordinary share from discontinued operations is as follows:

Year ended 31 December	2020 Cents	2019 Cents
Loss per ordinary share from discontinued operations:		
Basic loss per ordinary share	–	(0.03)
Diluted loss per ordinary share	–	(0.03)

The table below sets out the cash flows from discontinued operations:

Year ended 31 December	2020 US$m	2019 US$m
Net cash (outflow)/inflow from operating activities	(0.1)	0.3
Net cash inflow from investing activities	–	0.5
Net cash flows from discontinued operations	**(0.1)**	0.8

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).

b) Assets and liabilities held for sale

There were no non-current assets held for sale at 31 December 2020 (2019: property, plant and equipment of $1.5 million).

33 Related party transactions

Remuneration of key management personnel

The Group Executive Team are deemed to be the key management personnel of the Group. The remuneration of the Group Executive Team, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided on pages 79 to 95 in the audited part of the Directors' Remuneration Report.

Year ended 31 December	2020 US$m	2019 US$m
Short-term employee benefits	6.0	8.6
Share based payments	0.7	2.8
	6.7	11.4

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	
	2020 US$m	2019 US$m	2020 US$m	2019 US$m
Joint ventures	5.9	3.8	45.7	55.1

Amounts owing by/(to) joint ventures at the year end are disclosed in notes 19 and 21. All transactions with joint ventures are at an arm's length and payment terms are consistent with normal trading terms with third parties.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

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	2020 US$m	2019 US$m
Financial assets carried at amortised cost (loans and receivables):		
Cash and cash equivalents	**71.9**	177.4
Trade receivables (note 19)	**224.1**	209.4
Other receivables (note 19), net of non-financial assets $23.0 million (2019: $22.1 million)	**24.5**	31.7
	320.5	418.5
Financial assets carried at fair value through the income statement:		
Derivative financial instruments (note 20)	**9.0**	2.9
	9.0	2.9
Other financial assets carried at fair value through the statement of comprehensive income:		
Other investments (note 16)	**6.1**	6.2
Derivative financial instruments (note 20)	**-**	1.3
	6.1	7.5
Total financial assets	**335.6**	428.9

34 Derivatives and other financial instruments continued

Financial liabilities

The Group's financial liabilities are summarised below:

Year ended 31 December	2020 US$m	2019 US$m
Financial liabilities carried at amortised cost:		
Trade payables (note 21)	**158.5**	170.7
Amounts owed to joint ventures (note 21)	**12.4**	16.2
Other financial liabilities	**78.3**	93.6
Provisions (note 25)	**2.2**	2.2
Lease liabilities (note 15)	**66.0**	65.0
Borrowings (note 23)	**182.1**	327.3
	499.5	675.0
Financial liabilities carried at fair value through the income statement:		
Borrowings (note 23)	**70.4**	-
Derivative financial instruments (note 22)	**0.3**	1.5
	70.7	1.5
Total financial liabilities	**570.2**	676.5

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:

	2020		2019	
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	**71.9**	**71.9**	177.4	177.4
Trade receivables	**224.1**	**224.1**	209.4	209.4
Other receivables	**24.5**	**24.5**	31.7	31.7
Other investments	**6.1**	**6.1**	6.2	6.2
Trade payables	**(158.5)**	**(158.5)**	(170.7)	(170.7)
Amounts owed to joint ventures	**(12.4)**	**(12.4)**	(16.2)	(16.2)
Other financial liabilities and provisions	**(80.5)**	**(80.5)**	(95.8)	(95.8)
Borrowings	**(252.5)**	**(252.5)**	(327.3)	(327.3)
Derivative financial instruments:				
Forward foreign currency contracts	**4.1**	**4.1**	1.4	1.4
Interest rate swaps	**4.6**	**4.6**	1.3	1.3
Net financial liabilities	**(168.6)**	**(168.6)**	(182.6)	(182.6)

NOTES TO THE FINANCIAL STATEMENTS
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34 Derivatives and other financial instruments continued
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.

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
2020				
Financial assets measured at fair value through the income statement:				
Trading derivatives	**4.4**	**-**	**4.4**	**-**
Derivatives designated as effective hedging instruments	**4.6**	**-**	**4.6**	**-**
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	**6.1**	**1.1**	**-**	**5.0**
	15.1	**1.1**	**9.0**	**5.0**
2019				
Financial assets measured at fair value through the income statement:				
Trading derivatives	2.9	–	2.9	–
Financial assets measured at fair value through the statement of comprehensive income:				
Other investments	6.2	1.2	–	5.0
Derivatives designated as effective hedging instruments	1.3	–	1.3	–
	10.4	1.2	4.2	5.0

34 Derivatives and other financial instruments continued

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
2020				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	**(0.3)**	**-**	**(0.3)**	**-**
Borrowings	**(70.4)**	**-**	**(70.4)**	**-**
	(70.7)	**-**	**(70.7)**	**-**
2019				
Financial liabilities measured at fair value through the income statement:				
Trading derivatives	(1.5)	–	(1.5)	–
	(1.5)	–	(1.5)	–

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. Given the business is at start-up phase and there have been no indications of impairment, the carrying value is deemed to approximate to fair value.

The main risks arising from the Group's financial instruments are as follows:

- currency risk;
- interest rate risk;
- capital risk;
- market price risk;
- liquidity risk; and
- credit risk.

The Group's policies for managing those risks are described on pages 167 to 174 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.

NOTES TO THE FINANCIAL STATEMENTS
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34 Derivatives and other financial instruments continued
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 2020, 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 $nil had been drawn down at year end and $225.0 million of Senior Notes (see note 23).

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. Interest rate swaps are accounted for as fair value or cash flow hedges, depending on initial designation. 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.

As at 31 December 2020 the Group has fixed to variable interest rate swap contracts designated as fair value hedges against $65.0 million of fixed interest Senior Notes. The fair value of these hedges as at 31 December 2020 was $4.6 million (see note 20) and borrowings includes a corresponding fair value adjustment to the nominal amount outstanding in the Consolidated Statement of Financial Position.

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 $2.2 million (2019: $0.7 million), and would reduce shareholders' funds by approximately $2.2 million (2019: $3.5 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 160), and share capital and reserves attributable to the equity shareholders of the Company.

Currency exposure
The table below shows the extent to which Group companies have financial assets and liabilities, excluding forward foreign currency contracts, in currencies other than their functional currency. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves, but includes other Group balances that eliminate on consolidation.

	Net foreign currency financial assets/(liabilities)						
Functional currency 2020	**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	**-**	**4.1**	**(2.4)**	**-**	**-**	**0.6**	**2.3**
United States dollars	**(0.1)**	**-**	**(8.9)**	**-**	**-**	**(4.5)**	**(13.5)**
Euros	**0.6**	**0.9**	**-**	**-**	**-**	**(0.5)**	**1.0**
Indian Rupees	**-**	**(2.7)**	**(0.8)**	**-**	**-**	**-**	**(3.5)**
Brazilian Reals	**-**	**0.6**	**-**	**-**	**-**	**-**	**0.6**
Other currencies	**(0.1)**	**(10.1)**	**9.7**	**0.3**	**-**	**-**	**(0.2)**
	0.4	**(7.2)**	**(2.4)**	**0.3**	**-**	**(4.4)**	**(13.3)**

34 Derivatives and other financial instruments continued

Functional currency 2019	Net foreign currency financial assets/(liabilities) Sterling US$m	US dollars US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m	Other US$m	Total US$m
Sterling	–	0.4	1.4	–	–	1.9	3.7
United States dollars	(21.9)	–	(1.3)	–	–	(7.9)	(31.1)
Euros	0.9	1.6	–	0.1	–	(0.5)	2.1
Indian Rupees	–	1.8	(0.5)	–	–	–	1.3
Brazilian Reals	–	(2.5)	–	–	–	–	(2.5)
Other currencies	–	(10.1)	5.8	0.7	–	–	(3.6)
	(21.0)	(8.8)	5.4	0.8	–	(6.5)	(30.1)

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:

2020	**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	**(2.0)**	**(1.0)**	**0.3**	**(0.1)**
(Decrease)/increase in shareholders' funds	**(6.3)**	**(2.1)**	**4.2**	**1.5**

2019	Sterling US$m	Euro US$m	Indian Rupees US$m	Brazilian Reals US$m
Increase in US dollar exchange rate	10%	10%	10%	10%
(Decrease)/increase in profit before tax	(3.7)	(0.3)	(0.2)	0.2
(Decrease)/increase in shareholders' funds	(7.6)	1.5	4.1	1.8

Currency profile of financial assets

The currency profile of the Group's financial assets was as follows:

31 December	**2020** Investments US$m	**Cash and cash equivalents US$m**	**Trade and other receivables US$m**	**Derivative financial instruments US$m**	**Total US$m**	2019 Investments US$m	Cash and cash equivalents US$m	Trade and other receivables US$m	Derivative financial instruments US$m	Total US$m
Currency:										
Sterling	**-**	**0.1**	**5.3**	**104.5**	**109.9**	–	0.6	7.3	60.5	68.4
United States dollars	**5.0**	**40.0**	**111.1**	**(106.8)**	**49.3**	5.0	114.1	90.1	(110.3)	98.9
Euros	**0.1**	**1.7**	**21.7**	**-**	**23.5**	0.1	5.7	23.0	(2.9)	25.9
Indian Rupees	**1.0**	**8.0**	**22.2**	**1.6**	**32.8**	1.1	18.1	24.3	14.3	57.8
Brazilian Reals	**-**	**2.6**	**13.2**	**(3.9)**	**11.9**	–	1.8	22.2	(1.2)	22.8
Other currencies	**-**	**19.5**	**75.1**	**13.6**	**108.2**	–	37.1	74.2	43.8	155.1
Total financial assets	**6.1**	**71.9**	**248.6**	**9.0**	**335.6**	6.2	177.4	241.1	4.2	428.9

The investments included above comprise listed and unlisted investments in shares and bonds.

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34 Derivatives and other financial instruments continued
Currency and interest rate profile of financial liabilities

The currency and interest rate profile of the Group's financial liabilities was as follows:

	2020						2019					
31 December	**Floating rate US$m**	**Fixed rate US$m**	**Interest free US$m**	**Lease liabilities US$m**	**Derivative financial instruments US$m**	**Total US$m**	Floating rate US$m	Fixed rate US$m	Interest free US$m	Lease liabilities US$m	Derivative financial instruments US$m	Total US$m
Currency:												
Sterling	**0.2**	**-**	**11.4**	**5.1**	**(9.6)**	**7.1**	1.3	–	10.8	5.4	(35.3)	(17.8)
United States dollars	**82.3**	**160.0**	**100.4**	**13.1**	**(9.8)**	**346.0**	95.2	220.0	126.7	11.2	9.2	462.3
Euros	**6.6**	**-**	**12.9**	**2.5**	**20.0**	**42.0**	5.5	–	12.5	3.2	19.7	40.9
Indian Rupees	**-**	**-**	**37.8**	**13.3**	**-**	**51.1**	–	–	38.4	16.0	–	54.4
Brazilian Reals	**-**	**-**	**11.7**	**0.1**	**4.1**	**15.9**	–	–	12.6	10.6	7.1	20.3
Other currencies	**-**	**3.5**	**77.1**	**31.9**	**(4.4)**	**108.1**	2.7	2.6	81.7	28.6	0.8	116.4
Total financial liabilities	**89.1**	**163.5**	**251.3**	**66.0**	**0.3**	**570.2**	104.7	222.6	282.7	65.0	1.5	676.5

The benchmark for determining floating rate liabilities in the UK is LIBOR for both sterling and US$ amounts.

Details of fixed and non interest-bearing liabilities (excluding derivatives and trade and other payables) are provided below:

	2020			2019		
	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	**4.00**	**70**	**-**	3.61	61	–
Other currencies	**16.74**	**10**	**-**	11.58	12	–
Weighted average	**4.27**	**69**	**18**	3.70	60	18

34 Derivatives and other financial instruments continued

Currency profile of foreign exchange derivatives

	Assets		Liabilities	
Year ended 31 December	**2020 US$m**	2019 US$m	**2020 US$m**	2019 US$m
Currency:				
Sterling	**114.1**	97.8	**-**	(1.9)
United States dollars	**32.1**	42.7	**(133.8)**	(163.5)
Euros	**-**	–	**(20.0)**	(22.7)
Indian Rupee	**1.6**	14.3	**-**	–
Brazilian Real	**-**	–	**(7.9)**	(8.3)
Other currencies	**25.5**	57.0	**(7.5)**	(14.0)
	173.3	211.8	**(169.2)**	(210.4)

Market price risk

The Group has equity and bond investments at 31 December 2020 of $6.1 million (2019: $6.2 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	**2020 US$m**	2019 US$m
Impact of a 10% increase in prices:		
Increase in pre-tax profit for the year	**-**	–
Increase in equity shareholders' funds	**0.6**	0.6

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	**2020 US$m**	2019 US$m
Expiring between one and two years	**350.0**	**-**
Expiring between two and five years	**-**	290.0

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	**2020 US$m**	2019 US$m
In one year or less, or on demand	**312.0**	404.1
In more than one year but not more than two years	**5.2**	7.7
In more than two years but not more than five years	**3.5**	3.2
In more than five years	**6.1**	6.0
	326.8	421.0

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

34 Derivatives and other financial instruments continued

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	2020 US$m	2019 US$m
In one year or less, or on demand	**290.3**	339.6
In more than one year but not more than two years	**18.8**	19.0
In more than two years but not more than five years	**155.0**	212.2
In more than five years	**122.5**	123.7
	586.6	694.5

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	2020 US$m	2019 US$m	2020 US$m	2019 US$m
In one year or less, or on demand	**124.2**	174.0	**(120.8)**	(172.5)
In more than one year but not more than two years	**37.3**	24.3	**(34.2)**	(24.0)
In more than two years but not more than five years	**16.9**	15.3	**(14.3)**	(13.9)
	178.4	213.6	**(169.3)**	(210.4)

34 Derivatives and other financial instruments continued

Credit risk

Year ended 31 December	2020 US$m	2019 US$m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**71.9**	177.4
Derivative financial instruments	**9.0**	4.2
Trade receivables (net of impairment provision)	**224.1**	209.4
Other receivables	**24.5**	31.7
	329.5	422.7
Financial assets considered not to have exposure to credit risk:		
Other investments	**6.1**	6.2
Total financial assets	**335.6**	428.9
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**17.7**	17.0
Trade receivables between 1 and 2 months over permitted credit period	**4.3**	5.1
Trade receivables between 2 and 3 months over permitted credit period	**1.0**	1.7
Trade receivables between 3 and 6 months over permitted credit period	**1.2**	2.3
Trade receivables in excess of 6 months over permitted credit period	**1.2**	0.3
Total trade receivables (net of impairment provision) in excess of permitted credit period	**25.4**	26.4
Trade receivables within permitted credit period	**198.7**	183.0
Total net trade receivables	**224.1**	209.4
Analysis of trade receivables impairment provision:		
Trade receivables up to 1 month over permitted credit period	**1.2**	0.1
Trade receivables between 1 and 2 months over permitted credit period	**0.2**	–
Trade receivables between 2 and 3 months over permitted credit period	**0.2**	–
Trade receivables between 3 and 6 months over permitted credit period	**0.4**	0.2
Trade receivables in excess of 6 months over permitted credit period	**8.2**	7.8
Total impairment provision	**10.2**	8.1

Trade receivables consist of a large number of customers, spread across diverse geographical areas and industries.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment record with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual review, or more frequent if appropriate, review of their credit limits and credit periods.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables.

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

The Group does not have a significant credit risk exposure to any single customer.

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

34 Derivatives and other financial instruments continued
Hedges
During 2020, the Group has hedged the following exposures:

- interest rate risk – using interest rate swaps which are designated as fair value or cash flow hedges; and
- currency risk – using forward foreign currency contracts.

At 31 December 2020, the fair value of such instruments was a net asset of $8.7 million (2019: $2.7 million).

Interest rate swap fair value hedges outstanding at 31 December are expected to increase the income statement in the following periods:

Year ended 31 December	2020 US$m	2019 US$m
Within one year	**1.2**	0.4
Within one to two years	**1.2**	0.3
Within two to five years	**2.2**	0.6
	4.6	1.3

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR.

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	2020 US$m	2019 US$m
Long Term Incentive Plan ('LTIP')	**1.4**	5.9
Deferred bonuses	**–**	0.8
	1.4	6.7

The average share price for the year ended 31 December 2020 was 58.7p (2019: 78.0p).

35 Share-based payments continued

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:

	2020 Options	2019 Options
Outstanding at 1 January	**44,404,325**	58,634,695
Granted during the year	**17,113,147**	9,780,094
Vested during the year	**(545,804)**	(4,252,860)
Lapsed during the year	**(3,944,198)**	(2,233,488)
Exercised during the year	**(16,494,550)**	(17,524,116)
Outstanding at 31 December	**40,532,920**	44,404,325
Exercisable at 31 December	**7,776,530**	11,891,514

The options outstanding at 31 December 2020 had a weighted average remaining contractual life of 7.7 years (2019: 7.3 years).

The fair value of the market-based component of these awards was calculated using the Monte Carlo simulation method to reflect the likelihood of the market-based Total Shareholder Return ('TSR') performance condition, which attach to 20% (2019: 20%) of the award, being met, using the following assumptions:

	2020	2019
Vesting period	**3 years**	3 years
Share price at valuation date	**58.9p**	81.5p
Exercise price	**Nil**	Nil
Risk free rate	**0.09%**	0.82%
Expected dividend yield	**0%**	0%
Expected volatility	**27.84%**	32.65%
Fair value per share	**24.9p**	48.0p

Deferred bonuses

Under the terms of the Coats Group Deferred Bonus Plan, any bonuses awarded to executive directors and key senior management will be the subject of a mandatory 25% to 50% 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 2020 had a weighted average remaining contractual life of 8.3 years (2019: 8.0 years).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

35 Share-based payments continued

Share option scheme

The Company granted a number of awards under a share option scheme prior to 2010. There are no outstanding or exercisable share options under this scheme as of 31 December 2020 as set out below:

	2020		2019	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at 1 January	–	–	589,705	25.95p
Lapsed during the year	–	–	(64,960)	25.95p
Exercised during the year	–	–	(524,745)	25.95p
Outstanding at 31 December	–	–	–	–
Exercisable at 31 December	–	–	–	–

36 Post balance sheet events

There are no material post balance sheet events requiring adjustment or disclosure.

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 176 to 179.

a) Organic growth on a constant exchange rate (CER) basis

Organic growth measures the change in revenue and operating profit before exceptional and acquisition related items after adjusting for acquisitions. The effect of acquisitions is equalised by:

- removing from the year of acquisition, their revenue and operating profit; and
- in the following year, removing the revenue and operating profit for the number of months equivalent to the pre-acquisition period in the prior year.

The effects of currency changes are removed through restating prior year revenue and operating profit at current year exchange rates.

Organic revenue growth on a CER basis measures the ability of the Group to grow sales by operating in selected geographies and segments and offering differentiated cost competitive products and services.

Adjusted organic operating profit growth on a CER basis measures the underlying profitability progression of the Group.

Adjusted operating profit is calculated by adding back exceptional and acquisition related items (see note 4 for further details).

37 Alternative performance measures continued

Year ended 31 December	2020 US$m	2019 US$m	% Decline
Revenue from continuing operations	**1,163.3**	1,388.7	(16)%
Constant currency adjustment	**–**	(32.7)	
Revenue on a CER basis	**1,163.3**	1,356.0	(14)%
Revenue from acquisitions	**(66.8)**	-	
Organic revenue on a CER basis	**1,096.5**	1,356.0	(19)%

Year ended 31 December	2020 US$m	2019 US$m	% Decline
Operating profit from continuing operations[1]	**103.1**	191.0	(46)%
Exceptional and acquisition related items (note 4)	**7.5**	7.0	
Adjusted operating profit from continuing operations	**110.6**	198.0	(44)%
Constant currency adjustment	**–**	(2.7)	
Adjusted operating profit on a CER basis	**110.6**	195.3	(43)%
Operating loss from acquisitions	**0.9**	–	
Organic adjusted operating profit on a CER basis	**111.5**	195.3	(43)%

1. Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

b) Adjusted EBITDA

Adjusted EBITDA is presented as an alternative performance measure to show the underlying operating performance of the Group excluding the effects of depreciation, amortisation and impairments and excluding exceptional and acquisition related items.

Operating profit from continuing operations before exceptional and acquisition related items and before depreciation of owned fixed assets and right-of-use assets and amortisation (Adjusted EBITDA) is as set out below:

Year ended 31 December	2020 US$m	2019 US$m
Operating profit from continuing operations[1]	**103.1**	191.0
Exceptional and acquisition related items (note 4)	**7.5**	7.0
Adjusted operating profit from continuing operations	**110.6**	198.0
Depreciation of owned property, plant and equipment	**30.5**	29.9
Amortisation of intangible assets	**4.0**	5.1
Adjusted EBITDA including IFRS 16 depreciation of right-of-use assets (Pre-IFRS 16 basis)	**145.1**	233.0
Depreciation of right-of-use assets	**18.3**	15.2
Adjusted EBITDA	**163.4**	248.2

1. Refer to the consolidated income statement for a reconciliation of profit before taxation to operating profit from continuing operations.

Net debt including lease liabilities under IFRS 16 at 31 December 2020 was $246.6 million (2019: $214.9 million).

This gives a leverage ratio of net debt including lease liabilities to Adjusted EBITDA at 31 December 2020 of 1.5 (2019: 0.9).

Net debt excluding lease liabilities under IFRS 16 at 31 December 2020 was $180.6 million (2019: $149.9 million). This gives a leverage ratio on a pre-IFRS 16 basis at 31 December 2020 of 1.2 (2019: 0.6).

For the definition and calculation of net debt excluding lease liabilities see note 30 (f).

NOTES TO THE FINANCIAL STATEMENTS
CONTINUED

37 Alternative performance measures continued

c) Underlying effective tax rate

The underlying effective tax rate removes the tax impact of exceptional and acquisition related items and net interest on pension scheme assets and liabilities to arrive at a tax rate based on the underlying profit before taxation.

A significant proportion of the Group's net interest on pension scheme assets and liabilities relates to UK pension plans for which there is no related current or deferred tax credit or charge recorded in the income statement. The Group's net interest on pension scheme assets and liabilities is adjusted in arriving at the underlying effective tax shown below and, in management's view, were this not adjusted would distort the alternative performance measure. This is consistent with how the Group monitors and manages the underlying effective tax rate.

Year ended 31 December	2020 US$m	2019 US$m
Profit before taxation	**79.6**	166.8
Exceptional and acquisition related items (note 4)	**6.8**	4.4
Net interest on pension scheme assets and liabilities	**4.7**	5.5
Underlying profit before taxation from continuing operations	**91.1**	176.7
Taxation charge from continuing operations	**37.4**	50.5
Tax (charge)/credit in respect of exceptional and acquisition related items and net interest on pension scheme assets and liabilities	**(1.7)**	0.4
Underlying tax charge from continuing operations	**35.7**	50.9
Underlying effective tax rate	**39%**	29%

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	2020 US$m	2019 US$m
Profit from continuing operations	**42.2**	116.3
Non-controlling interests	**(15.8)**	(20.1)
Profit from continuing operations attributable to equity shareholders	**26.4**	96.2
Exceptional and acquisition related items net of non-controlling interests (note 4)	**6.8**	4.4
Tax credit in respect of exceptional and acquisition related items	**2.2**	–
Adjusted profit from continuing operations	**35.4**	100.6
Weighted average number of Ordinary Shares	**1,455,587,353**	1,443,824,641
Adjusted earnings per share (cents)	**2.42**	6.97
Adjusted earnings per share (decline %)	**(65)%**	

The weighted average number of Ordinary Shares used for the calculation of adjusted earnings per share for the year ended 31 December 2020 is 1,455,587,353 (2019: 1,443,824,641), the same as that used for basic earnings per ordinary share from continuing operations (see note 11).

37 Alternative performance measures continued

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	2020 US$m	2019 US$m
Change in net debt resulting from cash flows (free cash flow)	**(23.2)**	72.3
Acquisition of businesses (note 31)	**37.3**	4.9
Disposal of businesses	**–**	(30.7)
Net cash outflow/(inflow) from discontinued operations (note 32)	**0.1**	(0.8)
Net cash flows in respect of Connecting for Growth programme	**(0.4)**	4.3
Payments to UK pension scheme	**10.9**	26.7
Net cash flows in respect of other exceptional and acquisition related items	**(0.7)**	6.2
Purchase of own shares by Employee Benefit Trust	**3.1**	–
Receipts from exercise of share options	**–**	(0.2)
Dividends paid to equity shareholders	**0.2**	24.1
Tax outflow in respect of adjusted cash flow items	**0.7**	–
Adjusted free cash flow	**28.0**	106.8

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	2020 US$m	2019 US$m
Operating profit from continuing operations before exceptional and acquisition related items[1]	**110.6**	198.0
Non-current assets:		
Acquired intangible assets	**41.8**	41.8
Property, plant and equipment	**254.4**	276.3
Right-of-use assets	**60.7**	63.4
Trade and other receivables	**19.0**	20.1
Current assets:		
Inventories	**187.0**	172.5
Trade and other receivables	**274.5**	261.2
Current liabilities:		
Trade and other payables	**(255.7)**	(284.4)
Lease liabilities	**(16.4)**	(14.1)
Non-current liabilities		
Trade and other payables	**(18.1)**	(18.2)
Lease liabilities	**(49.6)**	(50.9)
Capital employed	**497.6**	467.7
ROCE	**22%**	42%

1. Refer to note 4 for details of exceptional and acquisition related items.

COMPANY BALANCE SHEET

31 December	Notes	2020 US$m	2019 US$m
Fixed assets:			
Investments	4	**1,244.2**	1,244.2
Current assets:			
Cash at bank and in hand		**0.6**	0.8
Creditors: amounts falling due within one year:			
Loans from subsidiary undertakings		**(70.7)**	(69.0)
Trade and other payables		**(0.3)**	(0.6)
Net current liabilities		**(70.4)**	(68.8)
Net assets		**1,173.8**	1,175.4
Capital and reserves:			
Share capital	5	**90.1**	89.6
Share premium account		**10.5**	10.5
Capital redemption reserve		**14.1**	14.1
Share options reserve		**18.5**	18.5
Capital reduction reserve		**59.8**	59.8
Own shares	5	**(3.2)**	(5.7)
Profit and loss account		**984.0**	988.6
Shareholders' funds		**1,173.8**	1,175.4

The Company reported a loss for the financial year ended 31 December 2020 of $2.2 million (2019: $21.9 million profit).

Rajiv Sharma
Group Chief Executive

Simon Boddie
Chief Financial Officer

Approved by the Board 3 March 2021

Company Registration No.103548

COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital US$m	Share premium account US$m	Capital redemption reserve US$m	Share options reserve US$m	Capital reduction reserve US$m	Own shares US$m	Profit and loss account US$m	Total equity US$m
1 January 2019	88.5	10.4	14.1	18.5	59.8	(6.8)	992.8	1,177.3
Profit and total comprehensive income for the year	–	–	–	–	–	–	21.9	21.9
Issue of ordinary shares	1.1	0.1	–	–	–	–	(1.1)	0.1
Movement in own shares	–	–	–	–	–	1.1	(0.6)	0.5
Dividends to equity shareholders	–	–	–	–	–	–	(24.4)	(24.4)
31 December 2019	89.6	10.5	14.1	18.5	59.8	(5.7)	988.6	1,175.4
Loss and total comprehensive expense for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(2.2)**	**(2.2)**
Issue of ordinary shares	**0.5**	**-**	**-**	**-**	**-**	**-**	**(0.5)**	**-**
Movement in own shares	**-**	**-**	**-**	**-**	**-**	**2.5**	**(1.9)**	**0.6**
31 December 2020	**90.1**	**10.5**	**14.1**	**18.5**	**59.8**	**(3.2)**	**984.0**	**1,173.8**

COMPANY CASH FLOW STATEMENT

Year ended 31 December	2020 US$m	2019 US$m
Net cash flows from operating activities:		
Operating profit	**0.1**	24.5
Decrease in creditors	**(0.7)**	(0.7)
Net cash flows from operating activities	**(0.6)**	23.8
Net cash flows from financing activities:		
Purchase of own shares	**(3.1)**	-
Proceeds from sale of own shares	**3.7**	0.5
Receipts from exercise of share options	**-**	0.2
Dividends paid to equity shareholders	**(0.2)**	(24.1)
Net cash flows from financing activities	**0.4**	(23.4)
Net (decrease)/increase in cash and cash equivalents	**(0.2)**	0.4
Cash at bank and in hand at the beginning of the year	**0.8**	0.4
Cash at bank and in hand at the end of the year	**0.6**	0.8

NOTES TO THE COMPANY FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

a) General information and basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting standard 102 (FRS 102) as issued by the Financial Reporting Council.

Functional currency

The functional currency of Coats Group plc continued to be United States dollars ('USD') during the year ended 31 December 2020.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

1 Accounting policies continued

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 2020.

There are no sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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 loss for the year attributable to shareholders was $2.2 million (2019: $21.9 million profit).

Details of directors' remuneration are set out on pages 79 to 95 within the Remuneration Report and form part of these financial statements.

3 Dividends

Dividends amounting to $nil in respect of the year ended 31 December 2020 were payable to Coats Group plc shareholders during the year (2019: $24.4 million). Details of the proposed final dividend for the year ended 31 December 2020 are set out in note 12 of the consolidated financial statements.

4 Investments

	Investments in subsidiary undertakings US$m
At 31 December 2019	1,244.2
At 31 December 2020	**1,244.2**

5 Share capital and reserves

There are 1,452,077,272 Ordinary Shares of 5p issued and fully paid at 31 December 2020 (2019: 1,444,816,041).

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 2020 of $3.2 million (2019: $5.7 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 2020 was 7,010,248 (2019: 14,591,071).

As at 31 December 2020 the Company had distributable profits of $218.2 million (2019: $220.4 million).

6 Related party transactions

Amounts due from and to other Group companies are disclosed on the face of the Balance Sheet on page 180.

GROUP STRUCTURE

The Company, through various subsidiaries, has branches in several different jurisdictions in which the business operates outside the UK. Unless otherwise indicated, all shareholdings owned directly or indirectly by the Company represents 100% of issued share capital of the subsidiary.

Subsidiaries:
Direct holdings of the Company

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Arrow HJC	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	B. M. Estates Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Contractors' Aggregates Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GPG (UK) Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GPG March 2004 Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	MFC (Predecessors) Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT, United Kingdom	£1.00 Ordinary
United Kingdom	S G Warburg Group Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary

Subsidiaries:
Indirect holdings of the Company

Country of Incorporation	Company name	Registered office address	Share class
Argentina	Coats Cadena S.A. – Argentina	Tucuman 1, 4th Floor, (1049) Capital Federal, Argentina	ARS1.00 Ordinary Nominal
Australia	Australian Country Spinners Pty Limited[1]	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Ordinary
Australia	Australian Country Spinners Unit Trust[1]	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Units
Australia	Coats Australian Pty Ltd	Unit 2, 56 Keys Road, Moorabbin VIC 3189, Australia	AUD0.54 Ordinary
Australia	GPG Services Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Australia	Guinness Peat Group (Australia) Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary, AUD14,977.77 Redeemable Preference
Australia	Sabatica Pty Limited	c/o BDO, Level 11, 1 Margaret Street, Sydney NSW 2000, Australia	AUD1.00 Ordinary
Bangladesh	Coats Bangladesh Limited	Tower 117, 117/A Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)
Bangladesh	Coats Crafts Bangladesh Limited	Novo Tower, 270 Tejgaon Industrial Area, Dhaka 1208, Bangladesh	BDT100.00 Ordinary (80%)

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
Brazil	Coats Corrente Ltda	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	BRL1.00 Ordinary
Brazil	Corrente Sociedade de Previdência Privada	Rua do Manifesto, N 705, Bloco A, Ipiranga, Sao Paulo, SP BR, Brazil	Civil association
Bulgaria	Coats Bulgaria Eood	Tharigradsko shouse bld 7th Km, Sofia 1748, Bulgaria	BGL50.00 Ordinary
Canada	Coats Canada Inc	10 Roybridge Gate Blvd, Vaughan ON L4H 3M8, Canada	Common (no par value)
Canada	Staveley Services Canada Inc	44 Chipman Hill, Suite 1000, Saint John NB E2L 2A0, Canada	CAD Common, CAD Class A Pref 1, CAD Class A Pref 2
Chile	Coats Cadena Ltda	Enrique Gomez Correa 5750, 3er piso, Oficina No.4, Macul, Santiago, Chile	US$1.00 Ordinary
Chile	The Central Agency Limited – Chile	Enrique Gomez Correa 5750, 3er piso, Oficina No.4, Macul, Santiago, Chile	US$1.00 Ordinary
China	Coats Opti Shenzhen Limited	Shenzhen Coats Industrial Park, Fuyong Town, Baoan District, Shenzhen, China	US$1.00 Ordinary (90%)
China	Coats Shenzhen Limited	Shenzhen Coats Industrial Park, Fuyong Town, Baoan District, Shenzhen, China	US$1.00 Ordinary (90%)
China	Guangzhou Coats Limited	Art Street 11, 1106 Xin Gang Road, Haizhu District, Guanghou, 510310, China	HKD1.00 Ordinary (90%)
China	Qingdao Coats Limited	Qingdao Huanhai, Economic+Technological Development Zone, Chengyang, Qingdao 266108, China	US$1.00 Ordinary (90%)
China	Shanghai Coats Limited	No.8 Building, Export Processing Garden, Songjiang Industrial Zone 201613, Shanghai, China	US$1.00 Ordinary (90%)
Colombia	Coats Cadena Andina SA – Colombia	Avenida Santander, N.5E-87, Pereira, Colombia	COP20.63 Ordinary
Ecuador	Coats Cadena SA Ecuador	De las Avellanas E, 2-74 y El Juncal, Quito, Ecuador	US$1.00 Ordinary
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$11.625 Ordinary
Egypt	Coats Industrial Trading Egypt	Industrial Area Zone B3, Plot 78, 10th of Ramadan City, Cairo, Egypt	EGP4000.00 Ordinary
El Salvador	Coats El Salvador, S.A. de C.V.	Zona Franca Export Salva, Edificio No 18C, San Salvador, El Salvador	US$12.00 Ordinary
Estonia	Coats Eesti AS – Estonia	Ampri tee 9/4, Lubja küla 74010 Viimsi Vald, Harjumaa, Estonia	€63.90 Ordinary
France	Coats France S.A.S.	8 avenue Hoche, 75008, Paris, France	€0.60 Ordinary
Germany	Coats GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	€12,000,000.00 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
Germany	Coats Opti Germany GmbH	1 Suedwieke 180, 26817 Rhauderfehn, Germany	€1.00 Ordinary
Germany	Coats Thread Germany GmbH	Huefingerstrasse 28, D-78199, Braunlingen, Germany	€1.00 Ordinary
Germany	Schwanenwolle Tittel & Krueger AG i. L	RHS, Stadtstrasse 29, 79104 Freiburg, Germany	DEM1.00 Ordinary
Guatemala	Centraltex de Guatemala, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Coats de Guatemala, S.A.	13-78 Zona 10, Edif. Intercontinental Plaza Torre Citigroup Nivel 17, Oficina 1702, Ciudad, Guatemala	GTQ1.00 Ordinary
Guatemala	Crafts Central America, S.A.	26 Avenida No. 7-27, Zona 4, Mixco oficina 11, Guatemala	GTQ100.00 Ordinary
Guatemala	Distribuidora Coats de Guatemala, Sociedad Anomina	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ1.00 Ordinary
Guatemala	Guatemala Thread Company Sociedad Anonima	39 Avenida, 3-47 Zona 7, Colonia El Rodeo, Guatemala, Guatemala	GTQ10.00 Ordinary
Honduras	Coats Honduras, S.A.	Edificio #13 Zona Libre Inhdelva, 800 mts. Carretera a la Jutosa, Choloma, Cortes, Honduras	HNL100.00 Ordinary
Hong Kong	China Thread Development Company Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats (China) Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats China Holdings Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Coats Hong Kong Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary (90%)
Hong Kong	Coats Opti Hong Kong Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD1.00 Ordinary
Hong Kong	Coats Thread HK Limited	Suite 23-25, Langham Place Office Tower, 8 Argyle Street, Mongkok, Kowloon, Hong Kong	HKD10.00 Ordinary
Hong Kong	Fast React Asia (HK) Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	HKD1.00 Ordinary
Hong Kong	Fastreact Systems (Far East) Co Limited	Room 2203 22/F, Tower 1, Lippo Centre, 89 Queensway, Hong Kong	HKD1.00 Ordinary
Hungary	Coats Magyarorszag Cernagyarto es Ertekesito Korlatolt Felelossegu Tarsasag	1044 Budapest, Vaci ut 91, Hungary	HUF100,000.00 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
India	Intellosol Softwares India Private Limited	Ground Floor, S-606-B School Block, Shakarpur Delhi, East Delhi, DL – 110092 India	INR10.00 Ordinary
India	Madura Coats Private Limited	7th Floor, Jupiter 2A, Prestige Tech Park, Sarjapur Marathalli Ring Road, Bangalore, 560103, India	INR10.00 Ordinary
Indonesia	PT. Coats Rejo Indonesia	Ventura Building, 5th Floor, Jl RA Kartini No 26, Cilandak, Jakarta 12430, Indonesia	IDR415.00 Ordinary-A, IDR627.00 Ordinary-B, US$1.00 Preference
Indonesia	PT Coats Trading Indonesia	Ventura Building, 5th Floor, Jl RA Kartini No 26, Cilandak, Jakarta 12430, Indonesia	USD1.00 Ordinary
Israel	Coats (Israel) Ltd[2]	2 Shidlovsky Road, Yavne, Israel	US$400.00 Ordinary
Italy	Coats Italy S.r.l.	Sesto San Giovanni (MI), Via Milanese, 20 CAP, 20099, Milan, Italy	€5,000,000.00 Quota
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.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Industrial Thread Holdings B.V	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats Northern Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats South America Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Coats South Asia Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
Netherlands	Coats Southern Holdings B.V.	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
Netherlands	Guinness Peat Group International Holdings BV	Naritaweg 165, 1043 BW, Amsterdam, Netherlands	€43,146 Ordinary
New Zealand	Coats Patons (New Zealand) Ltd	3 Mana Place, Wira, Auckland, New Zealand	NZD1.00 Ordinary
Nicaragua	Coats de Nicaragua SA	Altamira d'este, Rotonda Madrid #235, Managua, Nicaragua	NIO100.00 Ordinary
Pakistan	J & P Coats Pakistan (Pvt) Limited	Suites 112-113, Prime Office Lobby, Park Towers, Shahrah-e-Firdousi, Clifton, Karachi, 75600, Pakistan	PKR100.00 Ordinary
Peru	Coats Cadena SA – Peru	Av. Republica de Panama 3461, Piso 9, San Isidro, Lima, Peru	PEN 0.01 Ordinary (99%)
Poland	Coats Polska Spolka z oganiczona odpowiedzialnoscia	91-214 Lodz, ul, Kaczencowa 16, Poland	PLN1,000.00 Ordinary
Portugal	Coats – Comercio de Linhas, Fechos e Acessorios, Para a Industria SA	Praca do Almada, No 10, 4490, Povoa do Varzim, Portugal	€1.00 Ordinary Bearer Shares
Portugal	Companhia de Linha Coats & Clark S.A.	Praca do Almada, No 10, 4490, Povoa do Varzim, Portugal	€1.00 Bare Shares
Romania	Coats Romania SRL	Municipiul Odorheiu Secuiesc, Str. Nicolae Balcescu, Nr. 71, Judetul Harghita, Romania	RON169.38 Ordinary
Russian Federation	Coats LLC	53 Lenin Street, Oktyabrsky, Lubertsy, 140060, Moscow Region, Russia	SUR173.55 Ordinary
Singapore	Coats International Pte. Limited	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
Singapore	Coats Overseas Pte Ltd	10 Changi Business Park Central 2, #05-01 HansaPoint, 486030, Singapore	SGD1.00 Ordinary
South Africa	Coats South Africa (Proprietary) Limited	107 Escom Road, New Germany, 3620, KZN, Natal, South Africa	ZAR0.01 Ordinary, ZAR0.01 Cumulative Redeemable Preference, ZAR0.01 Non-redeemable Preference Shares, ZAR0.01 Non-redeemable Non-cumulative Variable Rate Convertible Preference
South Africa	Cotnat Properties (Proprietary) Limited	107 Escom Road, New Germany, 3620, KZN, Natal, South Africa	ZAR1.00 Ordinary
Spain	Coats Spain, S.L.	Poligono Industrial Can Roqueta, Avda.Ca N'Alzina nr.79, Calle N'Alzina, Sabadell, Barcelona, Spain	€1.00 Ordinary
Spain	Gotex S.A.	Poligono Industrial Can Roqueta, Calle N'Alzina, 79 Sabadell, Barcelona, Spain	€6.02 Ordinary
Sri Lanka	Coats Thread Exports (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR100.00 Ordinary (99%)

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
Sri Lanka	Coats Thread Lanka (Private) Limited	479, 8th Floor, HNB Towers, T.B. Jayah Mawatha, Colombo 410, Sri Lanka	LKR10.00 Ordinary (99%)
Sweden	Coats Industrial Scandinavia AB	Stationsvagen 2, Box 109, SE-516 31 Dalsjofors, Sweden	SEK1,000.00 Bearer
Switzerland	Coats Stroppel AG	c/o Haussmann Treuhand AG, Seefeldstrasse 45, 8008 Zurich, Switzerland	CHF2,500.00
Thailand	Coats Threads (Thailand) Ltd	39/60 Moo 2 Tambol Bangkrachaw, Amphur Muang, Samutsakorn Province 74000, Thailand	THB1,000.00 Ordinary
Tunisia	Coats Industrial Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Tunisia	Coats Trading Tunisie	52, rue du Tissage, Douar Hicher, Manouba, 2086, Tunisia	TND10.00 Ordinary
Turkey	Coats (Turkiye) Iplik Sanayii AS	Organize Sanayi Bolgesi Mavi Cad. No 2, 16220 Bursa, Turkey	TRY1.00 New Ordinary (92%)
Ukraine	Coats Ukraine Ltd	Moskovskiy ave. 28A, litera B, Kiev, 04655, Ukraine	UAH1.00 Ordinary
United Kingdom	Allied Mutual Insurance Services Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Anfield 1 Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT United Kingdom	£1.00 Ordinary
United Kingdom	Anfield 2 Limited	Mazars Llp, 45 Church Street, Birmingham, B3 2RT United Kingdom	£1.00 Ordinary, £1.00 Deferred
United Kingdom	Barbour Threads Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£10.00 Ordinary
United Kingdom	Brown Shipley Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Brunel Pension Trustees Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Cardpad Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats (UK) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, £1.00 Ordinary-A
United Kingdom	Coats Digital Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Finance Co. Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Group Finance Company Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.33 Ordinary
United Kingdom	Coats Holding Company (No. 1) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.125 Ordinary
United Kingdom	Coats Holding Company (No. 2) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Coats Holdings Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Brands Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Industrial Thread Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Patons Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£0.25 Ordinary
United Kingdom	Coats Pensions Trustee Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Property Management Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (BDA) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (CV Nominees) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats Shelfco (VV) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.01 Ordinary, £0.075 Deferred
United Kingdom	Coats Thread (UK) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Coats UK Pension Scheme Trustees Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Corah Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary, £1.00 4.2% Cumulative Preference
United Kingdom	D. Byford & Co Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.20 Ordinary, £1.00 Preference
United Kingdom	Embergrange	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Fast React Systems (Bangladesh) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Fast React Systems Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, £1.00 Special redeemable non-voting shares
United Kingdom	GPG Europe Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	€1.00 Ordinary
United Kingdom	GPG Securities Trading Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Griffin SA Ltd	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GSD (Corporate) Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	GSD Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary-A, £1.00 Ordinary-B
United Kingdom	Guinness Peat Overseas Holdings Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary

GROUP STRUCTURE
CONTINUED

Country of Incorporation	Company name	Registered office address	Share class
United Kingdom	Hicking Pentecost Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.50 Ordinary
United Kingdom	I.P. Clarke & Co. Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	J.& P. Coats, Limited	1 George Square, Glasgow G2 1AL, United Kingdom	£1.00 Ordinary
United Kingdom	Marshaide Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Needle Industries Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Patons & Baldwins Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Patons Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary, £1.00 7% Preference
United Kingdom	Simpson, Wright & Lowe, Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Sir Richard Arkwright & Co. Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	SIRBS Pension Trustee Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley 2005 No 3 Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley Industries Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Staveley Services Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	The Central Agency Limited	Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, United Kingdom	£10.00 Ordinary
United Kingdom	The Coats Trustee Company Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United Kingdom	Thomas Burnley & Sons, Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£10.00 Ordinary
United Kingdom	Tootal Group Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£0.25 Ordinary, £1.00 3.5 % Cumulative Preference
United Kingdom	Tootal Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	£1.00 Ordinary
United States	Coats American Inc	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	US$10.00 COMMON, US$5.00 5% Cumulative Preference
United States	Coats Garments (USA) Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$1.00 Ordinary
United States	Coats Holdings Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$1.00 Ordinary

Country of Incorporation	Company name	Registered office address	Share class
United States	Coats HP Holding Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Wake NC 27615-6417, USA	US$1.00 Ordinary
United States	Coats HP Inc	CT Corporation System, 160 Mine Lake Ct., Suite 200, Wake NC 27615-6417, USA	US$1.00 Ordinary
United States	Coats North America Consolidated Inc	CT Corporation System, Corporation Trust Centre, 1209 Orange Street, Wilmington, DE 19801, USA	US$0.10 Ordinary, US$1.00 Class B Voting Shares
United States	Coats North America de Republica Dominica Inc	c/o CT Corporation System, 225 Hillsborough Street, Raleigh, Wake County, North Carolina 27603, USA	US$1.00 Ordinary
United States	Coats Puerto Rico Inc	CT Corporation System, 150 Fayetteville Street, Box 1011, Raleigh NC 27601, USA	US$1.00 Ordinary
United States	Coats Sales Corporation	CT Corporation System, 820 Bear Tavern Road, West Trenton, NJ 08628, USA	US$100.00 Ordinary
United States	Jaeger Sportswear Ltd	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	US$ Common
United States	Patrick Yarn Mill, Inc.,	700 S Railroad Avenue, Kings Mountain NC 28086-3360, USA	US$1.00 Class A voting, Class B non-voting
United States	Staveley Inc	The Corporation Trust Co., 1209 Orange Street, Wilmington, DE 19801, USA.	US$0.01 Ordinary
United States	The Calico Printers Association (U.S.A.) Limited	CT Corporation System, 111 8th Avenue, New York, NY 10011, USA	US$1.00 Ordinary
United States	Westminster Fibers, Inc.	c/o The Corporation Trust, 1209 Orange Street, Wilmington, Delaware, USA	US$1.00 Common shares
Uruguay	Coats Cadena S.A. – Uruguay	Rufino Dominguez 1864, Montevideo, Uruguay	UYU0.05 Ordinary
Vietnam	Coats Phong Phu Limited Liability Company	No. 48 Tang Nhon Phu Street, Tang Nhon Phu B Ward, District 9, Ho Chi Minh City, Vietnam	US$1.00 Ordinary (64%)

1. 100% owned by the joint venture ACS Nominees Pty Limited.

2. Liquidated in February 2021.

GROUP STRUCTURE
CONTINUED

Joint Ventures

Country of Incorporation	Company Name	Registered Office address	Share class
Australia	ACS Nominees Pty Limited	c/o Jagen Pty. Ltd, Level 1, 26-29 Beatty Avenue, Armadale VIC 3143, Australia	AUD1.00 Ordinary (50%)
China	Guangying Spinning Company Limited	2 Yuan Cun Xi Jie Guangzhou, 510655, China	US$1.00 Ordinary (50%)
China	Tianjin Jinying Spinning Co Ltd	Jinlai Road Liqizhuang, Xi Qing District, Tianjin, 300381, China	US$1.00 Ordinary (50%)
India	S&P Threads Private Limited	Delite Theatre Building, III Floor, Asaf Ali Road, New Delhi, 110 002, India	INR10.00 Ordinary (50%)
United Kingdom	Coats VTT Limited	4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE, United Kingdom	US$0.01 Ordinary (50%)

FIVE-YEAR SUMMARY

For the year ended 31 December	2016 US$m	2017 US$m	2018 US$m	2019[4] US$m	**2020 US$m**
Continuing operations (before exceptional and acquisition related items)[1]:					
Revenue[2]	1,276.0	1,356.1	1,414.7	1,388.7	**1,163.3**
Cost of sales	(789.2)	(849.7)	(901.9)	(898.1)	**(806.6)**
Gross profit	486.8	506.4	512.8	490.6	**356.7**
Operating costs[2]	(347.6)	(345.8)	(317.9)	(292.6)	**(246.1)**
Operating profit	139.2	160.6	194.9	198.0	**110.6**
Share of profits from joint ventures	0.8	1.3	0.1	1.1	**0.6**
Finance income	4.3	2.1	1.7	1.7	**0.7**
Finance costs	(35.9)	(25.4)	(26.1)	(29.6)	**(25.5)**
Profit before taxation	108.4	138.6	170.6	171.2	**86.4**
Taxation	(41.0)	(44.6)	(53.8)	(50.5)	**(35.2)**
Profit from continuing operations	67.4	94.0	116.8	120.7	**51.2**
Adjusted earnings per share (cents)	4.02	5.70	6.87	6.97	**2.42**
Dividend per share (cents)	1.25[3]	1.44	1.66	0.55[5]	**1.30**
Adjusted free cash flow ($m)	58.9	76.4	96.2	106.8	**28.0**
Return on capital employed (%)	35.2%	35.4%	42.6%	42.3%	**22.2%**

Notes:

1. The results for 2016-2017 have been restated following the disposal of the North America Crafts business.
2. Revenue and operating costs have been restated for 2016-2017 following the Group's adoption of IFRS 15 'Revenue from contracts with customers' on 1 January 2018.
3. On a pro-forma basis (final dividend in 2016: 0.84c per share).
4. The Group adopted IFRS 16 'Leases' from 1 January 2019 using the modified retrospective approach and therefore results for 2016-2018 are not restated.
5. In March 2020 the Company announced it had taken the decision, given the uncertainties caused by the Covid pandemic, to cancel the proposed 2019 final dividend payment of 1.30 cents per ordinary share which was due to be paid in May 2020.

SHAREHOLDER INFORMATION

United Kingdom
4 Longwalk Road,
Stockley Park,
Uxbridge,
UB11 1FE
Tel: 020 8210 5000
coats.com

Incorporated and registered in England No. 103548

Registered office:
4 Longwalk Road,
Stockley Park,
Uxbridge,
UB11 1FE

UK registered members
To manage your shareholding online, please visit: investorcentre.co.uk

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

A full copy of our Annual Report can be downloaded, along with other relevant documents from

coats.com/ar2020

Coats Group plc
4 Longwalk Road
Stockley Park
Uxbridge
UB11 1FE
Tel: 020 8210 5000
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Registered office: 4 Longwalk Road, Stockley Park, Uxbridge, UB11 1FE

Annual Report

Sustainability Report